

WESTERN AUSTRALIAN  
**TREASURY CORPORATION**

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**QUARTERLY REPORT**  
**For the quarter ended 31 December 2012**

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## INTRODUCTION

In accordance with section 21B of the Western Australian Treasury Corporation Act 1986, following is a report on the activities of the Western Australian Treasury Corporation (“WATC”) for the quarter ended 31 December 2012.

## OVERVIEW OF ACTIVITIES

### *Borrowing*

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

Following is an overview of WATC's borrowing activities:

### Domestic Borrowings

At 31 December 2012, WATC had approximately \$28,488 million of domestic securities in circulation. Of this, \$23,201 million was raised through WATC’s benchmark bonds, \$4,650 million in short term issues and \$636 million through other issues.

Details of WATC's benchmark bonds as at 31 December 2012 are:

Coupon	Maturity	Amount on Issue as at 30 September 2012	Amount on Issue as at 31 December 2012	Change
8.00%	15/06/2013	\$5,007 million	\$4,725 million	-\$282 million
5.50%	23/04/2014	\$3,817 million	\$3,665 million	-\$152 million
7.00%	15/04/2015	\$4,039 million	\$3,450 million	-\$589 million
3.00%	8/06/2016	Nil	\$2,070 million	+\$2,070 million
8.00%	15/07/2017	\$4,540 million	\$4,155 million	-\$385 million
7.00%	15/10/2019	\$2,523 million	\$2,551 million	+\$28 million
7.00%	15/07/2021	\$1,858 million	\$1,975 million	+\$117 million
6.00%	16/10/2023	\$ 443 million	\$ 559 million	+\$116 million

### Overseas Borrowings

#### *Bond Issues*

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

#### *Euro Medium Term Note Issues*

No new issues were undertaken by WATC through its Euro Medium Term Note Program during the quarter. There was nil amount of Notes outstanding under the Euro Medium Term Note Program as at quarter end.

### *Commercial Paper Issues*

During the quarter, issues through the Euro Commercial Paper (“ECP”) Program totalling USD2,146 million, AUD22 million, CHF266 million and SGD40 million were transacted. All non-Australian dollar denominated issues were swapped into Australian dollars. The issues raised a total of AUD 2,398 million for terms to maturity ranging between 28 to 182 days.

At the end of the quarter, there were USD1,381 million, CHF79 million, SGD 20 million and AUD22 million of notes outstanding under the multi-currency ECP Program.

### *Lending*

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

At 31 December 2012, total loans outstanding to WATC’s clients amounted to \$28,095 million. This resulted in a net increase in debt outstanding by clients of \$236 million in the December quarter.

### *Funds Management*

At 31 December 2012, WATC had Public Bank Account funds of \$4,877 million under management. The investment of PBA funds are governed by the Financial Management Act.

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

1. The Overnight Cash Deposit Facility enables clients to invest funds overnight at call. At 31 December 2012, WATC had \$146 million invested in this facility.
2. WATC has provided a term investment facility for clients by issuing its Short Term Inscribed Stock. At 31 December 2012, WATC had \$1 million in term investments from clients.

## **FINANCIAL PERFORMANCE**

WATC’s after tax equivalent net profit for the six month period ended 31 December 2012 was \$11.1 million. This is \$5.5 million above plan. Approximately \$4.0 million of this result is due to the impact of favourable market revaluations, some of which has the potential to reverse in coming months.

WATC continues its efforts to produce quality outcomes for its clients, while managing the cost base in line with the expectations of our owners. Toward that end, our administrative cost increases have remained below inflation over the past several years, in spite of balance sheet growth and increased provision of services to government.

## KEY PERFORMANCE INDICATORS

### *Estimated Interest Rate Savings*

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

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

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

Term to Maturity (Years)	Year to 31/12/2012			
	AAA	AA+	AA	AA-
1 to 2	0.26%	1.00%	1.02%	0.84%
2 to 3	1.03%	0.96%	1.18%	0.96%
3 to 4	0.89%			0.94%
4 to 5	0.38%		1.25%	1.05%
5 to 6	0.83%	1.32%		
6 to 7	0.66%	0.97%		1.18%
7 to 8	0.28%			
8 to 9	0.64%			
9 to 10				
10 to 11				
11 to 12				

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

### *Administration Ratio*

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

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

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

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

**Target:** Administration Ratio < 0.10%  
**Outcome:** Administration Ratio = 0.05% (01/07/12 to 31/12/12)

***Return on Capital***

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

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

Adjusted Average Monthly Capital for the Period is calculated as:  
 $(\text{AMC}_{\text{Jul}} + \text{AMC}_{\text{Aug}} \dots\dots + \text{AMC}_{\text{Jun}}) / 12$

Where:

- AMC = Adjusted Monthly Capital
- $\text{AMC}_{\text{Jul}} = (\text{Starting Capital})_{\text{July}}$
- $\text{AMC}_{\text{Aug}} = \text{AMC}_{\text{Jul}} - \text{Dividend to the Government during the previous month}$
- $\text{AMC}_{\text{Jun}} = \text{AMC}_{\text{May}} - \text{Dividend to the Government during the previous month}$

	Year to Date Target	Year to Date Return	Annual Target
6 Months to 31 December 2012	3.10%	16.23%	6.20%

**FINANCIAL STATEMENTS**

**WESTERN AUSTRALIAN TREASURY CORPORATION**  
**UNAUDITED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE PERIOD ENDED 31 DECEMBER 2012**

	Note	2013 31-Dec-12 \$'000	2012 31-Dec-11 \$'000
<b><u>INCOME</u></b>			
<b>Revenue</b>			
Interest on Investments		63,565	81,301
Interest from Authorities		643,302	655,778
Fee Income		243	263
<b>Total Revenue</b>		<b>707,110</b>	<b>737,342</b>
<b>Gains</b>			
Foreign Exchange Gain	4	0	1
Net Market Value Movement	5	135,529	32,623
Gains from Sale of Plant & Equipment		1	0
<b>Total Other Income</b>		<b>135,530</b>	<b>32,624</b>
<b>Total Income</b>		<b>842,640</b>	<b>769,966</b>
<b><u>EXPENSES</u></b>			
Interest on Borrowings		819,333	752,726
Borrowing Related Expenses		546	302
Depreciation		96	102
Amortisation of Intangible Assets		85	149
Administration Expenses	3	6,755	6,302
Foreign Exchange Loss	4	1	0
<b>Total Expenses</b>		<b>826,816</b>	<b>759,581</b>
<b>Profit/(Loss) before income tax equivalent expense</b>		<b>15,824</b>	<b>10,385</b>
Income Tax Equivalent Expense	6	4,748	3,119
<b>Profit/(Loss) for the period</b>		<b>11,076</b>	<b>7,266</b>
Other Comprehensive Income		0	0
<b>Total Comprehensive Income for the period</b>		<b>11,076</b>	<b>7,266</b>

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



**WESTERN AUSTRALIAN TREASURY CORPORATION**  
**UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012**

	Note	2013 31-Dec-12 \$'000	2012 30-Jun-12 \$'000	2012 31-Dec-11 \$'000
<b>ASSETS</b>				
- Cash Assets	7	1,045	2,369	1,723
- Investments	8	3,360,904	5,383,868	3,119,678
- Receivables & other financial assets	9	652,107	1,094,980	692,747
- Loans to Authorities	10	29,211,982	30,414,845	24,931,359
- Tax Assets	11	1,052	1,014	921
- Plant and Equipment	12	267	315	355
- Intangible Assets	13	312	183	270
<b>TOTAL ASSETS</b>		<b>33,227,669</b>	<b>36,897,574</b>	<b>28,747,053</b>
<b>LIABILITIES</b>				
- Payables & other financial liabilities	15	357,240	2,073,707	597,913
- Borrowings	16	32,750,784	34,720,211	28,046,365
- Tax Liabilities	17	6,795	2,009	4,296
- Provisions	18	3,505	3,378	3,071
<b>TOTAL LIABILITIES</b>		<b>33,118,324</b>	<b>36,799,305</b>	<b>28,651,645</b>
<b>NET ASSETS</b>		<b>109,345</b>	<b>98,269</b>	<b>95,408</b>
<b>EQUITY</b>				
- Retained Profits		106,345	95,269	92,408
- Reserves		3,000	3,000	3,000
<b>TOTAL EQUITY</b>		<b>109,345</b>	<b>98,269</b>	<b>95,408</b>

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

**WESTERN AUSTRALIAN TREASURY CORPORATION**  
**UNAUDITED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED 31 DECEMBER 2012**

	Reserves \$'000	Retained Earnings \$'000	Total Equity \$'000
<b>Balance at 1 July 2011</b>	3,000	85,142	88,142
Profit for the period	0	7,266	7,266
Other comprehensive income	0	0	0
Total comprehensive income for the period	0	7,266	7,266
Transactions with owners in their capacity as owners:			
Capital appropriations	0	0	0
Distributions to owners	0	0	0
Total	0	0	0
<b>Balance at 31 December 2011</b>	<b>3,000</b>	<b>92,408</b>	<b>95,408</b>
<b>Balance at 1 July 2011</b>	3,000	85,142	88,142
Profit for the period	0	17,504	17,504
Other comprehensive income	0	0	0
Total comprehensive income for the period	0	17,504	17,504
Transactions with owners in their capacity as owners:			
Capital appropriations	0	0	0
Distributions to owners	0	(7,377)	(7,377)
Total	0	(7,377)	(7,377)
<b>Balance at 30 June 2012</b>	<b>3,000</b>	<b>95,269</b>	<b>98,269</b>
<b>Balance at 1 July 2012</b>	3,000	95,269	98,269
Profit for the period	0	11,076	11,076
Other comprehensive income	0	0	0
Total comprehensive income for the period	0	11,076	11,076
Transactions with owners in their capacity as owners:			
Capital appropriations	0	0	0
Distributions to owners	0	0	0
Total	0	0	0
<b>Balance at 31 December 2012</b>	<b>3,000</b>	<b>106,345</b>	<b>109,345</b>

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

**WESTERN AUSTRALIAN TREASURY CORPORATION**  
**UNAUDITED STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2012**

		2013	2012
	Note	31-Dec-12	31-Dec-11
		\$'000	\$'000
<b>Cash Flows from Operating Activities</b>			
Interest received on Loans to Authorities		637,496	625,156
Interest received on Investments		87,039	91,679
Proceeds from Sale and Maturity of Investments		3,119,855	2,487,214
Payment for Investment Securities		(2,194,752)	(1,901,458)
Loans to Client Authorities		(4,532,311)	(2,214,427)
Loans repaid by Client Authorities		4,146,210	1,914,353
Other Receipt/(Payment) on behalf of Client Authorities		5,666	148
Proceeds from Issuance of Borrowings		14,424,728	13,123,333
Repayment of Borrowings		(15,903,897)	(13,049,315)
Fee Income		243	263
Interest and other Cost of Finance Paid		(858,298)	(700,416)
Administration and Borrowing Related Expenses		(7,810)	(7,266)
<b>Net Cash provided by Operating Activities</b>	20b	<u>(1,075,831)</u>	369,264
<b>Cash Flows from Investing Activities</b>			
Payment for Plant & Equipment		(48)	(83)
Payment for Intangible Assets		(214)	(75)
Proceeds from Sale of Plant & Equipment		1	0
<b>Net Cash used in Investing Activities</b>		<u>(261)</u>	(158)
<b>Cash Flows from Financing Activities</b>			
Payment of Dividend		0	0
<b>Net Cash provided by/(used in) Financing Activities</b>		<u>0</u>	0
Net Decrease in Cash and cash equivalents		(1,076,092)	369,106
Cash and cash equivalents at the Beginning of the Financial Year		2,869,375	1,480,603
Unrealised foreign exchange gain/(loss)		(1)	1
<b>Cash and cash equivalents at the End of the Financial Year</b>	20a	<u><u>1,793,282</u></u>	<u><u>1,849,710</u></u>
Included in the above are the following			
<b>Cash Flows to State Government</b>			
Payment of Dividend		0	0
Payment of Taxation Equivalents		0	0
<b>Net Cash provided to State Government</b>		<u>0</u>	0

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

**WESTERN AUSTRALIAN TREASURY CORPORATION**  
**UNAUDITED NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2012**

**NOTE 1**

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

**General**

WATC's financial statements for the period ended 31 December 2012 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 reporting period ended 31 December 2012.

**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 19.

(c) Revenue

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

Fee Income

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

Interest

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

(d) Plant and Equipment

Items of Plant and Equipment costing \$5,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of Plant and Equipment costing less than \$5,000 are expensed direct to the 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:

	<b>2013</b>	<b>2012</b>
- Computer Equipment	<b>3-5 years</b>	3-5 years
- Other Equipment	<b>5-10 years</b>	5-10 years

#### Impairment

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

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

Impairment losses are recognised in the Statement of Comprehensive Income.

#### (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 31 December 2012. 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.

#### (l) Employee Benefits

##### (i) Sick Leave

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

##### (ii) Annual Leave

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

##### (iii) Long Service Leave

The liability for long service leave expected to be settled within 12 months after the 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 in accordance with legislative requirements. Eligibility criteria for membership in particular schemes for employees varies according to commencement and implementation dates.

Eligible employees contribute to the Pension Scheme, a defined benefit pension scheme closed to new members since 1987, or the Gold State Superannuation Scheme ("GSS"), a defined benefit lump sum scheme closed to new members since 1995. Employees commencing employment prior to 16 April 2007 who were 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"). From 30 March 2012, existing members of the WSS or GESBS and new employees became able to choose their preferred superannuation fund. WATC makes concurrent contributions to GESB or other funds on behalf of employees in compliance with the Commonwealth Government's Superannuation Guarantee (Administration) Act 1992. Contributions to these accumulation schemes extinguish WATC's liability for superannuation charges in respect of employees who are not members of the Pension Scheme or GSS.

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

The GSS, the WSS and the GESBS, where the current service superannuation charge is paid by WATC to the GESB, are defined contribution schemes. The liabilities for current service superannuation charges under the GSS, the WSS and the GESBS are extinguished by the concurrent payment of employer contributions to the GESB.

The GSS is a defined benefit scheme for the purposes of employees and whole-of-government reporting. However, from an agency perspective, apart from the transfer benefits, it is a defined contribution plan under AASB 119.

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.

#### (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 Account 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 provided and paid in the subsequent financial year.

#### (n) Income Tax

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

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

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



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

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

The carrying amount of deferred income tax assets is reviewed at each 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) 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.

	2013	2012
	31-Dec-12	31-Dec-11
	\$'000	\$'000

**NOTE 3**

**ADMINISTRATION EXPENSES**

The following employee benefit expenses are included in Administration Expenses.

Salaries	3,885	3,824
Workers Compensation costs	30	35
Superannuation expense	456	420
Long Service Leave Provision	34	35
	<u>4,405</u>	<u>4,314</u>

**NOTE 4**

**FOREIGN EXCHANGE GAIN/LOSS**

WATC maintains balances in its foreign currency bank accounts for the payment of expenses incurred through its overseas borrowings. At 31 December 2012, after taking account of exchange fluctuations, a loss of A\$1 thousand (2012, gain of A\$1 thousand) had resulted on this balance.

**NOTE 5**

**NET FAIR VALUE MOVEMENT**

Fair Value Adjustment - Investments	(458)	170
Fair Value Adjustment - Loans to Authorities	(37,112)	474,033
Fair Value Adjustment - Borrowings	214,554	(555,880)
Fair Value Adjustment - Derivatives	(41,455)	114,300
Net Fair Value Movement	<u>135,529</u>	<u>32,623</u>
Add Interest Movements		
Interest on Investments	63,565	81,301
Interest from Authorities	643,301	655,778
Interest on Borrowings	(819,333)	(752,726)
	<u>(112,467)</u>	<u>(15,647)</u>
Net gain on financial assets & financial liabilities at fair value through profit and loss	23,062	16,976

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 6****INCOME TAX EQUIVALENT**

	2013	2012	2012
	31-Dec-12	30-Jun-12	31-Dec-11
	\$'000	\$'000	\$'000

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

Accounting Profit	15,824	25,018	10,385
Income tax equivalent expense at 30% (2012, 30%)	4,747	7,505	3,116
Tax effect of expenses that are not deductible/assessable in determining taxable profit			
Sundry expenses	1	9	3
Income tax equivalent expense	4,748	7,514	3,119
Income tax equivalent expense comprises movements in:			
Current income tax equivalent expense	4,786	7,588	3,100
Deferred tax income relating to the origination and reversal of temporary differences	(38)	(74)	19
Deferred tax expense relating to the origination and reversal of temporary differences	0	0	0
Total income tax equivalent expense	4,748	7,514	3,119
Deferred Tax Assets:			
Employee Provisions	1,051	1,014	921
Foreign Currency Revaluation	0	0	0
Total (Note 11)	1,051	1,014	921
Deferred Tax Liabilities:			
Payables	5	5	5
Foreign Currency Revaluation	0	0	0
Total (Note 17)	5	5	5

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

Bank Deposits	958	2,315	1,630
Overseas Bank Accounts	87	54	93
	1,045	2,369	1,723

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

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

Investments comprise the following:

	2013 31-Dec-12 \$'000	2012 30-Jun-12 \$'000	2012 31-Dec-11 \$'000
Short Term Money Market Investments	3,196,640	4,554,222	3,119,678
Government Stock	164,264	829,646	0
Total	<u>3,360,904</u>	<u>5,383,868</u>	<u>3,119,678</u>

**8a. Investments - non derivative**

	3,360,904	5,383,868	3,119,678
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## Maturity Profile

At Call	605,900	392,000	619,300
Up to 3 Months	2,172,727	4,412,891	2,409,888
3 to 12 Months	582,277	578,977	90,490
1 to 5 Years	0	0	0
Over 5 Years	0	0	0
Total	<u>3,360,904</u>	<u>5,383,868</u>	<u>3,119,678</u>

## Repricing Profile

At Call	605,900	392,000	619,300
Up to 3 Months	2,172,727	4,412,891	2,409,888
3 to 12 Months	582,277	578,977	90,490
1 to 5 Years	0	0	0
Over 5 Years	0	0	0
Total	<u>3,360,904</u>	<u>5,383,868</u>	<u>3,119,678</u>

**8b. Investments - derivative**

	243	0	(121)
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## Maturity Profile

At Call	0	0	0
Up to 3 Months	0	0	0
3 to 12 Months	243	0	(121)
1 to 5 Years	0	0	0
Over 5 Years	0	0	0
Total derivatives shown as receivables & other financial assets (Note 9)	<u>243</u>	<u>0</u>	<u>(121)</u>

## Repricing Profile

At Call	0	0	0
Up to 3 Months	0	0	(121)
3 to 12 Months	243	0	0
1 to 5 Years	0	0	0
Over 5 Years	0	0	0
Total derivatives shown as receivables & other financial assets (Note 9)	<u>243</u>	<u>0</u>	<u>(121)</u>

## Credit Exposure

Rating	%	%	%
AAA	4.89	14.48	7.16
AA	50.76	43.62	46.01
A	44.35	41.90	46.83
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

WATC invests its surplus funds in accordance with the Western Australian Treasury Corporation Act. Further information on valuation methods is shown in Note 19. All investments are classified as financial assets at fair value through profit and loss.

**NOTE 9****RECEIVABLES AND OTHER FINANCIAL ASSETS**

	2013 31-Dec-12 \$'000	2012 30-Jun-12 \$'000	2012 31-Dec-11 \$'000
Accrued Interest Receivable	278,764	309,086	311,394
Foreign Currency Receivable	0	0	0
Other Debtors	0	280,398	0
	<b>278,764</b>	<b>589,484</b>	<b>311,394</b>
Other Financial Assets (Note 10b and 16b)	<b>373,343</b>	<b>505,496</b>	<b>381,353</b>
	<b>652,107</b>	<b>1,094,980</b>	<b>692,747</b>

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 reporting date and due for settlement after reporting date. Other financial assets and foreign currency receivables are discussed in more detail in Note 19.

**NOTE 10****LOANS TO AUTHORITIES - AT FAIR VALUE**

<b>10a. Loans to Authorities - non derivative</b>	<b>29,211,982</b>	<b>30,414,845</b>	<b>24,931,359</b>
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## Maturity Profile

Up to 3 Months	2,593,960	5,202,936	2,040,919
3 to 12 Months	6,218,592	6,528,318	5,276,245
1 to 5 Years	12,896,731	10,163,044	10,732,874
Over 5 Years	7,502,699	8,520,547	6,881,321
Total	<b>29,211,982</b>	<b>30,414,845</b>	<b>24,931,359</b>

## Repricing Profile

Up to 3 Months	8,855,281	10,217,752	8,482,933
3 to 12 Months	5,561,005	4,937,080	4,894,150
1 to 5 Years	8,132,552	7,689,721	5,596,284
Over 5 Years	6,663,144	7,570,292	5,957,992
Total	<b>29,211,982</b>	<b>30,414,845</b>	<b>24,931,359</b>

**10b. Loans to Authorities - derivative**

<b>3,188</b>	<b>4,725</b>	<b>3,977</b>
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## Maturity Profile

Up to 3 Months	196	1,864	61
3 to 12 Months	621	686	1,858
1 to 5 Years	2,371	2,175	2,025
Over 5 Years	0	0	33
Total derivatives shown as receivables & other financial assets (Note 9)	<b>3,188</b>	<b>4,725</b>	<b>3,977</b>

## Repricing Profile

Up to 3 Months	196	1,864	61
3 to 12 Months	621	686	1,858
1 to 5 Years	2,371	2,175	2,025
Over 5 Years	0	0	33
Total derivatives shown as receivables & other financial assets (Note 9)	<b>3,188</b>	<b>4,725</b>	<b>3,977</b>

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 (97.7% of total (2012, 97.6%)) are guaranteed by the State whilst Local Government advances (2.3% of total (2012, 2.4%)) are secured by debenture and are charged in accordance with the provisions of the Local Government Act upon the general funds of the local government. Loans to Authorities are not readily traded on organised markets in standardised form. Further information on valuation methods is shown in Note 19.

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

	2013 31-Dec-12 \$'000	2012 30-Jun-12 \$'000	2012 31-Dec-11 \$'000
Deferred Tax Asset	1,052	1,014	921

**NOTE 12****PLANT AND EQUIPMENT**

Equipment (at cost)	1,753	1,749	1,728
Less Accumulated Depreciation	1,486	1,434	1,373
Total Plant and Equipment	267	315	355

**Reconciliation****Equipment**

Opening balance	315	374	374
Additions	48	137	83
Disposals/Write-offs	(45)	(33)	0
Depreciation	(96)	(196)	(102)
Accumulated depreciation on disposal	45	33	0
Closing balance	267	315	355

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

Intangible Assets (at cost)	8,052	7,837	7,785
Less Accumulated Amortisation	7,740	7,654	7,515
Total Intangible Assets	312	183	270

**Reconciliation****Intangible Assets**

Opening balance	183	344	344
Additions	214	128	75
Disposals	0	0	0
Amortisation	(85)	(289)	(149)
Accumulated amortisation on disposal	0	0	0
Closing balance	312	183	270

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

There were no indications of impairment to Plant and Equipment and Intangible assets at 31 December 2012.

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

**NOTE 15****PAYABLES AND OTHER FINANCIAL LIABILITIES**

Interest Accrued (at amortised cost)	347,869	441,972	325,267
Other Creditors (at amortised cost)	7,393	1,587,668	6,164
Foreign Currency Payable	1,978	44,067	49,176
	357,240	2,073,707	380,607
Other Financial Liabilities (at fair value)	0	0	217,306
	357,240	2,073,707	597,913

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 19. There are no foreign currency amounts included which are not effectively economically hedged. Other creditors includes financial instrument transactions undertaken prior to reporting date and due for settlement after reporting date.

**NOTE 16****BORROWINGS - AT FAIR VALUE**

	2013 31-Dec-12 \$'000	2012 30-Jun-12 \$'000	2011 31-Dec-11 \$'000
<b>16a. Borrowings - non derivative</b>	<b>32,750,784</b>	<b>34,720,211</b>	<b>28,046,365</b>

## Maturity Profile

Up to 3 Months	5,065,320	9,017,509	4,961,592
3 to 12 Months	6,561,520	7,366,002	5,178,004
1 to 5 Years	14,979,473	7,906,970	10,521,818
Over 5 Years	6,144,471	10,429,730	7,384,951
Total borrowings at fair value	<u>32,750,784</u>	<u>34,720,211</u>	<u>28,046,365</u>

## Profile by Repricing

Up to 3 Months	5,540,391	9,217,514	4,961,592
3 to 12 Months	6,336,564	7,366,002	5,178,004
1 to 5 Years	14,729,358	7,706,965	10,521,818
Over 5 Years	6,144,471	10,429,730	7,384,951
Total borrowings at fair value	<u>32,750,784</u>	<u>34,720,211</u>	<u>28,046,365</u>

**16b. Borrowings - derivative**

	<b>(369,912)</b>	<b>(500,770)</b>	<b>(377,497)</b>
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## Maturity Profile

Up to 3 Months	249	(47,454)	(103)
3 to 12 Months	(77,853)	(154,211)	(18,457)
1 to 5 Years	(248,488)	(184,306)	(288,369)
Over 5 Years	(43,820)	(114,799)	(70,568)
Total derivatives shown as receivables & other financial assets (Note 9)	<u>(369,912)</u>	<u>(500,770)</u>	<u>(377,497)</u>

## Repricing Profile

Up to 3 Months	113,771	36,418	65,669
3 to 12 Months	(34,760)	(125,930)	10,565
1 to 5 Years	(305,129)	(211,552)	(322,102)
Over 5 Years	(143,794)	(199,706)	(131,629)
Total derivatives shown as receivables & other financial assets (Note 9)	<u>(369,912)</u>	<u>(500,770)</u>	<u>(377,497)</u>

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 19.

**BORROWINGS - AT FACE VALUE**

## Payable 12 months or less from 31 December and 30 June

- Domestic	10,063,458	13,306,198	7,050,717
- Overseas	1,487,684	2,892,381	3,091,842
	<u>11,551,142</u>	<u>16,198,579</u>	<u>10,142,559</u>

## Payable more than 12 months from 31 December and 30 June

- Domestic	18,837,713	15,783,204	16,185,733
- Overseas	0	0	0
	<u>18,837,713</u>	<u>15,783,204</u>	<u>16,185,733</u>

## Balance at face value

	<b>30,388,855</b>	<b>31,981,783</b>	<b>26,328,292</b>
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## OVERSEAS BORROWINGS

Includes Australian currency and foreign currency loans. Foreign currency loans have been translated using the exchange rates applicable at 31 December 2012 and are shown below:

Foreign Currency Borrowing	Exchange Rate Translation at 31/12/12	
	Payable 12 Months or Less from 31/12/12 \$A'000	Payable More than 12 Months from 31/12/12 \$A'000
USD 1,419,646,449	1,366,828	Nil
CHF 79,052,702	83,381	Nil
SGD 19,973,110	15,798	Nil

Foreign Currency Borrowing	Exchange Rate Translation at 30/06/12	
	Payable 12 Months or Less from 30/06/12 \$A'000	Payable More than 12 Months from 30/06/12 \$A'000
USD 2,847,747,693	2,793,353	Nil

Foreign Currency Borrowing	Exchange Rate Translation at 31/12/11	
	Payable 12 Months or Less from 31/12/11 \$A'000	Payable More than 12 Months from 31/12/11 \$A'000
USD 2,642,436,972	2,614,545	Nil
GBP 308,922,651	472,337	Nil

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



**NOTE 17****TAX LIABILITIES**

	2013 31-Dec-12 \$'000	2012 30-Jun-12 \$'000	2012 31-Dec-11 \$'000
Current Income Tax Equivalent Liability	6,790	2,004	4,291
Deferred Tax Liability	5	5	5
	<u>6,795</u>	<u>2,009</u>	<u>4,296</u>

**NOTE 18****PROVISIONS**

Annual Leave	1,046	978	971
Long Service Leave	1,540	1,507	1,466
Superannuation	919	893	634
	<u>3,505</u>	<u>3,378</u>	<u>3,071</u>

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

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

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

WATC's philosophy is to ensure that it maintains appropriate capital cover to mitigate these risks. In this regard, the Australian Prudential Regulation Authority ("APRA") sets guidelines in Prudential Standards APS 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 uses these standards as a basis 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 risk 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.

## 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:

Value at Risk (VaR)	2013 31-Dec-12 \$'000	2012 30-Jun-12 \$'000	2012 31-Dec-11 \$'000
Average Daily Balance for Year	906	1,038	1,007
Lowest for Year	547	659	659
Highest for Year	1,899	1,550	1,319
Closing Balance	588	1,222	936

## 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 standards also require capital to be set aside to cover the credit risk associated with WATC's derivative exposures.

Credit Exposure of Investments by Rating	2013	2012	2012
	31-Dec-12	30-Jun-12	31-Dec-11
	%	%	%
AAA	4.89	14.48	7.16
AA	50.76	43.62	46.01
A	44.35	41.90	46.83
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

  

Credit Exposure of Derivatives by Rating	%	%	%
	AAA	0.00	0.00
AA	80.59	79.24	70.52
A	19.41	20.76	29.48
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

## 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 set 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.

## **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 this 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 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 Asset and Liability Management Committee meets on a monthly basis prior to each Board meeting.

## 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 calculation is based on 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 APRA's "Current Exposure Method" to determine the credit exposure arising from its derivative transactions. At 31 December 2012, WATC is confident that all its counterparties will meet their obligations.

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

	Notional Amount \$'000	Net Fair Value \$'000	Credit Exposure \$'000
<b>As at 31 December 2012</b>			
Futures	262,300	(53)	0
Interest Rate Swaps	10,525,085	373,902	619,170
Forward Rate Agreements	1,655,000	(506)	246
<b>As at 30 June 2012</b>			
Futures	516,900	(263)	0
Interest Rate Swaps	12,521,490	434,018	673,275
Forward Rate Agreements	1,675,000	(884)	24
<b>As at 31 December 2011</b>			
Futures	1,071,000	166	0
Interest Rate Swaps	10,616,940	381,864	576,790
Forward Rate Agreements	1,570,000	(676)	18

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 31 December 2012, WATC had lent funds amounting to \$A8,213,516 thousand (2012, \$A7,993,618 thousand) on this basis.

Forward rate agreements are used by WATC to secure a guaranteed return or cost on known cash flows as and when they fall due. These agreements establish an interest rate on a notional principal over a specified period. Futures contracts are used essentially for the same purpose as forward rate agreements. The contracts used by WATC are the bank bill, 3 year and 10 year bond contracts.

WATC borrows in foreign currencies when the all in cost after swapping back into Australian dollars is cheaper than the equivalent domestic borrowing. Whereas WATC manages interest rate risk on a portfolio basis, it manages the exchange rate risk on foreign currency borrowings as part of the borrowing transaction. At 31 December, WATC had foreign currency swaps and forwards amounting to \$A1,465,875 thousand (2012, \$A3,086,745 thousand) with a fixed future obligation in Australian dollars of \$A1,467,853 thousand (2012, \$A3,135,921 thousand). Additionally, WATC has arranged foreign exchange transactions for clients amounting to \$87,000 thousand (2012, \$A157,727 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 \$3,188 thousand relating to these forward foreign exchange transactions receivable from authorities and payable to third parties is included in Notes 10(b) and 16(b) respectively.

All financial assets and liabilities have been recognised at the 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 31 December, the market interest rates used by WATC for valuation purposes were:

	Coupon	Market Rate 31-Dec-12	Market Rate 30-Jun-12	Market Rate 31-Dec-11
Overnight	-	3.00%	3.50%	4.25%
90 days	-	3.07%	3.48%	4.48%
180 days	-	3.01%	3.44%	4.43%
15 June 2013	8.00%			3.84%
15 April 2015	7.00%	3.02%	3.22%	4.02%
15 July 2017	8.00%	3.34%	3.51%	4.27%
15 October 2019	7.00%	3.63%	3.78%	4.43%
15 July 2021	7.00%	3.84%	3.94%	4.58%

**NOTE 20****NOTES TO THE STATEMENT OF CASHFLOWS****20a. 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:

	2013 31-Dec-12 \$'000	2012 31-Dec-11 \$'000
Bank Deposits (Note 7)	958	1,630
Short Term Money Market Investments	1,792,237	1,847,987
Overseas Bank Accounts (Note 7)	87	93
	<u>1,793,282</u>	<u>1,849,710</u>

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

Profit for the period after tax equivalent	11,076	7,266
Depreciation	96	102
Amortisation of Intangible Assets	85	149
Increase in Receivables	3,629	(12,907)
Increase in Accrued Interest Payables	(19,268)	12,728
Decrease in Other Creditors	(636)	(612)
Current income tax equivalent expense	4,786	3,100
Other Receipt on behalf of Client Authorities	5,666	148
Deferred tax asset	(38)	19
Deferred tax liability	0	0
Unrealised Foreign Exchange Gain/Loss	1	(1)
Profit From Sale of Equipment	(1)	0
Increase/(Decrease) in Employee Benefits	127	(51)
Premium/Discount Amortisation	(5,658)	32,246
Market Value Adjustment	(135,529)	(32,623)
Cash increase in Investments	925,103	585,756
Cash increase in Lending	(386,101)	(300,074)
Cash increase in Borrowings	(1,479,169)	74,018
Net Cash provided by/(used in) Operating Activities	<u>(1,075,831)</u>	<u>369,264</u>

**20c. Financing/Lending Facilities**

WATC holds a substantial portfolio of liquid assets that can be readily converted into cash. These assets comprise highly liquid money market investments and longer term state government and Commonwealth Government securities.

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