

WESTERN AUSTRALIAN  
**TREASURY CORPORATION**

FINANCIAL SOLUTIONS FOR THE BENEFIT OF ALL WESTERN AUSTRALIANS



ANNUAL REPORT 2017

To be recognised as the best at providing  
financial solutions for the benefit of the  
Western Australian public sector



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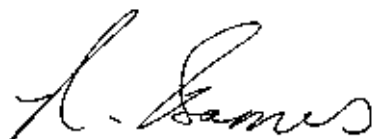
### About this Report

This Annual Report provides information about the services and performance of Western Australian Treasury Corporation and includes audited financial statements and performance indicators for the financial year ending 30 June 2017. A full copy of this annual report, along with previous years' annual reports, is available on Western Australian Treasury Corporation's website [www.watc.wa.gov.au](http://www.watc.wa.gov.au) and is also available in alternative formats upon request.

The Hon. Ben Wyatt  
Treasurer of Western Australia; Minister for Finance; Energy;  
Aboriginal Affairs

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 2017.

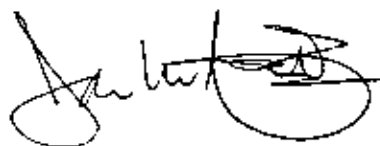
The Annual Report has been prepared in accordance with the provisions of the [Financial Management Act 2006](#).



**M A BARNES**  
CHAIRPERSON

WESTERN AUSTRALIAN  
TREASURY CORPORATION

21 August 2017



**J M COLLINS**  
CHIEF EXECUTIVE OFFICER

WESTERN AUSTRALIAN  
TREASURY CORPORATION

21 August 2017

## Highlights 2016/17

A **new vision, objectives** and **EPIC values** were introduced on 1 July 2016

**Successfully delivering the State's borrowing requirements**, with a **\$4.2 billion** increase in client debt to a total of **\$44.9 billion** at 30 June 2017

**Successful launch of two new benchmark bond lines and two new FRNs**, raising **\$3.3 billion** on initial offerings

Continued to **deliver interest rate savings to clients** while achieving the **lowest ever Administration Cost Ratio (0.037%)**

In excess of **\$168 million of client foreign exchange transactions** in 11 different currencies

Over **\$4.85 billion in investments managed** on behalf of clients, **outperforming established benchmarks**

Client feedback on **advisory services** affirming the **high-quality, capability** and **valuable contribution** to State and client initiatives

Implementation of **client debt management strategies**, which **successfully achieved** the target requirement for managing the refinancing risk of the State

**Improving service delivery** to clients through the development of an **online client portal**

**Best Practice agency for financial reporting** as recognised by the Office of the Auditor General

**Silver Lonnie Award** for the 2015/16 Annual Report awarded by IPAA

# Chairperson's and Chief Executive Officer's Report

The 2016/17 financial year, our thirty-first, was another successful year for the Western Australian Treasury Corporation.

A new vision for Western Australian Treasury Corporation (WATC), ***"To be recognised as the best at providing financial solutions for the Western Australian Public Sector"***, was introduced on 1 July 2016. In order to achieve our vision, we focused on delivering our corporate objectives and the key aspects of our business.

## Corporate Objectives

- Provision of high-quality, cost-effective products and services to the Western Australian public sector.
- Maintain ready access to domestic and international capital markets to ensure funds are raised to finance client borrowing needs at the lowest possible cost.
- Optimise the performance of WATC in accordance with the [Western Australian Treasury Corporation Act](#) and the risk appetite of WATC's Board.

## Key Aspects

- Debt Funding
- Asset and Investment Management
- Risk Management
- Treasury Management Services
- Advisory Services.

Applying our **EPIC** values of **E**xcellence, **P**artnership, **I**ntegrity and **C**ommitment, we have effectively executed on the new vision and objectives, utilising the many specialist skills within our business.

## Debt Funding

WATC successfully achieved the State's \$5.8 billion new money borrowing program, as originally estimated in the release of the 2016/17 State Budget, with a net of \$4.2 billion lent. In addition, maturing long- and short-term debt of nearly \$3.9 billion was refinanced.

An important component of WATC's debt funding strategy is the management of the balance sheet. There are two key balance sheet targets that ensure funding risk is managed adequately, while also taking interest costs into consideration. The first target requires debt maturing within 12 months to be less than 20% of total debt, including maturities of long- and short-term debt. The second target stipulates having liquid asset portfolios that exceed 100% of debt maturing within 12 months. Both of these targets were again achieved, with debt maturing within 12 months at 16.83% and the liquidity portfolios covering 120.81% of that amount at 30 June 2017. Combined, this implies that WATC could theoretically stay out of the financial markets for 12 months and rely on investment portfolios to meet refinancing needs. These results also provide positive support for State credit ratings, as well as cost-effectively managing refunding risk.

The attainment of these ratios also required the careful management of the impending maturity of the July 2017 benchmark bond, which totalled \$5.5 billion at 30 June 2016. This was reduced to \$2.0 billion at 30 June 2017 through early buy backs and extensions arranged during the year.

In October and December 2016, a total of \$1.4 billion was received from the securitisation of a portion of the Keystart mortgage portfolio, which was comfortably absorbed into our net borrowing program.

WATC created a new 2024 benchmark bond in November 2016, raising \$525 million, and added \$1.0 billion to it in April 2017. In June 2017, a new 2026 benchmark bond was created, adding \$1.3 billion to the debt portfolio. With this issue, WATC now has an annual fixed rate benchmark bond maturing in every year to 2027. There were also seven floating rate note issues outstanding with maturities out to 2022.

More than 50% of WATC's paper is held by domestic bank balance sheets and 20–25% is estimated to be held by offshore investors. In order to place the growing level of debt and improve pricing, new and larger investors will be required, many of whom are offshore. Towards that end, this financial year, we have visited North Asia, Europe and South East Asia. With Asia and Europe each representing about half of WATC's offshore holdings, Western Australia's new Treasurer, Hon. Ben Wyatt MLA, accompanied us to investor briefings in North Asia and Sydney in April 2017.

A total of \$7.4 billion (\$6.9 billion in 2015/16) in short-term debt (short-term inscribed stock and euro commercial paper) was sold in varying maturities, while \$12.1 billion (\$11.5 billion in 2015/16) of long-term debt (benchmark bonds and floating rate notes) was issued in the 2016/17 year. At 30 June 2017, a total of \$2.2 billion in short-term paper (\$2.8 billion at 30 June 2016), \$36.4 billion in benchmark bonds (\$31.3 billion at 30 June 2016) and \$9.4 billion in floating rate notes (\$8.2 billion at 30 June 2016) was outstanding.

The purpose of sourcing funds from the financial markets is to fulfil the borrowing requirements of our Western Australian public sector clients. WATC, working together with clients, has facilitated clients borrowing at interest rates and maturities that are optimised to their requirements. Products used include the working capital facility, short term loans, term fixed rate loans and term floating rate loans. The recently developed interest cost projection system is now being used by the majority of the client base for interest cost budgeting and/or project planning purposes. Development of the WATC Client Portal is close to being finalised and will enable clients to access reports, receive confirmations and initiate transactions through an online platform.

Continued

# Chairperson's and Chief Executive Officer's Report

## Asset and Investment Management

WATC manages approximately \$9.0 to \$10.0 billion in five liquid asset portfolios for itself and on behalf of a number of Western Australian public sector clients. The portfolios comprise high grade, money market and fixed income assets and are managed cost-effectively according to specific individual investment objectives, providing competitive returns.

## Risk Management

For a number of years, WATC has been active in assisting Western Australian public sector entities with measuring and managing foreign exchange risk. Often this occurs in asset or services procurement and with entities that are not regular users of foreign exchange.

This year, over 70 Western Australian government employees attended WATC's foreign exchange related training sessions, designed to assist them in understanding foreign exchange risk and managing exposures, particularly within procurement. This involves the identification and management of foreign exchange risks in accordance with Treasurer's Instruction 826.

With its on-going involvement with bank counterparties, WATC uses a multi-bank foreign exchange portal with feeds from a large number of domestic and foreign banks to ensure the best prices are obtained, and the most appropriate and cost-effective structures are considered, for each transaction undertaken on behalf of clients.

## Treasury Management Services

WATC has in-sourced the treasury function and associated activities for a number of Western Australian public sector clients, providing a cost-effective service by leveraging off WATC's expertise, comprehensive information and technology systems and risk management capabilities.

## Advisory Services

WATC has completed a number of client advisory engagements this year. With our centralised team of financial talent, our clients are able to access these resources to assist in unique or complex financial decisions. Asset valuations and balance sheet modelling are just two of the engagements successfully completed. In providing a comprehensive service to clients, the Advisory Services team of nine works collaboratively with other WATC staff who are available to assist with various engagements where their specialised knowledge and skills can be utilised.

## Key Performance Indicators

Five of our six KPIs were achieved this year.

## Client Perspective

WATC's Interest Rate Savings to clients estimates compared favourably to benchmarks established in previous years. In particular, for peers in the AA+ rated,

3–4 year maturity range, the analysis in June 2017 estimates that on average, savings of 55 basis points occurred. Target achieved.

As part of WATC's quality assurance framework, feedback on completed engagements is sought from clients on a range of measures including quality, value, capability and the overall level of service. This year's result remained very strong, with 100% of clients responding with positive satisfaction across these measures. Target achieved.

## Process Perspective

WATC's administration cost ratio was 0.037%, a decrease from the 0.039% recorded in 2015/16 and well below our 0.060% target. The historic rate of growth in administration costs has approximated inflation, in spite of significant increases in the size of the balance sheet and the level of advisory services provided. In our estimation, this continues to remain one of the lowest cost ratios for any Australian State since 1996. Target achieved.

## Financial Perspective

Profit before tax was \$17.6 million, a slight increase from \$16.0 million in 2015/16. This was modestly below budget of \$21.1 million. WATC does not have a mandate to maximise profit, instead, our goal is to achieve an adequate profit while delivering cost-effective products and services to our Western Australian public sector clients. The result will return \$14.5 million to the State in tax equivalent payments and dividends, which equates to \$223,000 per WATC staff member. Acceptable target range achieved.

The Return on Capital measure was 15.49%, against a target minimum of 5.20%, and above last year's rate of 14.30%. Target achieved.

## People and Infrastructure

WATC's fifth employee engagement survey conducted by Aon Hewitt provided some interesting results. With over 95% of staff participating in the survey, the headline number showed a decrease in staff engagement from 51% to 46% (against a target of 55% or over), reversing half of the improvement seen last year. There was a positive increase in the perception of the quality of communication, reflecting our focus to address this aspect based on previous years' surveys.

'Engagement' is not simply a measure of employee satisfaction, but rather it is a measure of the number of staff willing to apply discretionary effort required to meet our goals. A strategic approach to improve staff engagement continued to be implemented this year. Building on the initiative to embed our new vision, objectives and EPIC values into the WATC culture, we continued our multi-year, modular leadership development program to support and continuously improve our culture. The program received positive feedback from staff in the engagement survey.

This financial year was WATC’s eighth year of accreditation by the Australian Financial Markets Association (AFMA). Twenty-four financial markets and client facing staff are currently certified. In addition, five WATC staff hold Australian Institute of Company Directors (AICD) accreditation.

Total staff numbers fell by one person this year to 65 employees, as staff turnover remained low. During the year, three staff retired and three staff resigned, with five new individuals hired.

### Economic Environment

In spite of an eventful year with respect to global events, financial markets have not moved as dramatically as one might have expected. Global equities firmed, and commodities recently softened after holding firm for most of the year. Australian dollar short-term interest rates remained close to historically low levels, driven by just one 25 basis point cut to the cash rate to 1.50%.

Long-term Australian interest rates increased by 20 to 60 basis points over the year as expectations of multiple RBA cash rate cuts were progressively priced out of the curve.

In the US, the Fed continued the ‘normalisation’ trend of the Fed Funds rate, with several 25 basis point increases over the year as the US economy strengthened and neared full employment.

The Australian dollar remained largely in the \$0.68–0.78 range, being in the upper half of the range more recently.

There were no changes to credit ratings for Western Australia or WATC during the 2016/17 financial year.

Standard and Poor’s retained its AA+ rating, with a Negative Outlook. Moody’s Investors Services maintained its rating at Aa2, with a Stable Outlook.

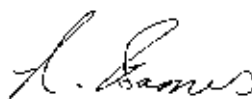
### Acknowledgements

On 30 June 2017, Ms Kaylene Gulich completed her term as a WATC Director and Deputy Chair, which totalled nearly three and a half years. We want to acknowledge and thank Ms Gulich for her many contributions on the WATC Board and Audit Committee and wish her continued success in the future.

We also wish to welcome Mr Michael Court, Deputy Under Treasurer, on to our Board as Deputy Chair and Audit Committee member, commencing 1 July 2017.

We thank our employees and Board for their hard work and dedication again this year to achieve these positive outcomes for WATC and the State of Western Australia.

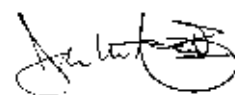
Respectfully,



**Michael Barnes**  
Chairperson and Under Treasurer

Western Australian Treasury Corporation

21 August 2017



**John Collins**  
Chief Executive Officer and Director

Western Australian Treasury Corporation

21 August 2017



**Michael Barnes**  
Chairperson



**John Collins**  
Chief Executive Officer

## Five-Year Summary

### Financial Summary

	2016/17	2015/16	2014/15	2013/14	2012/13
	\$m	\$m	\$m	\$m	\$m
<b>Financial Performance</b>					
Profit Before Income Tax					
Equivalent Expense	17.6	16.0	23.1	20.5	22.8
Gross Administration Expenses	17.4	16.9	16.3	16.1	15.5
Income Tax Equivalent Expense	5.3	4.8	6.9	6.2	6.9
Dividends Paid	7.3	10.5	9.4	10.4	11.4
<b>Financial Position</b>					
Investments	5,145.6	4,038.5	2,900.1	2,716.3	4,192.4
Loans to Authorities	48,838.0	45,432.0	39,163.6	36,527.3	33,429.7
Other Assets	1,004.2	1,505.6	759.8	765.9	812.9
<b>Total Assets</b>	<b>54,987.8</b>	<b>50,976.1</b>	<b>42,823.5</b>	<b>40,009.5</b>	<b>38,435.0</b>
<b>Percentage Change in Assets (%)</b>	<b>7.9</b>	<b>19.0</b>	<b>7.0</b>	<b>4.1</b>	<b>4.2</b>
Borrowings	51,287.7	47,297.9	39,268.7	36,167.9	36,434.3
Other Liabilities	3,580.6	3,563.8	3,441.1	3,734.7	1,897.8
<b>Total Liabilities</b>	<b>54,868.3</b>	<b>50,861.7</b>	<b>42,709.8</b>	<b>39,902.6</b>	<b>38,332.1</b>
<b>Equity</b>	<b>119.5</b>	<b>114.4</b>	<b>113.7</b>	<b>106.9</b>	<b>102.9</b>

### Key Performance Indicator Summary

	2016/17	2015/16	2014/15	2013/14	2012/13
<a href="#">Estimated Interest Rate Savings &gt; 0.00%</a>	<b>Yes</b>	Yes	Yes	Yes	Yes
<a href="#">Assessment of Client Satisfaction</a>	<b>100%</b>	100%	100%	98%	100%
<a href="#">Administration Cost Ratio</a>	<b>0.037%</b>	0.039%	0.044%	0.047%	0.050%
<a href="#">Pre-Tax Profit</a>	<b>\$17.6m</b>	\$16.0m	\$23.1m	\$20.5m	\$22.8m
<a href="#">Return on Capital</a>	<b>15.49%</b>	14.30%	22.08%	19.98%	23.80%
<a href="#">Staff Engagement Rating</a>	<b>46%</b>	51%	40%	43%	44%



# Performance Against Targets

The WATC Board sets annual performance targets for WATC. These targets form part of the Statement of Corporate Intent, which is submitted to the Minister at the start of each financial year in accordance with Section 16l(1) of the [Western Australian Treasury Corporation Act 1986](#).

## 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, excluding any guarantee fees collected by WATC on behalf of the State, compared to the estimated cost to clients of borrowing in the corporate bond market. (See [page 77](#) for a more detailed explanation.)

<b>Target:</b>	Savings > 0.00%			
<b>Outcome:</b>	Estimated interest rate savings to clients by reference bond credit rating and term to maturity were greater than 0.00%			
<b>Term to Maturity as at 30 June 2017 (Years)</b>				
	<b>AAA</b>	<b>AA+</b>	<b>AA</b>	<b>AA-</b>
1 to 2	0.26%	0.37%	0.61%	0.59%
2 to 3	0.34%	0.42%	0.65%	0.52%
3 to 4		0.55%	0.63%	0.61%
4 to 5	0.35%	0.40%	0.70%	0.79%
5 to 6	0.38%	0.46%		0.56%
6 to 7	0.29%	0.56%	0.83%	0.46%
7 to 8				
8 to 9	0.29%	0.47%	0.74%	0.63%
9 to 10	0.26%		0.63%	0.62%

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

With Standard & Poor's and Moody's Investors Service rating the State AA+ and Aa2 respectively, the AA+ savings category is the most accurate estimate of the interest rate savings delivered by WATC to its Western Australian public sector clients.

Target achieved. WATC continued to deliver significant interest rate savings to clients in 2016/17.

## Assessment Client Satisfaction

WATC uses a range of mechanisms to continually monitor and assess client satisfaction, including independent surveys and seeking direct client feedback. As part of WATC's advisory services quality assurance framework, following the completion of each engagement, clients are requested to provide feedback on their experience.

<b>Target:</b>	90% client satisfaction
<b>Outcome:</b>	100% of clients rated satisfied or better (with over 86% of clients rating very satisfied or extremely satisfied) with WATC's advisory services. Key attributes rated by clients include the quality of advice provided, adding value to the client's project, and WATC's overall capability and service provided

Target achieved. The positive feedback received from clients provides validation that WATC continues to deliver financial solutions for the benefit of the Western Australian public sector.

## 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.

<b>Target:</b>	Administration Cost Ratio < 0.060%
<b>Outcome:</b>	Administration Cost Ratio = 0.037%

Target achieved. WATC continued to deliver scale benefits to the State by keeping net administration expenses in check while average client debt funding requirements increased by 10.2 per cent over the year.

Continued

# Performance Against Targets

## Pre-Tax Profit

Unlike private sector financial institutions, it is not the primary objective of WATC to maximise pre-tax profit, but rather to maintain an adequate profit while providing cost-effective financial products and services to the State and Western Australian public sector agencies.

<b>Target:</b>	Profit = \$21.1 million
<b>Outcome:</b>	Profit = \$17.6 million

Acceptable target range achieved.

## 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 a minimum return target.

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

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.

<b>Target:</b>	Return = 5.2%
<b>Outcome:</b>	Return = 15.49%

Target achieved. WATC achieved well above its target minimum return on capital for 2016/17 through its effectiveness in constraining administrative and loan-raising expenses, as well as effective hedge management of portfolio exposures.

## Staff Engagement Rating

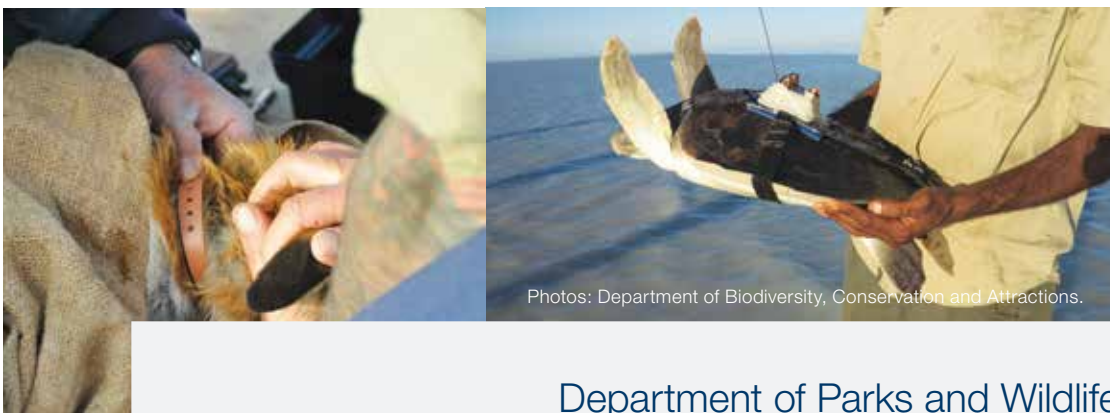
WATC strives to create an environment where employees are motivated to do their jobs to the best of their abilities. The Staff Engagement Rating for 2016/17 is based on the Aon Hewitt Best Employer Survey report. Aon Hewitt conducts this survey across a range of organisations in Australia and New Zealand (including the financial sector) which enables WATC to benchmark against 'best employer' standards. WATC's goal is to achieve 'best employer' accreditation from Aon Hewitt.

<b>Target:</b>	Employee Engagement Rating > 55%
<b>Outcome:</b>	Employee Engagement Rating = 46%

WATC did not achieve its target. Work continues on the strategic approach to improve employee engagement, encouraging and developing staff self-leadership, accountability and continuous improvement aligned to WATC's vision, objectives and values.

## Future Outlook

WATC continues to work towards improving on the above results and is well placed to meet future challenges as it delivers financial solutions for the benefit of its clients and the State of Western Australia.



Photos: Department of Biodiversity, Conservation and Attractions.



Department of Biodiversity, Conservation and Attractions

## Department of Parks and Wildlife

WATC assisted the Department of Parks and Wildlife (known as Department of Biodiversity, Conservation and Attractions from 1 July 2017) with foreign currency payments and procurement advice for purchasing fox and turtle trackers.

# About Western Australian Treasury Corporation

Western Australian Treasury Corporation fulfils the role as the State's central financial services provider, working with its public sector clients to assist them to achieve sound financial risk management outcomes. Western Australian Treasury Corporation's principal activities involve funding and debt management, asset and investment management, financial advisory services, financial risk management and treasury management services and systems.

As part of a comprehensive strategic planning and review process, a new corporate vision, objectives and values were developed for Western Australian Treasury Corporation (WATC), which came into effect from 1 July 2016.

## Vision

To be recognised as the best at providing financial solutions for the benefit of the Western Australian public sector.

## Objectives

- Provision of high-quality, cost-effective products and services to the Western Australian public sector.
- Maintain ready access to domestic and international capital markets to ensure funds are raised to finance client borrowing needs at the lowest possible cost.
- Optimise the performance of WATC in accordance with the [Western Australian Treasury Corporation Act](#) and the risk appetite of WATC's Board.

## Values

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

- Excellence** We challenge ourselves to think creatively and to continuously improve in the pursuit of excellence.
- Partnership** We work respectfully, supportively and collaboratively with our clients and colleagues towards achieving successful outcomes.
- Integrity** We are open, honest and accountable. We adhere to the highest professional and ethical standards. We honour our promises.
- Commitment** Through hard work and determination, we will deliver the best outcomes for the State of Western Australia.

## 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 in 1998 expanded WATC's role to include the provision of financial management services to the Western Australian public sector.

## Responsible Minister

The Hon. Ben Wyatt, MLA; Treasurer; Minister for Finance; Energy; Aboriginal Affairs.

## 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

In line with the State's credit rating, the debt of WATC is rated as follows:

Rating Agency	Long-term	Outlook	Short-term
Standard & Poor's	AA+	Negative	A-1+
Moody's Investors Service	Aa2	Stable	Prime-1

## Board of Directors



### Michael A Barnes, Chairperson

Mr Barnes assumed the role of Chairperson when he became Acting Under Treasurer in the Department of Treasury in February 2014. Mr Barnes was appointed Under Treasurer in April 2015. As Under Treasurer, Mr Barnes is the principal economic and financial policy adviser to the Government of Western Australia. He is also the Chairperson of WATC's Remuneration Committee. Prior to joining the Department of Treasury in 1997, Mr Barnes worked in the Commonwealth Treasury, where he commenced his career as a graduate in 1992. Mr Barnes holds a Bachelor of Business degree with Honours in Economics.



### Kaylene P Gulich, Deputy Chairperson

Ms Gulich was appointed to the Board as the Deputy Chairperson on 17 February 2014 and is a member of the Audit Committee. She is currently the Executive Director, Infrastructure and Finance at the Department of Treasury. Ms Gulich has held a number of senior positions across the Department of Treasury and is a member of CPA Australia. Ms Gulich holds a Bachelor of Commerce (Accounting), Bachelor of Social Science (Politics) with Honours, Master of Leadership and Management, and Master of Business Administration.



### Catherine A Nance

Ms Nance has been a Director of WATC since 1998 and is the Chairperson of the Audit Committee and a member of the Remuneration Committee. She is a Partner and Actuary of PricewaterhouseCoopers, with over 20 years' experience in the financial services industry advising governments and companies on finance-related matters including superannuation, investment and financial services. Ms Nance is a recognised authority and active contributor to policy development in both superannuation and financing the ageing. 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, a member of the CFA Institute and a graduate of the Australian Institute of Company Directors (AICD). Ms Nance is a Director of the Government Employees Superannuation Board.



### Jennifer A Seabrook

Ms Seabrook was appointed to the Board as a Director on 1 October 2015 and is a member of the Audit Committee. She has extensive financial and corporate executive expertise, having worked at senior levels in chartered accounting, capital markets and investment banking businesses, as well as previous experience on Western Australian government boards and in other non-executive board and panel roles. Ms Seabrook currently holds the positions of non-executive Director of Iluka Resources Limited, IRESS Limited, MMG Limited, and Australian Rail Track Corporation and is a special advisor to Gresham Advisory Partners Limited.



### Grahame J Searle

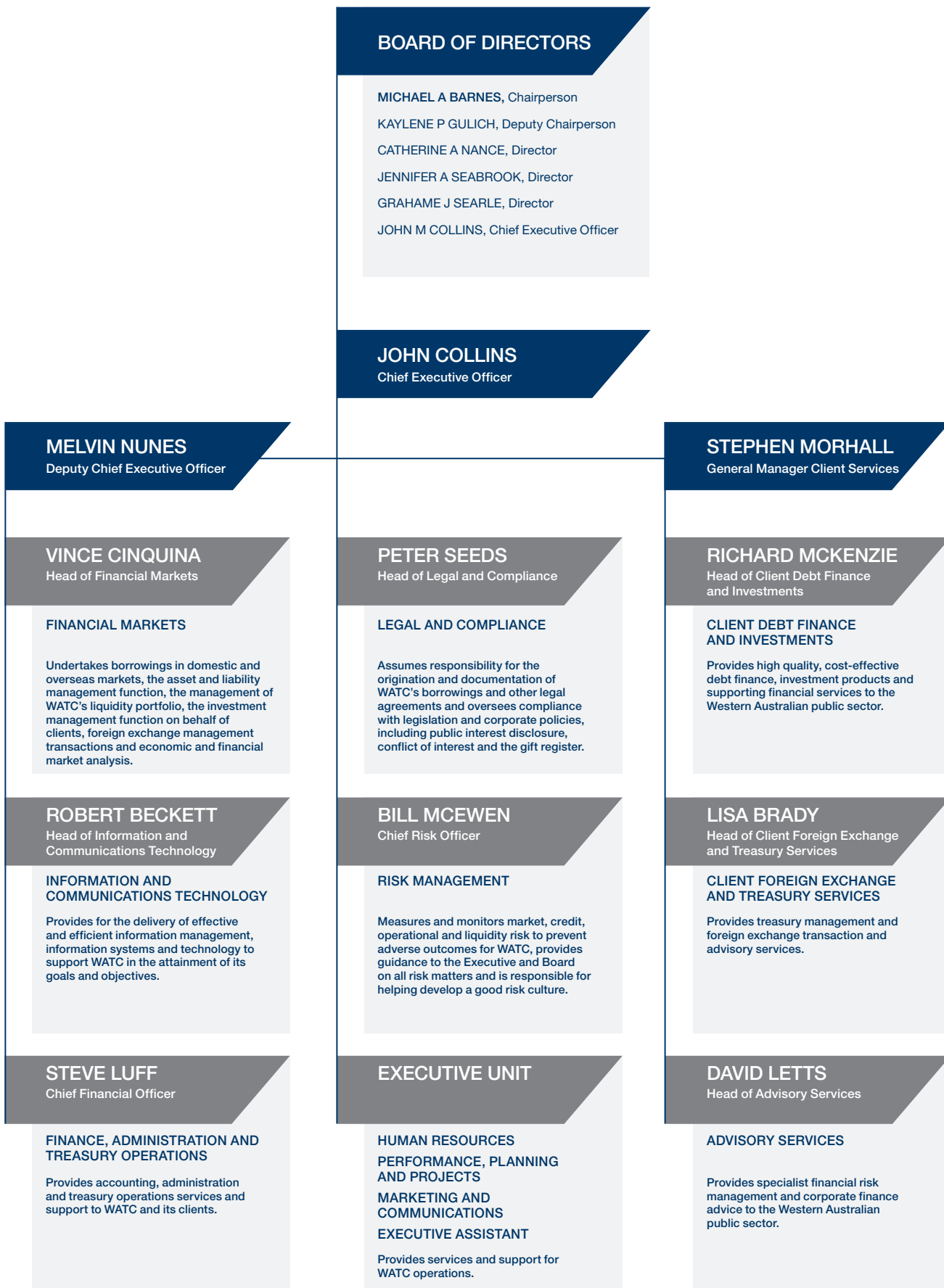
Mr Searle was appointed to the Board as a Director on 1 January 2009 and is a member of the Remuneration Committee. He is currently the Interim Director General of the newly formed Department of Communities. Prior to this, Mr Searle held a number of executive positions, including Leader of the State's Regional Services Reform Unit, Director General for Department of Housing and 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 a Fellow of both the Spatial Sciences Institute of Australia and the Institute of Public Administration Australia.



### John M Collins

Mr Collins was appointed CEO of WATC and a Director of the Board effective 15 October 2009. Mr Collins has previously worked in senior banking and financial markets capacities in the US, Australia and Indonesia. This included almost 10 years with Cargill Incorporated and nearly 15 years with ANZ Bank, most recently as President Director of PT ANZ Panin Bank in Indonesia. Mr Collins has a Bachelor of Science degree in Business Administration 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.

# Organisational Structure



# Economic Environment

It was another challenging year for the global economy and financial markets, impacted by Brexit and the victory by Donald Trump in the United States elections. A State Election was held in Western Australia on 11 March 2017, resulting in a new government and the announcement that the 2017-18 State Budget would be released on 7 September. Economic information is based on available data, as at 21 August 2017.

Key highlights of the economic environment in which WATC operated during 2016/17 were:

- Western Australian real Gross State Product (GSP) increased by an estimated 0.5 per cent in 2016/17
- Western Australian merchandise exports is estimated to total \$111.5 billion in 2016/17
- The Australian economy is estimated to have grown 1.75 per cent in 2016/17 and is forecast to grow 2.75 per cent in 2017/18.

## The Western Australian Economy

Western Australia is a leading global producer and exporter of a wide variety of commodities. The State has cemented its position as the world's largest exporter of iron ore, while LNG exports are ramping up and are expected to double over the next three years. By 2020, Western Australian installed LNG production capacity is likely to advance to third largest in the world, behind Qatar and the United States. Western Australia accounted for an estimated 42 per cent of the total value of Australia's merchandise exports in 2016/17.

Western Australian real GSP increased by an estimated 0.5 per cent in 2016/17 (as per the Pre-election Financial Projections Statement released in February 2017), after rising 1.9 per cent in 2015/16 (see Figure 1). An estimated 8.0 per cent rise in export volumes made the largest contribution to overall growth. Seasonally adjusted real state final demand contracted by 6.6 per cent in year-on-year terms in the first quarter of 2017, as a 25.8 per cent fall in business investment and a larger than expected 23.3% decline in dwelling investment more than offset a 1.2 per cent rise in household consumption. The State unemployment rate has averaged 6.2% in 2016/17, compared to 6.0% in 2015/16.

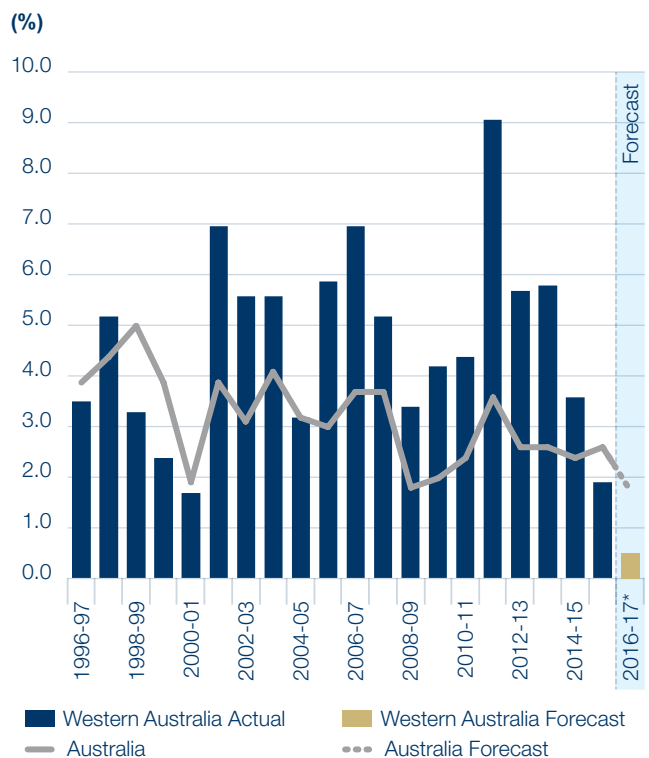
### Outlook for Western Australia

Rising export volumes will be the major contributor to an expansion of the State economy in 2017/18. Real state final demand is expected to remain in contraction, with declining mining investment again the major drag on the economy and household consumption growth remaining below the long run average. Business investment will remain impacted by major projects continuing to transition into operational and production phases.

### Fiscal Outlook for Western Australia

As reported by the Department of Treasury (Fees and charges: The state of the finances, June 2017), the general government operating deficit is "expected to peak at \$3.0 billion in 2016/17." The State's net debt has grown to "\$33 billion forecast by the end of 30 June 2017 and over \$42 billion by 30 June 2020." Furthermore, the Department of Treasury advised that Western Australia has continued to experience record low GST grant levels and remains heavily disadvantaged by the Horizontal Fiscal Equalisation regime, with the State's GST 'relativity' (the ratio of GST grant to its population share of GST) for 2017/18 being less than 35 per cent. This follows a record low GST relativity of 30 per cent in 2015/16. Compared to its population share, Western Australia "misses out on \$4.5 billion in GST revenue in 2016/17".

Figure 1: Gross Domestic Product and Gross State Product – Annual Growth



\* 2016-17 is an estimated actual as of February 2017.

Source: Department of Treasury, Commonwealth Treasury and Australian Bureau of Statistics.

## The Australian Economy

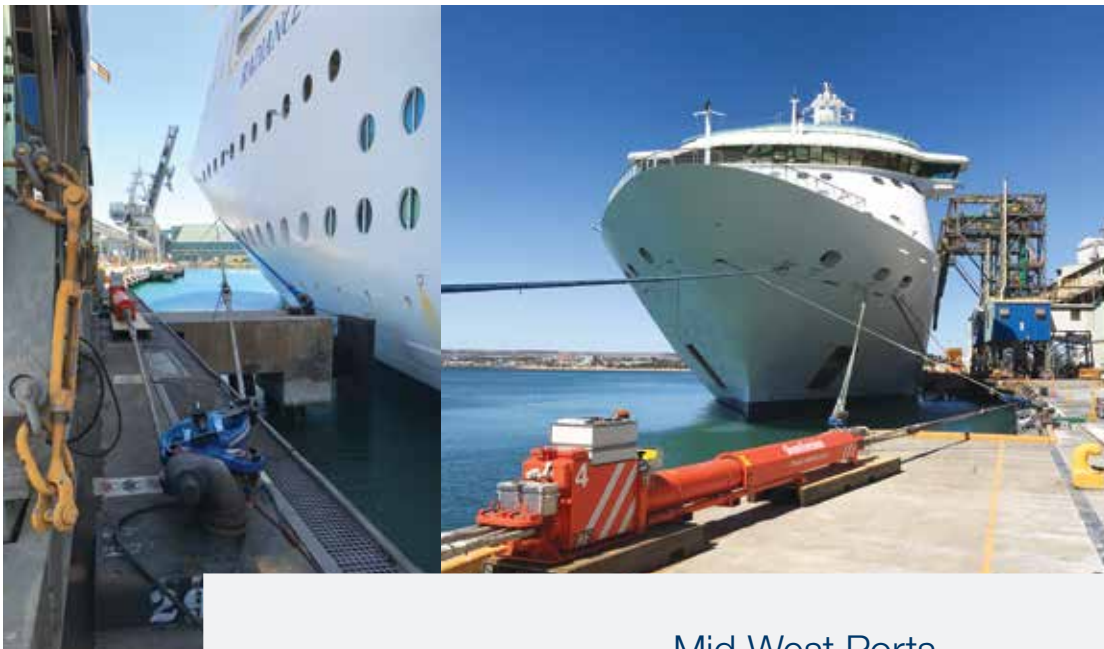
Australian economic growth is estimated to have slipped to 1.75 per cent in 2016/17 from 2.6 per cent in 2015/16, with growth affected by a number of weather-related events. The transition from resource-driven to non-mining sector-driven growth remains slow, with the east-coast housing construction boom supporting the economy as mining investment continues to unwind. National income has also been boosted by a sharp increase in the terms of trade in the final quarter of 2016 and the first quarter of 2017. Real gross domestic income (real GDP growth adjusted for the terms of trade) rose 6.5 per cent year-on-year in Q1 2017.

Strong employment growth towards the end of 2016/17 has seen the seasonally adjusted unemployment rate fall to 5.5 per cent in May 2017, the lowest level since February 2013. The unemployment rate averaged 5.7 per cent over the course of 2016/17. Annual headline CPI inflation closed 2015/16 at 1.0 per cent but by Q1 2017, inflation had climbed to 2.1 per cent, which is back within the Reserve Bank of Australia (RBA)'s target band of two to three per cent. However, the various measures of underlying inflation remained below target, with the average of the trimmed mean and weighted median measures of underlying inflation sitting at 1.8 per cent year-on-year in Q1 2017.

## The Global Economy

The global economy appears to have been relatively buoyant, by recent standards, in the first half of 2017, following sluggish growth in 2016. In the United States, real GDP growth was a little soft in the first quarter of 2017, however, annual growth picked up to 2.1 per cent year-on-year, the fastest growth rate since the third quarter of 2015. Elsewhere, the Chinese economy continues to settle into a lower growth profile, though growth remained solid at 6.9% YoY in early 2017. The Japanese and Eurozone economies have continued to improve, heavily supported by central bank stimulus.

The monetary policy stance of key central banks remains highly stimulatory, although the policy outlook has turned a little hawkish. The US Federal Reserve raised the Fed funds target range by 75 basis points over the course of 2016/17 to 1.00–1.25 per cent and at its June 2017 meeting, announced plans to begin the process of unwinding its balance sheet in the second half of 2017. The [European Central Bank](#) continues to run a large quantitative easing program, however, recent comments from officials have sparked speculation that it will begin to reduce the size of its monthly asset purchases in early 2018. The term of the current program is set to expire in December 2017. The Bank of Japan remains committed to a policy of yield curve control, with a target of keeping the 10-year Japanese government bond yield close to zero per cent.



## Mid West Ports

WATC assisted Mid West Ports with foreign exchange advisory and transactional services to purchase new shore tension units and berthing systems.

Continued

# Economic Environment

The [International Monetary Fund](#) (IMF) World Economic Outlook released in April 2017 saw the IMF revise up its forecast for global growth in 2017. The IMF now expects global growth of 3.5 per cent in 2017, up from the January forecast of 3.4 per cent. If accurate, this would make 2017 the best year for global growth since 2014. The IMF is forecasting 2.3 per cent growth in the United States, 1.2 per cent in Japan, 6.6 per cent in China and 1.7 per cent in the Eurozone.

## Financial Markets

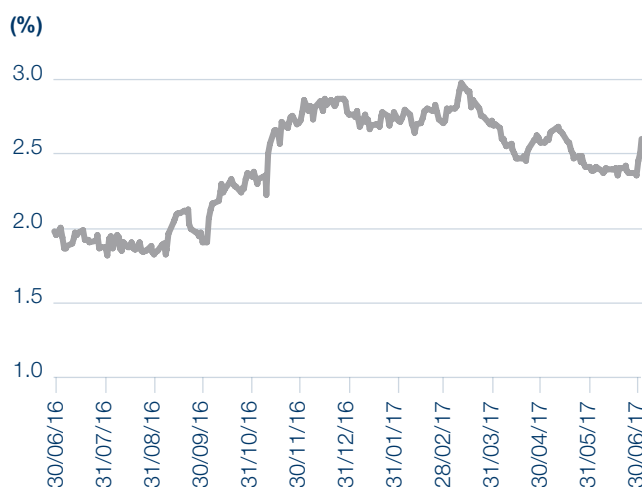
Low inflation saw the RBA cut the cash rate by 25 basis points to a fresh record low of 1.50 per cent in August 2016. The RBA appears content to leave the cash rate on hold for an extended period.

The 3-year Australian government bond yield opened the 2016/17 financial year at 1.55 per cent and slipped to a low of 1.37 per cent in August 2016. Yields then rose in the following months, with the 3-year yield peaking at 2.13 per cent in March 2017. The 3-year yield closed 2016/17 at 1.90 per cent. The 10-year Australian government bond yield followed a similar pattern (see Figure 2), opening the 2016/17 financial year at 1.98 per cent and falling as low as 1.82 per cent in August 2016, before following global bond yields higher to reach a peak of 2.98 per cent in March 2017. The 10-year yield has since slipped back to 2.60 per cent at 30 June 2017.

The Australian dollar averaged USD0.7541 on a close-of-day basis in 2016/17, after averaging USD0.7286 in 2015/16, as the narrowing of the Australian dollar's yield advantage to the US dollar was

offset by higher commodity prices. The Australian dollar began the 2016/17 financial year trading at USD0.7451 and then rose to a peak of USD0.7762 in November 2016, before falling sharply against a stronger US dollar in the wake of the US Presidential election. The expectation that President Trump's pro-growth agenda would see the [US Federal Reserve](#) tighten policy faster than previously expected was a major driver in the US dollar's increase. While the Australian dollar fell as low as USD0.7176 in December 2016, it soon recovered as political troubles began to bedevil the new Trump administration, putting its policy agenda in doubt. The Australian dollar closed 2016/17 at USD0.7689.

Figure 2: Australian Government 10-year Bond Yield



Source: Bloomberg.



Public Transport Authority

## Perth Transport Authority

WATC continued to partner with the Public Transport Authority with the provision of debt finance, ongoing debt management support and foreign exchange services.



## Financial Solutions for Clients

Corporate Objective - Provision of high-quality, cost-effective products and services to the Western Australian public sector.

WATC successfully delivered the State's borrowing requirements for 2016/17 and continued to facilitate sound financial management across the Western Australian public sector. In achieving this, key highlights included:

- a \$4.2 billion increase in client debt totalling \$44.9 billion at 30 June 2017
- the provision of client debt management strategies to support client objectives and State balance sheet management requirements
- successfully achieving the target requirement for managing the refinancing risk of the State
- increased utilisation across the Western Australian public sector of WATC's interest cost projection service
- the provision of resources to assist clients in the effective use and ongoing management of debt finance
- in excess of \$168 million of foreign exchange transactions in 11 different currencies on behalf of clients
- over \$4.85 billion in investments managed on behalf of clients at 30 June 2017
- investment portfolios managed on behalf of clients continuing to outperform established benchmarks
- continued client support and participation in foreign exchange education seminars, building awareness of foreign exchange risk management
- WATC-hosted client presentations by leading financial markets economists well attended by clients
- supporting, and contributing to, key State and client initiatives through a broad range of advisory engagements
- client feedback affirming the high quality, capability and value add of WATC's advisory services
- improving service delivery for clients with the development of an online client portal.

As Western Australia's central financial services provider, WATC provides a comprehensive suite of high quality, cost-effective financial products and services, comprising:

- [Debt Finance](#)
- [Investments](#)
- [Foreign Exchange](#)
- [Treasury Services](#)
- [Advisory Services](#).

These offerings are designed to promote, support and deliver sound financial risk management for WATC's clients and the Western Australian public sector. Working closely with its clients, WATC ensures that the most appropriate application of these products and/or services achieve each client's individual business requirements.

During 2016/17, work commenced on a new client-focused initiative to improve the delivery of WATC's products and services through the development of an online portal. The new client portal will provide clients with 24/7 access to relevant account information and functionality to initiate transaction requests for all WATC products and services. The majority of the development work on the client portal has been completed, with clients contributing to the key design features and functionality. At 30 June 2017, a number of clients are trialling a test environment of the client portal and have provided positive feedback. The production version of the client portal is expected to be available for use by clients in the first quarter of 2017/18.

In conjunction with the development of the client portal, WATC is redesigning and consolidating its suite of client reports, which will improve the information provided to clients and assist streamlined access to relevant information. These new reports will be progressively rolled out to clients via the client portal.

Stephen Morhall  
General Manager Client Services



Continued

# Financial Solutions for Clients

The following includes details on activity and development of WATC's financial products and services during 2016/17.

## Debt Finance

WATC assists clients develop, review and maintain effective debt management strategies through the provision of a range of loan products and related financial services. Designed to provide clients with access to cost-effective funding, while concurrently providing flexibility to structure loans to satisfy specific financing needs, WATC's suite of loan products includes:

- Working Capital Facility
- Short-term loans
- Term floating rate loans
- Term fixed rate lending, including:
  - interest-only loans
  - amortising loans
  - zero-coupon loans
  - structured loans to meet individual client needs
- Capital indexed lending.

In addition, the broad range of supporting financial services includes:

- an interest rate swap facility, which enables clients to exchange a future stream of floating rate interest payments for a stream of fixed interest payments, or vice versa, enhancing flexibility in debt maturity diversification and interest rate risk management
- portfolio management services, to manage interest rate risk in a manner appropriate to clients' business needs through an administratively efficient debt management system
- interest cost projection services, to assist clients with budgeting, project evaluation, and managing and reporting of future debt levels and associated interest costs, supporting informed decision-making when considering debt finance options

- individual debt management strategies meeting clients' corporate business objectives and WATC's target metrics for managing the refinancing risk of the State as a whole.

At 30 June 2017, all of WATC's debt finance clients were in the process of implementing or maintaining debt management strategies that aligned with the overall target requirement for managing the refinancing risk of the State, or had been granted exemptions following thorough evaluation of their business requirement to structure their debt outside the State's overall target requirement. Furthermore, the effectiveness of WATC working in partnership with its clients in this area is evidenced by successfully achieving WATC's target for net client debt maturing within 12 months at 30 June 2017.

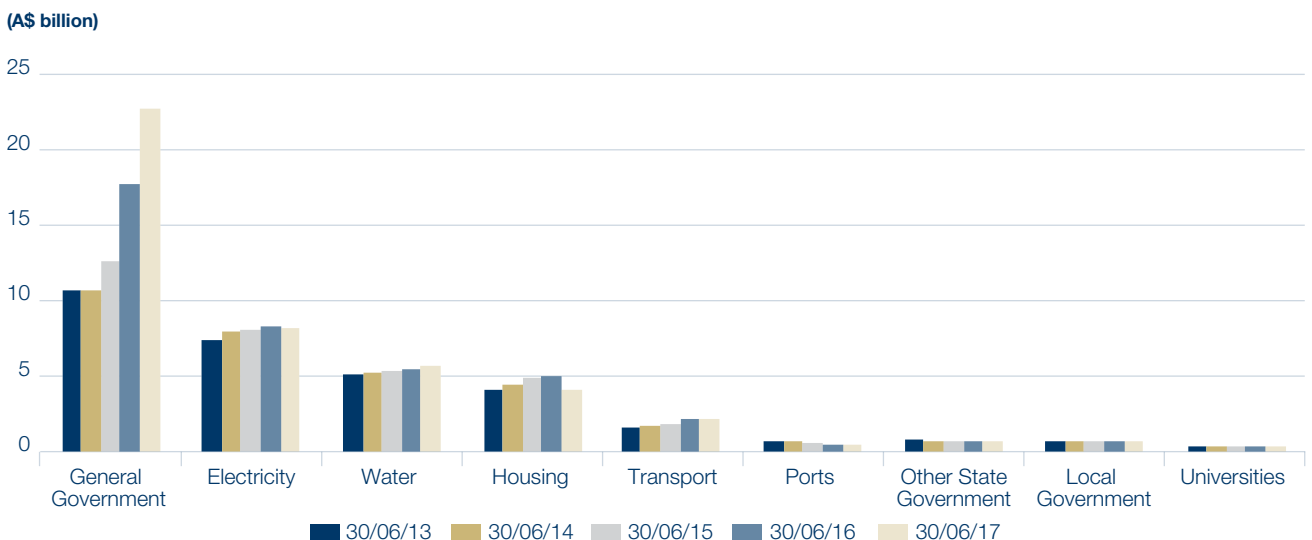
## Evolution of Debt Finance to State Government

In the 2016/17 financial year, total borrowings by state government authorities increased \$4.2 billion to \$43.9 billion. This equated to growth of 10.5 per cent, down from 16.6 per cent in 2015/16.

Figure 3 shows the distribution of WATC debt finance across broad client sectors and its evolution since 30 June 2013. The increase in borrowings over 2016/17, and predominantly for the full period shown, was by the Treasurer on behalf of the State to fund expenditure within the general government sector, supporting service provision and the development of infrastructure within public health, education, law and order, recreation, roads and other important public services.

During 2016/17, borrowing by the electricity utilities fell slightly (1.6%), the first decrease for many years. In addition, the downward trend in borrowing by port authorities continued. Total borrowing by the housing sector fell quite sharply (17.9%) due to the partial sale of the Keystart loan portfolio completed during the year. The trend over recent years of gradual increases in borrowing by the Water Corporation and the Public Transport Authority continued in 2016/17.

**Figure 3: Debt Finance by Broad Sector – Evolution of Debt Outstanding – 30 June 2013 to 30 June 2017**



## Debt Finance to Local Government and Public Universities

WATC continued to be the financier of choice to the State's local governments, providing loan funds to finance a range of community infrastructure projects across the State, including:

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

Although exceeded by repayments on existing loans, 2016/17 saw funding for 93 new loans for a combined value of \$82.7 million provided to Western Australian local governments. The net impact resulted in total debt outstanding to local governments decreasing by 3.4 per cent, or \$24.6 million, to \$703.3 million at 30 June 2017.

WATC worked closely with its local government client base during 2016/17 to further enhance the value add of its service offering to this sector. Key initiatives included:

- continuation of formal presentations and dissemination of a series of information papers relevant to local government on interest rate markets, debt financing and debt management, with the aim to assist local governments in the effective use and ongoing management of debt and to support informed decision-making when considering debt finance options.
- an Indicative Debt Capacity Calculator designed to assist local governments assess their future capacity for prudent usage of debt finance as part of their long-term financial planning process. The Calculator was developed in partnership with the Department of Local Government and Communities and is available to local governments through the Department's website.

WATC also lends to Western Australia's public universities to support their infrastructure development requirements and provides the full range of financial services to this sector. Borrowings by the universities increased by 6.4 per cent, or \$19.5 million, to \$324.0 million at 30 June 2017.

## Investments

WATC provides clients with state government guaranteed, at call and fixed term investment products, including:

- an Overnight Cash Deposit Facility – funds can be invested on an overnight basis at a competitive interest rate closely linked to the RBA target cash rate.
- Term Deposits - funds can be invested for any term from 7 days to 365 days at a fixed rate.

WATC provided advice on investment of funds and produced guidelines to assist clients in developing their own sound and robust investment policies.

During 2016/17, clients continued to take advantage of WATC's investment products. At 30 June 2017, WATC held \$177.3 million of client investment funds from 35 entities.

## Foreign Exchange

As accessing and trading with overseas markets becomes easier, Western Australian public sector agencies are increasingly exposed to foreign exchange (FX) risk through day-to-day operations and procurement projects. WATC understands the challenges that FX risk can present for the Western Australian public sector and provides advisory and transactional services to support its clients in identifying, understanding and effectively managing this risk.

WATC works closely with each client to understand their individual business requirements, identify FX risks and ensure they have the necessary information to make informed decisions on how to manage those risks. This includes providing clients with support and guidance to establish and implement internal FX risk management policies that are appropriate for their business and align with the broader government FX framework. WATC also works with the State's policy makers to review the government's FX framework that guides the management of FX risk across the entire Western Australian public sector.

WATC provides analytical and transactional FX services including:

- analysis to quantify the financial impact of FX risk within procurement projects and day-to-day operations
- designing hedging strategies to manage FX risk associated with day-to-day operational requirements
- support throughout the life of procurement projects, including:
  - analysis for inclusion in the business case
  - guidance on procurement strategies
  - evaluation of FX exposure within respondent bids
  - design and implementation of hedging strategies to manage FX risk during the procurement process and over the life of the project
- implementation and ongoing management of hedging strategies including:
  - trade execution
  - settlement (payment and confirmation)
  - reporting
  - transaction valuations.

During 2016/17, WATC transacted in excess of A\$168 million in 11 different currencies on behalf of 17 clients.

WATC also conducts FX education seminars as a way of providing staff across all operational levels of the public sector with an understanding of FX risk, how it can impact their business and how it can be managed. Since launching the seminars in 2013, WATC has presented to more than 850 people across the Western Australian public sector.

Continued

# Financial Solutions for Clients

## Treasury Services

WATC plays an important role in the management of public sector finances by providing the Western Australian public sector with access to a comprehensive range of treasury management services.

By engaging WATC to provide treasury management services, clients do not have to maintain the systems and resources required to oversee their investment and treasury operations. WATC's clients have access to the experience, expertise, specialised systems, pricing and oversight that comes with the scale of operations undertaken by WATC in both domestic and offshore financial markets.

WATC has built strong relationships with each of its treasury management services clients and works closely with them to ensure their portfolios and operations are managed in accordance with their individual business requirements and policy frameworks.

Clients engaging WATC's treasury management services to manage their investment portfolios have access to transaction execution, settlement, credit risk management, reporting and accounting services. These investment portfolios achieved returns that outperformed established benchmarks.

At 30 June 2017, WATC managed in excess of \$9.9 billion in investment funds in its own name and that of its clients. This included over \$4.6 billion for the Public Bank Account and the Western Australian Future Fund.

WATC has managed the Public Bank Account investment portfolio since 1989 and was appointed to manage the Western Australian Future Fund in November 2012. Since then, WATC has been engaged to manage investment portfolios for Lotterywest (2013) and Landgate (2015).

WATC has provided treasury management and support services for borrowing, investment and foreign exchange to Horizon Power since 2013.

## Advisory Services

WATC assists Western Australian public sector agencies to make informed financial decisions through a range of financial analysis and advisory services, including high-quality corporate finance advice, financial analysis and financial risk management.

WATC partners with clients to identify their financial and analytical requirements and develops tailored solutions for both unique and complex financial problems. Using a combination of co-operative expert workshops and data gathering, brainstorming and methodology ideation, and advanced financial modelling using the most current financial markets theory and practice, WATC creates logical and well supported methods and conclusions for clients that add value and can be practically implemented.

WATC maintains strong expertise and experience in financial matters through a continuing combination of financial training, financial research and applying WATC's collective experience to solve client's financial problems, which is aligned with a highly co-operative approach when working with clients. WATC's expert knowledge and financial experience covers:

- debt structure analysis and advice
- financial risk modelling and simulation
- asset and project investment evaluation
- asset valuation, including retention versus sale analysis
- project financing and alternative financing options
- business case development
- procurement advice and financial contract structuring
- cost of capital analysis
- asset-liability modelling
- investment policy development
- general financial analysis, modelling and advice.

Key achievements and client engagements during the 2016/17 financial year included:

### Department of Corrective Services – Commercial Advisory Roles

WATC continued to assist the Department of Corrective Services (DCS), known as the Department of Justice from 1 July 2017, with two major commercial advisory roles.

In 2016, DCS appointed a private operator to run a metropolitan women's prison complex. WATC assisted throughout the original procurement and contract establishment process, including analysing and recommending commercial and financial terms, financial performance incentives and key performance measures and indicators. WATC also assisted with the subsequent ongoing contract monitoring and management to ensure effective financial management of the contract. The contract contains performance incentives that reward smooth and efficient running of the prison, effective reintegration of former prisoners back into society on release and reductions in rates of return due to reoffending.

DCS also requested WATC's assistance with analysing commercial terms of an existing privately run men's prison. The private contractor submitted a proposal to extend the contract for a number of years and WATC was requested to analyse and model the proposal to determine whether or not it presented good value to the State compared to the costs and efficiencies the State could achieve if it ran the prison itself. WATC provided recommendations to DCS as to which measures could be used to make better comparisons between private operating costs and State costs. The WATC analysis identified which of the various private and public operational options presented the best value for money for the State, allowing the client to provide informed advice to Government.

### Government Trading Enterprise – Investment Management

WATC was requested to assist an agency in the procurement process to select a professional, independent fund manager who would provide investment management services and manage the agency’s long-term investment portfolio. WATC provided expert advice to the client regarding market processes and protocols within the funds management industry, analysed the bidders, compared and contrasted the important features of each tender bid and explained these to the client, and assisted in the final selection and negotiation with the preferred bidder. A fund manager was appointed and is now investing and managing the client’s funds as per the mandate agreed.

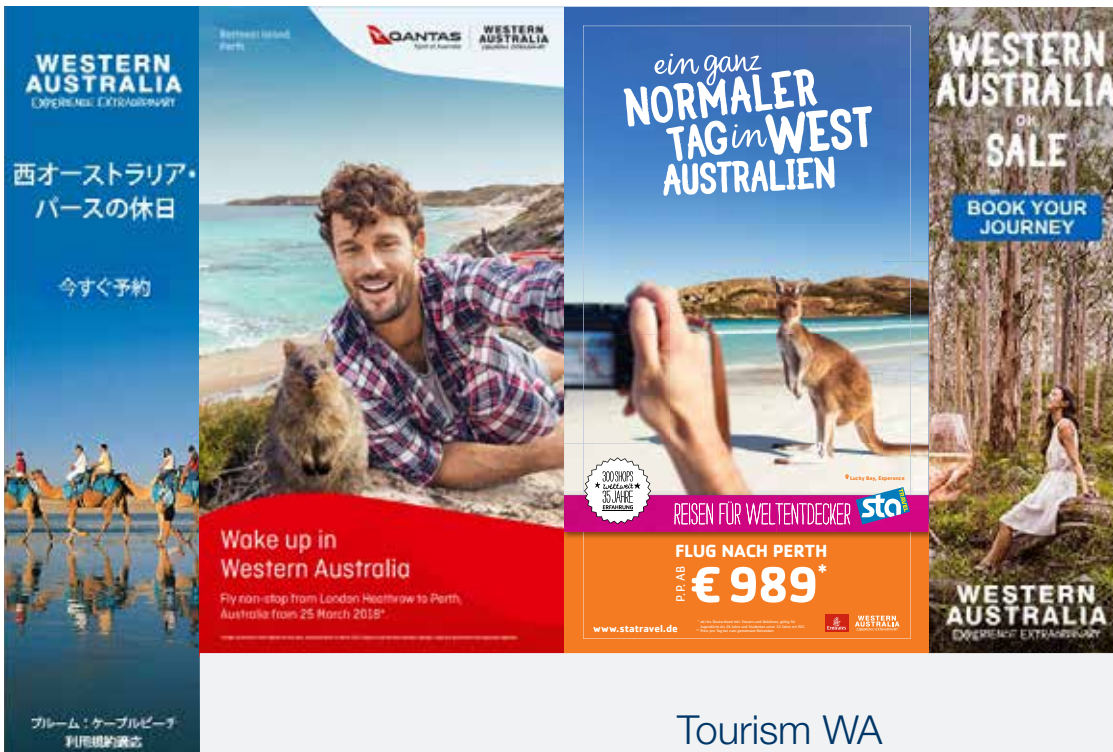
### Government Agency – Financial Performance Assessment

WATC was requested to perform a financial assessment of a company partly owned by the government agency as a long-term investment. WATC analysed the financial performance of the subsidiary, including the market outlook and expected financial future direction. WATC summarised the financial performance and identified areas of over- and

under-performance, compared projected performance to actual performance with reasons behind any divergence, examined how the financial projections had changed over time and the key reasons for changes, identified commercial risks going forward and identified appropriate risk mitigation strategies. This allowed the agency to make an informed financial and strategic decision about the future of the subsidiary and the level of resources that could be committed to supporting this investment.

### Government Trading Enterprise – Budget Modelling and Sensitivity Analysis

WATC constructed a flexible and transparent funding model to inform and support a government trading enterprise’s budget submissions. The model quantified the client’s revenues, profit and loss position, distributions and closing cash balances position over the forward years. The model allows the client to more efficiently and effectively produce the desired outputs needed to support their budget process and identify areas of financial risks to their business going forward, as well as providing a greater ability to perform sensitivity testing and scenario “what if” analysis.



### Tourism WA

WATC provided Tourism WA with foreign exchange hedges and currency payments for its overseas marketing operations promoting Western Australia to the world.



Continued

## Financial Solutions for Clients

### Government Trading Enterprise – Optimising the Investment Portfolio

WATC worked with a government trading enterprise to define its optimal long-term investment portfolio, portfolio benchmarks and suitable investments to achieve their long-term goals. This required a deep knowledge of the agency's use of the portfolio's funds, expected timing of withdrawals and the risk tolerance of the agency for variability in the rate of return and minimisation of any potential for loss over time.

### Public Transport Authority – Treasury Manager

WATC assisted the Public Transport Authority (PTA) with the secondment of a senior financial consultant to take on the role of Treasury and Investment Planning Manager for the PTA for several months. While in the role, the WATC consultant managed the treasury function including cash and debt portfolio management and foreign exchange hedging, prepared the PTA's review of fees and charges for 2017/18 and reviewed business cases for inclusion in the PTA's 2017/18 budget.

### Local Governments – Regional Councils – Procurement Project

Two local government regional councils were considering options to either acquire or build a resource recovery facility or enter into a long-term waste supply agreement under which the regional councils would deliver waste to a privately established merchant resource recovery facility to process waste from multiple sources.

The regional councils commenced a procurement process to evaluate and acquire a resource recovery facility or service to improve the sustainability of waste management practices within their local government areas.

WATC worked with the clients to assess the financial robustness of the bidders, reviewed the financial models underpinning the costs to both the regional council principals and the bidders and identified and highlighted potential commercial risks associated with each tender submission. The WATC analysis was completed within the tight timeframes specified in the tender process and the clients were able to make informed financial decisions as part of their overall procurement process.

### Department of Fisheries – Fisheries Adjustment Scheme Analysis

Following a series of adverse environmental changes, a number of fisheries in the North West of Western Australia were closed for several seasons to allow stocks to replenish. Fishery licence holders in those areas faced financial stress with the closure of the fisheries and this challenged their ability to repay existing commitments under the [Fisheries Adjustment Schemes Act 1987](#) (FAS). Industry participants requested fee relief and loan restructuring from the State.

WATC assisted the Department of Fisheries, known as the Department of Primary Industries and Regional Development from 1 July 2017, by assessing the appropriateness of providing fee relief and restructuring of the outstanding loans, analysing the impacts under various scenarios, reviewing the current FAS financial arrangements and developing specific FAS loan restructure proposals for each of the fisheries affected.

### Other Roles

During 2016/17, WATC carried out a number of other advisory roles, including:

- assessing the commercial viability of projects
- assessing the value of assets and investments
- establishing logical principles for assessment of asset values under retention or sale scenarios
- assessing the value of assets if sold or retained by government, or of new assets to be invested in by government
- developing a framework for calculating the Social Return on Investment (SROI) of housing projects.

### Client Feedback on Advisory Services

As part of the quality assurance framework for WATC's advisory services, following the completion of each advisory services engagement, clients are requested to provide feedback on their experience.

For the engagement feedback received during the 2016/17 financial year, 100 per cent of clients rated 'satisfied' or better with WATC's advisory services. Of this feedback, over 86% of clients rated 'very satisfied' or 'extremely satisfied'. Key attributes of each engagement rated by clients include their satisfaction:

- with the quality of advice provided
- with WATC's overall capability and service provided
- that WATC has added value to the client's project.

The positive feedback received from clients provides validation that WATC continues to deliver financial solutions for the benefit of the Western Australian public sector.

## Financial Markets Activity

Corporate Objective - Maintain ready access to domestic and international capital markets to ensure funds are raised to finance client borrowing needs at the lowest possible cost.

Critical to WATC's ability to complete its borrowing program requirements, and delivering competitive pricing for clients, is having ready access to capital markets. In achieving this, financial market activities during 2016/17 centred on:

- issuing across the yield curve in fixed and term floating rate formats to fund lending to clients
- establishing two new benchmark bond lines maturing in 2024 and 2026
- maintaining sufficient volumes on issue and enhancing the liquidity in existing lines of benchmark bonds maturing in 2018, 2019, 2020, 2021, 2022, 2023, 2025 and 2027
- refinancing the maturing March 2017 Floating Rate Note (FRN) and upcoming 15 July 2017 benchmark bond line
- establishing two new FRNs maturing March 2020 and March 2022
- examining opportunities to issue through the Euro Medium Term Note (EMTN) Program and other offshore markets to generate term fixed and floating rate funding
- issuing short-term paper through domestic inscribed stock and the Euro Commercial Paper (ECP) Program for liquidity funding
- transacting in derivative products to meet WATC's asset and liability management requirements and to generate floating rate funding for clients
- continuing marketing efforts in order to broaden and diversify the investor base.

WATC utilised four of its five funding facilities during 2016/17 to complete the borrowing program. Funding for liquidity and short-term requirements was met through the domestic short-term and offshore ECP programs. The primary source of WATC's long-term borrowings was the domestic benchmark bond program, accounting for approximately 80 per cent of total term borrowings. Term floating rate funding was generated through both FRN issuance and the swapping of fixed rate benchmark bond issuance. At 30 June 2017, FRNs accounted for 20 per cent of total term borrowings.

During 2016/17, WATC partnered with a number of Market Making Panel members to present to domestic and offshore institutional investors on the Western Australian economy, WATC's borrowing program and associated market activities. In addition, WATC arranged pre-budget presentations by the Treasurer of Western Australia to domestic and offshore investors. It is estimated that offshore investors hold approximately 20–25% of WATC term debt.

WATC did not undertake any overseas medium-term note or bond issues during 2016/17 due to the ongoing comparatively lower cost of borrowing domestically through the benchmark bond program.

All WATC debt issued under its domestic and offshore borrowing facilities is widely offered and meets the requirements for exemption from Australian interest withholding tax.

### Long-term Borrowings

#### Benchmark Bonds

In completing the 2016/17 borrowing program, WATC continued to tap into its existing benchmark bond lines on a reverse inquiry basis and also undertook three syndicated issues:

- In November 2016, WATC launched a new 2.50% 23 July 2024 benchmark bond by syndication. Commonwealth Bank of Australia (CBA), Deutsche Capital Markets Australia (DBAL) and Westpac Banking Corporation (WBC) were joint lead managers on the initial offering of \$525 million. Market response to the bond was very positive, being four times oversubscribed, and enjoyed strong support from offshore investors, with approximately 40 per cent of this issue placed overseas.
- In April 2017 WATC tapped the 2.50% 23 July 2024 benchmark bond for \$1 billion by syndication, with ANZ Investment Bank, Citigroup Global Markets Australia and UBS AG Australia Branch as joint lead managers. Eighty per cent of this issue was placed with domestic investors, with 20 per cent going overseas.
- In June 2017, WATC launched a new 3.00% 21 October 2026 benchmark bond by syndication. CBA, DBAL, National Australia Bank (NAB) and WBC were joint lead managers on the initial offering of \$1.3 billion. Market response saw the issue being 1.5 times oversubscribed. Twenty per cent of this issue went to offshore investors, with the remaining 80 per cent being placed with domestic investors.

By the end of the 2016/17 financial year, benchmark bonds outstanding had increased from \$31.274 billion at 1 July 2016 to \$36.418 billion at 30 June 2017. The net increase of \$5.144 billion is the result of \$9.202 billion of new issuance over the year against \$4.058 billion of bond repurchases.

Melvin Nunes  
Deputy Chief Executive Officer



Continued

## Financial Markets Activity

### Floating Rate Notes

During the course of the year, the 27 March 2017 FRN matured. On maturity, the amount outstanding was \$1.337 billion, having peaked in mid 2016 at \$3.150 billion on issue. In February 2017, WATC issued two new benchmark FRNs via a dual tranche syndication. CBA and NAB were joint lead managers for both new issues, maturing March 2020 and March 2022. The initial offering for these FRNs was \$500 million in the March 2020 and \$1 billion in the March 2022. Market response saw approximately 83% of both issues placed with domestic investors. WATC continued to issue into its existing FRNs in response to investor demand to accommodate the term floating rate borrowing requirements of its clients.

By the end of the 2016/17 financial year, FRNs outstanding had increased from \$8.222 billion at 1 July 2016 to \$9.376 billion at 30 June 2017. The net increase of \$1.154 billion is the result of \$2.946 billion of new issuance over the year against FRN repurchases and maturities of \$1.792 billion.

### Market Making Panel

WATC's Market Making Panel plays an ongoing key role in price-making and distribution of WATC's benchmark bonds and FRNs. The Market Making Panel and its contacts at 30 June 2017 are shown in Table 1.

Taking into account overall performance throughout 2016/17, the leading institutions on WATC's Market Making Panel were:

1. Commonwealth Bank of Australia
2. UBS AG, Australia Branch
3. National Australia Bank Limited
4. Westpac Banking Corporation
5. ANZ Investment Bank.

**Table 1: Market Making Panel at 30 June 2017**

Panel Members	Contact	Telephone
ANZ Investment Bank	Mr Tim Wood	03 9095 0016
Citigroup Global Markets Australia Pty Ltd	Mr Matthew Zibert	02 8225 6450
Commonwealth Bank of Australia	Mr Stephen Powell	03 9675 7498
Deutsche Capital Markets Australia Ltd	Mr Matthew Yencken	02 8258 1444
JP Morgan Australia Limited	Ms Laura Fitzsimmons	02 9003 7905
Merrill Lynch (Australia) Pty Limited	Mr Nick Flett	02 9226 5569
National Australia Bank Limited	Mr Michael Hall	02 9295 1166
Nomura International plc	Mr Matthew Monaghan	02 8062 8619
Royal Bank of Canada	Mr Nick Rutherford	02 9033 3222
Toronto Dominion Securities	Mr Jack Bao	1800 646 497
UBS AG, Australia Branch	Mr Timothy Riley	02 9324 2222
Westpac Banking Corporation	Ms Leah Tinning-Saleb	02 8204 2711



### City of Busselton

In 2016/17, WATC assisted the City of Busselton with a \$3 million loan to continue works in relation to the Busselton Foreshore.



Turnover

Turnover in WATC's benchmark bonds for the financial year ended 30 June 2017 was \$304.0 billion (see Figure 4).

WATC's domestic benchmark bond volumes on issue at 30 June 2017 and the turnover volumes for the financial year were:

Coupon % p.a.	Maturity Date	Volume on Issue (\$ million)	Turnover Volume (\$ million)
8.00	15/07/2017	2,045	35,914
3.75	23/10/2018	5,454	58,264
7.00	15/10/2019	4,861	31,611
2.50	22/07/2020	5,115	36,733
7.00	15/07/2021	4,396	25,133
2.75	20/10/2022	3,365	40,381
6.00	16/10/2023	3,014	14,226
2.50	23/07/2024	2,102	23,150
5.00	23/07/2025	3,515	22,008
3.00	21/10/2026	1,300	5,370
3.00	21/10/2027	1,252	11,280

WATC's FRN volumes on issue at 30 June 2017 were:

Maturity Date	Volume on Issue (\$ million)
12/12/2017	610
21/05/2018	2,655
18/03/2019	1,022
19/11/2019	1,929
03/03/2020	725
10/03/2021	1,245
03/03/2022	1,190

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.

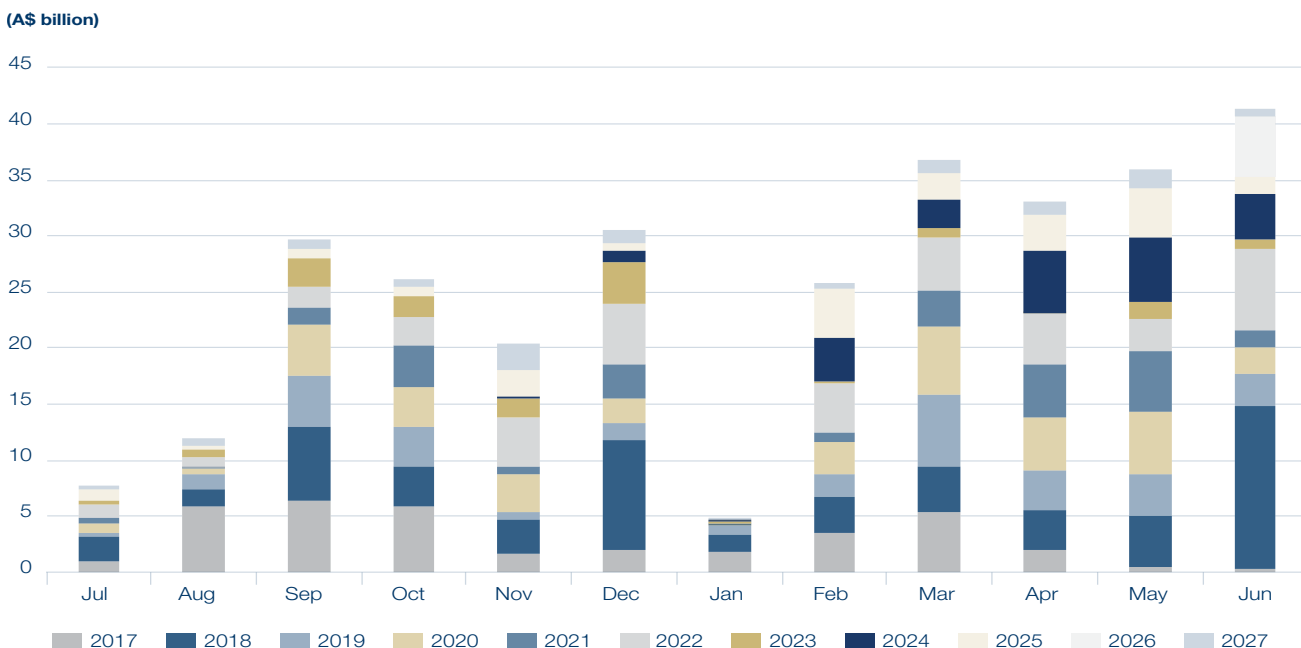
Issues under this program can be made for terms from one month to 30 years, either through the dealer panel or on a reverse inquiry basis.

The dealer panel for the Program in 2016/17 comprised:

- Australia and New Zealand Banking Group Limited
- 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
- RBC Europe Limited
- SMBC Nikko Capital Markets Limited
- UBS Limited
- Westpac Banking Corporation.

Citibank, N.A., London Branch is the Fiscal Agent, Principal Paying Agent, Principal Calculation Agent, Registrar and Transfer Agent for the Program.

Figure 4: WATC Benchmark Bond Turnover – 2016/17



Continued

# Financial Markets Activity

During the year, the pricing of foreign exchange swaps meant that offshore funding was comparatively more expensive than equivalent domestic issuance. Opportunities in the Japanese and European markets were assessed but were outside WATC's pricing targets.

There were no Notes outstanding under the Program at 30 June 2017.

## Retail Borrowing

Retail investors contributed \$37 million towards the completion of WATC's 2016/17 borrowing program. Of this amount, \$9.5 million was borrowed from existing retail stockholders who elected to roll over their stockholding on the maturity date of their State Bonds investment. The volume of new money raised during 2016/17 was \$27.5 million. These funds were sourced from:

- cash applications accepted from people required to purchase semi-government bonds as a designated investment to satisfy visa requirements issued by the Australian Government Department of Immigration and Border Protection
- cash applications accepted from the public generally
- existing stockholders who invested additional money at the time they rolled over their maturing investment.

Approximately \$27 million was raised from designated investments during 2016/17.

In accordance with WATC's approved pricing policy, WATC regularly monitors market yields and adjusts investment rates to ensure retail investors are offered a competitive interest rate.

## Short-term Borrowings

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

### Short-term Inscribed Stock

During 2016/17, WATC issued a total of \$5.6 billion of short-term inscribed stock with an average weighted maturity of 124 days. This continued to be a reliable source of domestic short-term funds for WATC. At 30 June 2017, \$1.87 billion was outstanding in short-term inscribed stock.

Aggregate monthly issuance activity for short-term inscribed stock is included in Figure 5.

The leading investors in WATC's short-term inscribed stock facility for 2016/17 were:

1. ANZ Banking Group Limited
2. Westpac Banking Corporation
3. Deutsche Capital Markets Australia Ltd
4. Rabobank Australia Limited
5. National Australia Bank Limited.

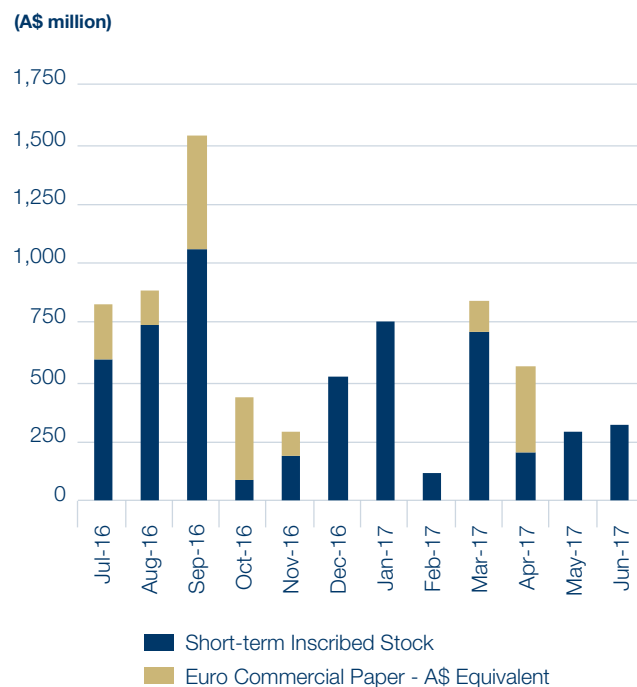
## Euro Commercial Paper Program

WATC maintains a multicurrency ECP Program. The limit on the Program is US\$6 billion and issues can be made for terms from 7 to 364 days through the dealer panel.

During 2016/17, WATC issued ECP in US dollars and New Zealand dollars, with US\$990 million and NZ\$513 million of ECP transacted. At 30 June 2017, on a transaction settlement basis, US\$275 million was outstanding on this Program. All non-Australian dollar-denominated borrowing commitments arising through the ECP Program were swapped into Australian dollars through the foreign exchange market.

Aggregate monthly issuance activity for ECP is included in Figure 5.

**Figure 5: Short-term Borrowings Monthly Issuance – 2016/17**



The dealer panel for the Program comprised:

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

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

# Processes, People and Infrastructure

Corporate Objective - Optimise the performance of WATC in accordance with the [Western Australian Treasury Corporation Act](#) and the risk appetite of WATC's Board.

WATC is committed to maintaining and continually improving its high quality systems, capabilities, processes and practises that support the achievement of WATC's corporate vision and objectives, now and into the future.

Key highlights for the 2016/17 financial year were:

- Further refinement of WATC's strategy to transition to a lower funding risk profile that is less reliant on short-term funding
- The successful management of risks during a year where the global environment continued to present risk management challenges
- Continued implementation of the Leadership Development Program to cultivate and embed desired leadership behaviours for all WATC employees
- An upgrade to WATC's core treasury system, Summit
- Development of an online platform for clients to interact and transact with WATC.

## Risk Management

Risk management is an integral and fundamental part of WATC's business operations and activities. The focus of risk management within WATC is to identify all material risks faced by WATC and to reduce those risks to levels acceptable to the Board. This is achieved by promoting and embedding sound risk management practices and culture across WATC, while providing risk exposure reporting to senior management and the Board. WATC's goal in managing risk is not to eliminate risk at any cost, but rather to balance the portfolio of risks it faces.

The following is a summary of significant developments and how key risks were managed.

### Credit Risk

WATC's largest credit exposures arise from the need to maintain a portfolio of liquid investments in order to manage liquidity and funding risk and to support the market in WATC's own debt paper. Managing the credit risk associated with WATC's investment portfolio requires various controls, including a rating-based system that reduces WATC's credit limits to a counterparty if its credit rating deteriorates. WATC will not invest with banks or corporations whose credit rating falls below a minimum level set by the WATC Board. Application of diversification and tenor limits further reduce this risk.

Another source of credit risk is the use of derivatives to manage the market and liquidity risks associated with WATC's funding activities. However, collateral posting arrangements with derivative counterparties allow WATC to reduce this credit risk to minimal levels.

The global credit environment continued to present concerns in 2016/17. Systemic risk continued to build in China as corporate and sub-sovereign debt levels rose, capital exited the country and foreign currency reserves declined. It is unclear how these systemic imbalances will be resolved in the longer-term. The credit environment stabilised in most other Asian economies. The European credit environment improved, with the resolution of several distressed banks in Italy and Spain and a further bailout of the Greek government. Systemic risk, however, remains in parts of the Eurozone, and Brexit could be an additional destabilising influence. The US banking system is now relatively robust and the expected normalisation of US interest rates has not caused any significant credit issues to date.

Australia's household debt levels continued to rise against a background of weak income growth. While this has yet to flow through to impairment rates in the banking system, arrears did increase, indicating that the national credit environment may be deteriorating. The Australian banking system, however, does maintain capital levels that should be able to withstand a cyclical upswing in impairment rates. Effective macro-prudential actions will likely be required to constrain household debt levels in the longer-term.

In this environment, WATC's credit risk management remained focused on:

- positioning WATC to avoid credit losses
- monitoring WATC's credit exposure to ensure that it remained within agreed limits
- assessing emerging credit risks.

During 2016/17, of WATC's 73 bank and government counterparties, 14 suffered downgrades by Moody's or Standard & Poor's and nine were upgraded. No counterparty failed to meet its financial obligations to WATC.

Continued

## Processes, People and Infrastructure

### Market Risk

WATC's exposure to market risk arises primarily from movements in interest rates on borrowing, lending and hedging instruments. Exposure to foreign exchange is minimised through hedging of all overseas borrowings. WATC's market risk controls are primarily based on Board-approved daily value at risk (VaR) limits and are complemented by regular portfolio stress testing analysis.

In 2013/14, the WATC Board endorsed a strategy aimed at reducing funding risk in response to concerns at that time regarding WATC's relatively high reliance on short-term funding. The strategy involved using longer-term funding for WATC's liquidity portfolio and increasing the term profile of client lending portfolios. The phased implementation of this strategy commenced during 2014/15. During 2016/17 this funding strategy was further refined, with the Board approving the purchase of longer-dated liquid assets to balance VaR and reduce the cost of carry impacts.

Market volatility in 2016/17 initially decreased following the upswing accompanying the June 2016 Brexit vote and then remained relatively stable throughout the year. WATC's calculated portfolio VaR followed this pattern. New 2024 and 2026 benchmark bonds were issued in November 2016 and June 2017 respectively, resulting in WATC now having ten liquid benchmark bonds out to 2027. Furthermore, new 2020 and 2022 floating rate notes were issued simultaneously in August 2016. All these issuances have reduced net market exposure and will also support ongoing efforts to reduce funding and client lending maturity mismatches.

### Liquidity and Funding Risk

WATC's liquidity and funding risk is managed through a combination of maintaining a diverse range of funding sources and a level of liquid assets, adjusted in accordance with balance sheet size and cash flow projections. WATC's key liquidity risk control is to maintain a liquidity portfolio sufficient to cover WATC's net outflows for at least the next 30 calendar days, which is broadly

in line with standards set by the Australian Prudential Regulation Authority and the Basel Committee on Banking Supervision. The WATC Board has also adopted funding risk controls that limit the amount of debt maturing within 12 months of year-end and define liquidity coverage in respect of those maturities.

Market liquidity was satisfactory during 2016/17 and WATC was able to access short- and long-term funding to ensure sufficient liquidity coverage throughout the year, including the period preceding the maturity of WATC's March 2017 floating rate note.

### Operational Risk

Like all financial entities, WATC must plan for operational risk events such as settlement failure, fraud, system outages, loss of key personnel and loss of access to its business premises. WATC's Operational Risk Management Policy ensures regular assessment of operational risks and the placement of treatment plans to reduce this risk to an acceptable level.

During 2016/17, operational risks were monitored and WATC's managers were provided with education and support to assist with the identification and control of risks. There were no significant operational risk events during the year.

Business continuity planning prepares WATC to respond to, and recover from, a disruptive event that could have an impact on WATC's ability to deliver critical business outcomes such as meeting scheduled principal and interest payments. Component elements of WATC's Business Continuity Plan are reviewed and tested on an annual basis.

### Risk Capital Requirements

Table 2 compares WATC's average and peak capital provisioning requirements by risk category during 2016/17 with those for the previous two financial years.

**Table 2: Required Risk Capital**

Source of Risk	Average 2016/17 (\$m)	Average 2015/16 (\$m)	Average 2014/15 (\$m)	Peak 2016/17 (\$m)	Peak 2015/16 (\$m)	Peak 2014/15 (\$m)
Credit Risk	23.0	22.0	23.3	26.8	28.3	27.2
Market Risk	14.2	19.0	17.3	23.1	26.5	24.8
Operational Risk	17.3	15.5	13.9	18.1	16.2	14.5
Total Capital*	54.6	56.4	54.5	65.5	65.5	61.5

\* The peak Total Capital figures are not the sum of the three peak risk components.

## Building capacity

A key initiative for WATC is building capacity to ensure it has a workforce and work environment capable of delivering on current strategic and operational business goals, while also preparing for future developments.

Acknowledged by clients and stakeholders, WATC's workforce possesses a high level of professional experience, technical skill and capability. WATC builds upon this capability through supporting staff with learning and development opportunities. During 2016/17, WATC supported six people undertaking post graduate tertiary studies, with one staff member undertaking a PhD. Additionally, two staff were accepted into the Committee for Economic Development of Australia's Copland Leadership Program. All staff are encouraged to undertake ongoing professional development.

The annual employee engagement survey saw a decrease of five per cent in the overall engagement score to 46 per cent. The participation rate remained extremely high at over 95 per cent. Work continues on the strategic approach to improve employee engagement, encouraging and developing all staff with self-leadership, accountability and continuous improvement aligned to WATC's vision, objectives and values.

A key initiative for WATC is to affect cultural change through the implementation of a Leadership Development Program. The ongoing program recognises, develops and encourages desired leadership behaviours for all WATC employees at all levels of the organisation. The Leadership Development Program has three components:

- Leading Self
- Leading Others
- Leading the Organisation.

The focus for 2016/17 was on the Leading Others component of the program, which introduced WATC's managers to theories and concepts of leading others through a series of workshops and coaching sessions facilitated by leadership specialists Modal. In 2017/18, Leading Self and Leading Others will be refreshed and enhanced to further develop and embed learnings and leadership behaviours into the workplace.

## Information and Communications Technology

WATC's Information and Communications Technology (ICT) function is focused on ensuring that business applications and information technology systems and infrastructure continue to meet WATC's current and evolving business needs in a reliable, efficient and cost-effective manner. ICT security remains a constant focus and in 2016/17, particular attention was paid to firewall infrastructure, and email and virus scanning.

During the year, work continued on streamlining reporting through the development of an enterprise data warehouse to calculate and store government guarantee fees, and produce invoices and reports. This project has expanded the data warehouse for client reporting and storage of information.

A major project for 2016/17 was the construction of a client-focused portal, anticipated to culminate in the first quarter of 2017/18. The development of the client portal required upgrading a number of systems to cloud services, including the movement to online versions of Exchange, SharePoint and CRM. These upgrades will enhance WATC's systems' integration with the client portal.

WATC also implemented Promapp process mapping software to capture, standardise and centralise all WATC processes within a controlled environment, which is easily assessable to all staff. At 30 June 2017, more than 90 business processes have been published, with this number expected to grow to 200 during 2017/18. Within this framework, there are opportunities to review and improve processes, which includes input from business units involved in end-to-end processes.

During the year, work commenced on a major project to upgrade Summit, WATC's core treasury management system. While Summit continues to provide the basis for WATC's operations and management of the State's finances, the upgrade will ensure that the system is maintained at the highest level of support and functionality. During 2016/17, the system continued to operate smoothly and reliably.

As the core treasury system, Summit is fundamental to WATC's central operations and it is essential to ensure the system will continue to meet WATC's current and future business requirements. It is of critical importance that WATC undertakes a regular review to assess Summit against these criteria and evaluate it against other comparable products.

Furthermore, WATC is reviewing all on-premise ICT infrastructure including storage, compute and communications. This review coincides with the State Government's GovNext initiative, which is pushing for the uptake of cloud facilities and services. This initiative will also have an impact on the facilities and services provided through on-premise delivery. The requirements of the GovNext program are still being evaluated.

Business continuity is also an essential aspect of WATC's ICT function. WATC continued to monitor, test and maintain its current remote business continuity facilities on a regular basis, ensuring the services are available in the event of a threat to business continuity. Future business continuity planning options will focus on moving from the existing site and the uptake of a new site with cloud facilities.

## Significant Issues and Future Outlook

Western Australian Treasury Corporation must remain flexible and adaptable to respond to the ever-changing economic environment to deliver the financial requirements of the State.

General global uncertainty and international events will continue to impact the domestic economy. Geo-political events, including ongoing Brexit negotiations and tensions with North Korea, along with the Federal Reserve's hiking cycle and the prospects of emerging market economies, such as China, will have a major influence on financial markets. Despite these uncertainties, they are not expected to materially impact Western Australian Treasury Corporation (WATC) and its ability to deliver the ongoing financial requirements of the State.

### Budget for 2017/18

	\$'000
<b>Income</b>	
Interest on Investments	52,500
Interest from Authorities	1,661,513
Fee Income	1,728
	1,715,741
<b>Expenses</b>	
Interest on Borrowings	1,662,529
Depreciation/Amortisation	970
Borrowing Related Expenses	4,303
Administration Expenses	17,346
	1,685,148
<b>Profit before Income Tax Equivalent</b>	30,593
Income Tax Equivalent Expense	9,178
<b>Profit for the Period</b>	21,415

### Estimated Borrowing Program for 2017/18

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.

The figures in the following table are based on the projected 2017/18 Borrowing Program that was set in the May 2016 release of the 2016/17 State Budget. With a State election held in March 2017, the 2017/18 State Budget will be released on 7 September 2017. The new [2017/18 Borrowing Program](#) will be updated on the WATC website at that time.

### Estimated Term Debt Borrowing Program for 2017/18<sup>1</sup>

	\$m	\$m
<b>Term Funding Requirement</b>		
New Lending to Clients		4,900
Less: Pre-funding		(1,000)
Projected Maturities		
Bonds	2,045	
FRNs	3,265	5,310
<b>Total Term Funding Requirement</b>		9,210

<sup>1</sup> Based on the projected 2017/18 Borrowing Program set in the May 2016 release of the 2016/17 State Budget.

### Borrowing Strategy for 2017/18

In order to meet the State's funding and debt management requirements for 2017/18, WATC plans to:

- issue a new long benchmark bond line maturing in 2028
- issue a new 5-year maturity floating rate note and continue to issue floating rate notes into outstanding lines in response to investor demand to accommodate the term floating rate borrowing requirements of clients.

In addition, WATC will continue to:

- issue across the yield curve to fund lending to clients
- enhance the liquidity in existing lines of benchmark bonds by:
  - maintaining sufficient volumes on issue to retain benchmark bond status
  - supporting these securities in the market
  - issuing through its Fixed Interest Market Making Panel, by tender, private placement or syndication
- maintain approximately \$1.5 billion to \$3.0 billion of short-term paper on issue through domestic Short-Term Inscribed Stock and the offshore Euro Commercial Paper Program to meet short-term lending and liquidity funding requirements
- monitor opportunities to issue through its Euro Medium Term Note Program and other offshore markets
- transact in derivative products to meet asset and liability management requirements and to generate floating rate funding for clients
- ensure that debt issuance undertaken through domestic and offshore borrowing programs is issued in a manner satisfying the requirements for exemption from interest withholding tax under Section 128F of the [Income Tax Assessment Act 1936](#).

## Other Legal Compliance

Western Australian Treasury Corporation is committed to maintaining high standards of corporate governance to support its strong market reputation and ensure the corporate vision and objectives are met.

Western Australian Treasury Corporation's (WATC) corporate governance practices are continually reviewed and updated in-line with industry guidelines and standards.

### Recordkeeping

WATC is committed to implementing industry best practice for its recordkeeping and compliance processes and systems. Regular evaluations and reviews, including bi-annual staff surveys and routine monitoring, examine the efficiency and effectiveness of WATC's recordkeeping systems and practices. As per Section 19 of the *State Records Act 2000*, WATC has an approved Recordkeeping Plan that is valid until 2019.

Bi-annual compliance audits are also undertaken, focusing on recordkeeping compliance, processes and practices. In 2015/16, KPMG undertook the audit and the overall results were positive. Of the six minor recommendations, 2016/17 saw the successful resolution of four, with the remaining two progressing. The next audit is due in the 2017/18 financial year.

In preparation for the upgrade of TRIM, WATC's electronic document and records management system (EDRMS), a health check of the system took place in November 2016. This check involved an independent technical and functional review of the system. Overall, the results indicated the configuration of the application was generally good, with some recommendations made in regard to database maintenance and the disposal of older records. At 30 June 2017, the majority of these recommendations have been actioned, with the remainder to be finalised at the time of the next upgrade, which is scheduled for completion in December 2017.

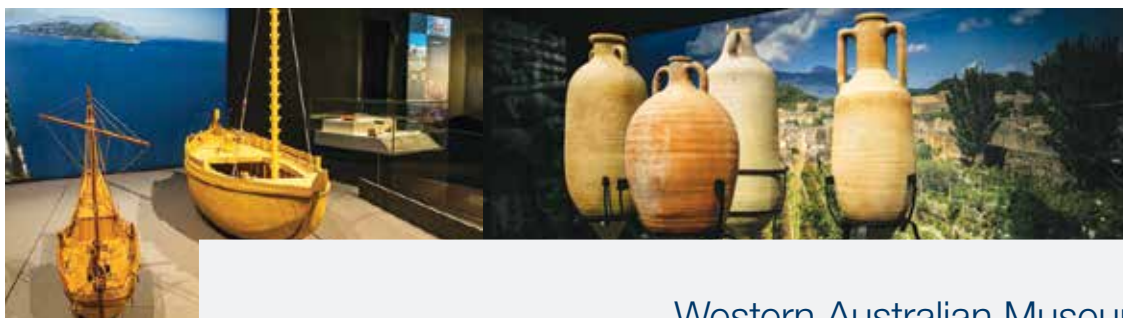
During 2016/17, 100 per cent of staff participated in recordkeeping awareness and EDRMS training. Conducted annually, these mandatory training modules provide staff with a reminder of their roles and responsibilities, compliance updates and an opportunity to advance their knowledge and use of the system. At the end of each module, provision of staff feedback helps determine the efficiency and effectiveness of the training. Overall, the feedback received was positive.

In addition to this training, experienced and knowledgeable staff are available to provide recordkeeping advice and EDRMS training on a one-on-one, ad hoc or project basis. Recordkeeping policies, procedures and TRIM user guides are also available to all staff via the corporate intranet.

WATC provides all new staff with comprehensive induction on recordkeeping and EDRMS. Within a week of their starting date, the five new employees this year all received initial training covering:

- compliance and relevant legislation
- recordkeeping roles and responsibilities, processes and practices
- use and application of TRIM
- the online recordkeeping awareness module.

As part of the induction training, there is also a tailored component to ensure new staff are shown specific items that will assist them with their role at WATC. To help retain the information, the training is as practical as possible, giving new employees exercises and tasks to complete. Conducted at six weeks and again at three months, after the initial training, a one-on-one follow-up gives staff the opportunity to continue, and to enhance, their understanding of recordkeeping practices, responsibilities and systems.



### Western Australian Museum

WATC assisted the Western Australian Museum with foreign currency payments and procurement advice for the Roman Navy and Pompeii exhibitions.

Continued

## Other Legal Compliance

### Freedom of Information

The [Freedom of Information Act 1992](#) (FOI Act) enables the public to apply for access to documents held by WATC. Guidance on how to apply for, and obtain, requested documents is set out in WATC's Information Statement, which is available to the public via WATC's website.

WATC's Information Statement, which was updated during the 2016/17 financial year, is prepared in accordance with the requirements of the FOI Act and provides guidance to obtaining access to documents held by WATC.

WATC did not receive any FOI applications during the 2016/17 financial year.

### Occupational Safety, Health and Injury Management

WATC continues to maintain its excellent Occupational Safety and Health (OSH) system and culture, with strong organisational-wide support and commitment from the Board of Directors (the Board) through to individual staff. The 2016/17 OSH audit confirmed WATC's OSH policies and practices align with Australian Standard AS 4801:2001. The OSH audit also recommended two minor improvements that are currently being actioned. The OSH Committee is WATC's formal mechanism for OSH consultation and comprises safety representatives, management representatives and at least one executive member, currently WATC Chief Executive Officer John Collins. The Committee met every quarter throughout 2016/17, with a focus on continuous improvement of WATC's OSH system and culture.

A major aspect of WATC's positive OSH culture is the Wellness Program. This year, the Wellness Program was expanded, with WATC facilitating ergonomic awareness sessions and providing increased opportunities for ergonomic workstation reviews, both conducted by BodySmart Health Solutions. Other Wellness Program initiatives included mental health awareness training, first aid training, skin cancer screening, healthy heart checks, flu vaccinations, healthy nutrition, weight loss challenges and various corporate sporting activities. WATC's commitment to its Wellness Program was acknowledged and validated when it was ranked third out of 25 Western Australian companies in HBF's Corporate Wellness Index.

In accordance with the reporting requirements of Treasurer's Instruction 903 (13), there was one lost time injury as outlined in Table 3. This was managed in accordance with the [Workers' Compensation and Injury Management Act 1981](#), with the injured employee returned to full duties within one week. No other workers' compensation claims were made.

**Table 3: Occupational Safety, Health and Injury Management Annual Performance – Three-Year Comparison**

Measure	Actual Results		Results Against Target	
	2014/15 <sup>1</sup>	2016/17	Target	Comment on result
Number of fatalities	0	0	0	Achieved
Lost time injury and/or disease incidence rate	0	1	0	
Lost time injury and/or disease severity rate	0	1.600	0	
<b>Percentage of injured workers returned to work:</b>				
(i) within 13 weeks	n/a	100%	100%	Injured employee returned within one week
(ii) within 26 weeks	n/a	100%	100%	
Percentage of managers and supervisors trained in occupational safety, health and injury management responsibilities	100%	100%	≥ 80%	All staff completed online OSH training in 2016/17

<sup>1</sup> This indicator examines a three-year trend and, as such, the comparison base is two years prior to the current reporting year.



## Workforce

WATC's workforce numbers decreased from 66 at 30 June 2016 to 65 employees at 30 June 2017. WATC's turnover remained low at 9.16 percent, but increased slightly from previous years. During 2016/17, three staff retired and three staff resigned from WATC.

WATC continues to tackle gender diversity by reviewing and refining recruitment strategies to remove unconscious bias and by promoting networking and development opportunities for female employees. Gender diversity improved slightly during 2016/17, with females representing close to 31 per cent of WATC employees at 30 June 2017, compared to 27% at 30 June 2016. Table 4 shows WATC's workforce profile at 30 June 2017.

**Table 4: Profile of Workforce**

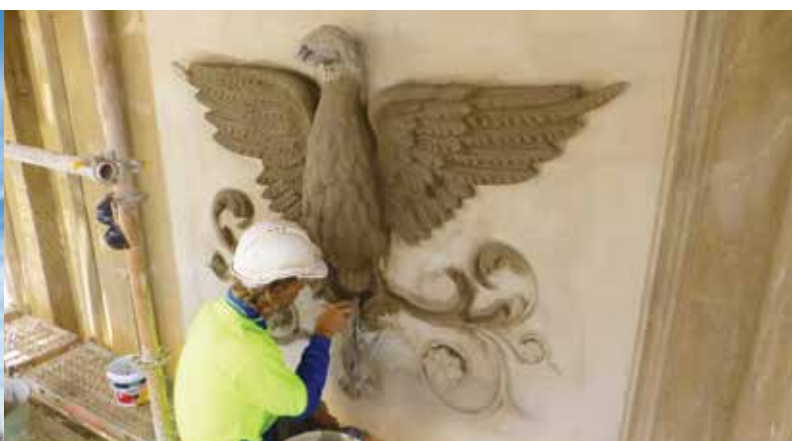
	2015/16	2016/17
Total Workforce	66	65
Full-time Employees	60	59
Part-time Employees	6	6
Part-time Measured on a Full Time Equivalent Basis	3.175	3.375
Female Employees	18	20
Male Employees	48	45
Culturally Diverse Background Employees	11	10
Tertiary Qualified Employees	61	58
Employees Over 50	26	27
Employees Under 25	4	1

## Expenditure on Advertising

Under Section 175ZE of the [Electoral Act 1907](#), WATC is required to disclose any expenditure it makes to:

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

For the year ended 30 June 2017, the only disclosable expenditure incurred was in relation to advertising, where a total amount of \$8,094 was paid to Beilby Corporation and Seek Limited.



## City of Fremantle

WATC provided \$300,000 of debt assistance to the City of Fremantle for external conservation works to the Fremantle Town Hall.

## Other Financial and Corporate Governance Disclosures

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

In order to ensure that WATC carries out its functions in the best interests of the State, clients and other stakeholders, the Board of Directors (the Board) of WATC 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 WATC's 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.

### Board Composition

The membership of the Board is determined in accordance with Section 5B of the [Western Australian Treasury Corporation Act 1986](#) (the Act) and comprises:

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

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

The directors of WATC at 30 June 2017 are shown in Table 5.

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

### 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 other government agencies
- to assist authorities with managing their financial exposures
- 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
- 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.

**Table 5: Board of Directors at 30 June 2017**

Name	Position	First Appointed	Term Expires
Michael Anthony Barnes	Chairperson	Statutory	Statutory
Kaylene Patricia Gulich	Deputy Chairperson	17/02/2014	n/a
John MacPherson Collins <sup>1</sup>	Chief Executive Officer	Statutory	Statutory
Catherine Anne Nance	Director	15/07/1998	31/12/2018
Jennifer Anne Seabrook	Director	01/10/2015	30/09/2018
Grahame John Searle	Director	01/01/2009	31/12/2019

<sup>1</sup> The Chief Executive Officer is the only director with executive responsibilities.

n/a: not applicable.

## 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 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 2017 were:

Name	Position
Catherine Anne Nance	Chairperson
Kaylene Patricia Gulich	Member
Jennifer Anne Seabrook	Member

The Secretary to the Committee was Mr Thomas W Branch, Compliance Officer.

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

### 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.

With the approval of the Board, the Remuneration Committee uses the services of external remuneration experts to advise 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 are 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 2017 were:

Name	Position
Michael Anthony Barnes	Chairperson
John MacPherson Collins	Member
Catherine Anne Nance	Member
Grahame John Searle	Member

The Secretary to the Committee was Ms Rebecca L Ridgway, Human Resources Manager.

### Attendance at Meetings by Directors

Details of attendance at the Board and Board Committee meetings by each director during the year are shown in Table 6.

### Constitution and Proceedings of the Board

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

**Table 6: Attendance at Meetings by Directors**

Director	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
M A Barnes	6	5			2	2
K P Gulich	6	6	5	5		
J M Collins <sup>1</sup>	6	6	5	5	2	2
C A Nance	6	6	5	5	2	2
J A Seabrook	6	6	5	5		
G J Searle	6	5			2	2

<sup>1</sup> J M Collins was invited to attend Audit Committee Meetings.

Continued

## Other Financial and Corporate Governance Disclosures

### Board and Senior Executives Remuneration

The annual remuneration for WATC's board and senior executive was as follows:

Board	2016/17 \$	2015/16* \$
M A Barnes	0 <sup>***</sup>	0 <sup>***</sup>
K P Gulich	0 <sup>***</sup>	0 <sup>***</sup>
C A Nance	47,739	48,855
J A Seabrook	41,532	31,013 <sup>**</sup>
G J Searle	0 <sup>***</sup>	0 <sup>***</sup>
J M Collins	435,115	442,965
<b>Senior Executive</b>		
M A Nunes	363,011	377,394
S J B Morhall	286,903	291,946

\* An extra pay period in 2015/16 resulted in a higher annual reported remuneration for most employees.

\*\* Commenced term on 1 October 2015.

\*\*\* Employee of the Western Australian State Government, therefore no compensation paid for this Board position.

### [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 [Western Australian Treasury Corporation Act 1986](#), 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 2016/17 was \$59,802.

### 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.

### 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.

The staff Code of Conduct (the Code) reflects and supports WATC's values and provides 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.

### Performance Evaluation

As part of good governance, the Board undertakes to evaluate 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 Finance for accessing audit services and financial advice.

## Quarterly Report to the Treasurer

With the exception of the June quarter, WATC submits a quarterly report on its operations 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 cost 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.

## Registry and Treasury Operations

Link Market Services Limited (Link) acts as agent for the provision of registry services on behalf of WATC. Contact details for Link are listed on [page 88](#).

WATC uses the systems and services detailed in Table 7 to facilitate confirmation and settlement of financial transactions.

**Table 7: Confirmation and Settlement Services and Systems**

Provider	System	Purpose
Austraclear Limited	Austraclear	Australian dollar cash, short-term money market, fixed interest and foreign exchange transactions
Bank of America Merrill Lynch	CashPro Online	Foreign currency payments
Clearstream	Creation Online	Repurchase of offshore issues
Citibank NA London Branch	CitiDirect for Securities	Issuance of Euro Commercial Paper and Euro Medium Term Notes

## Changes in Written Law

There were no changes to the [Western Australian Treasury Corporation Act 1986](#) during the 2016/17 financial year.

## Ministerial Directives

No ministerial directives were received during the 2016/17 financial year.

## 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, Crime and Misconduct Act 2003](#)
- [Disability Services Act 1993](#)
- [Electoral Act 1907](#)
- [Electronic Transactions Act 2011](#)
- [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](#)
- [Disability Discrimination Act 1992](#)
- [Fair Work Act 2009](#)
- [Fringe Benefits Tax Act 1986](#)
- [Income Tax Assessment Act 1936](#)
- [Superannuation Guarantee \(Administration\) Act 1992](#)
- [Taxation Administration Act 1953](#)

# WESTERN AUSTRALIAN TREASURY CORPORATION

FINANCIAL SOLUTIONS FOR THE BENEFIT OF ALL WESTERN AUSTRALIANS

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## FINANCIAL REPORT 2017



# Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
<b>INCOME</b>			
<b>Revenue</b>			
Interest on Investments		72,367	70,803
Interest from Authorities		1,442,733	1,430,246
Fee Income		1,642	2,056
<b>Total Revenue</b>		<b>1,516,742</b>	1,503,105
<b>Gains</b>			
Foreign Exchange Gain	6	0	2
Net Fair Value Movement	7	18,649	87,878
Gains from Sale of Plant and Equipment	4	1	0
<b>Total Other Income</b>		<b>18,650</b>	87,880
<b>Total Income</b>		<b>1,535,392</b>	1,590,985
<b>EXPENSES</b>			
<b>Expenses</b>			
Interest on Borrowings		1,500,352	1,558,017
Borrowing Related Expenses		1,422	1,070
Depreciation		191	266
Amortisation of Intangible Assets		92	58
Administration Expenses	5	15,712	15,542
<b>Total Expenses</b>		<b>1,517,769</b>	1,574,953
<b>Profit before income tax equivalent expense</b>		<b>17,623</b>	16,032
Income Tax Equivalent Expense	8	5,297	4,824
<b>Profit for the period</b>		<b>12,326</b>	11,208
Other Comprehensive Income			
Remeasurements of Defined Benefit Liability		6	19
<b>Total Comprehensive Income for the period</b>		<b>12,332</b>	11,227

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

# Statement of Financial Position

As at 30 June 2017

	Note	2017 \$'000	2016 \$'000
<b>ASSETS</b>			
Cash Assets	<a href="#">9</a>	170,878	221,663
Investments	<a href="#">10</a>	5,145,563	4,038,506
Receivables and Other Financial Assets	<a href="#">11</a>	831,632	1,282,297
Loans to Authorities	<a href="#">12</a>	48,838,044	45,431,970
Tax Assets	<a href="#">13</a>	1,026	1,067
Plant and Equipment	<a href="#">14</a>	415	552
Intangible Assets	<a href="#">15</a>	213	39
<b>Total Assets</b>		<b>54,987,771</b>	50,976,094
<b>LIABILITIES</b>			
Payables and Other Financial Liabilities	<a href="#">17</a>	3,571,974	3,548,434
Borrowings	<a href="#">18</a>	51,287,667	47,297,946
Tax Liabilities	<a href="#">19</a>	5,262	11,744
Provisions	<a href="#">20</a>	3,421	3,557
<b>Total Liabilities</b>		<b>54,868,324</b>	50,861,681
<b>NET ASSETS</b>		<b>119,447</b>	114,413
<b>EQUITY</b>			
Retained Earnings		116,447	111,413
Reserves		3,000	3,000
<b>Total Equity</b>		<b>119,447</b>	114,413

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 2017

	<b>Reserves</b>	<b>Retained</b>	<b>Total</b>
	<b>\$'000</b>	<b>Earnings</b>	<b>Equity</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Balance at 1 July 2015</b>	3,000	110,682	113,682
Profit for the period	0	11,208	11,208
Other comprehensive income	0	19	19
Total comprehensive income for the period	0	11,227	11,227
Transactions with owners in their capacity as owners:			
Capital appropriations	0	0	0
Distributions to owners	0	(10,496)	(10,496)
Total	0	(10,496)	(10,496)
<b>Balance at 30 June 2016</b>	<b>3,000</b>	<b>111,413</b>	<b>114,413</b>
<b>Balance at 1 July 2016</b>	<b>3,000</b>	<b>111,413</b>	<b>114,413</b>
Profit for the period	<b>0</b>	<b>12,326</b>	<b>12,326</b>
Other comprehensive income	<b>0</b>	<b>6</b>	<b>6</b>
Total comprehensive income for the period	<b>0</b>	<b>12,332</b>	<b>12,332</b>
Transactions with owners in their capacity as owners:			
Capital appropriations	<b>0</b>	<b>0</b>	<b>0</b>
Distributions to owners	<b>0</b>	<b>(7,298)</b>	<b>(7,298)</b>
Total	<b>0</b>	<b>(7,298)</b>	<b>(7,298)</b>
<b>Balance at 30 June 2017</b>	<b>3,000</b>	<b>116,447</b>	<b>119,447</b>

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 2017

	Note	2017 \$'000	2016 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received on Loans to Authorities		1,417,631	1,378,507
Interest received on Investments		65,681	68,606
Proceeds from Sale and Maturity of Investments		3,003,676	2,168,302
Payment for Investments		(5,212,968)	(1,893,924)
Loans to Authorities		(13,099,555)	(13,407,924)
Loans repaid by Authorities		8,933,727	7,749,145
Other Receipt/(Payment) on behalf of Authorities		96	(13)
Proceeds from Issuance of Borrowings		20,460,802	19,790,062
Repayment of Borrowings		(14,834,548)	(12,419,951)
Fee Income		1,711	1,977
Interest and other Cost of Finance paid		(1,877,298)	(1,770,759)
Administration and Borrowing Related Expenses		(17,312)	(17,975)
Payment of Taxation Equivalents		(11,738)	(6,240)
<b>Net Cash (used in)/provided by Operating Activities</b>	22b	<b>(1,170,095)</b>	1,639,813
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for Plant and Equipment		(54)	(21)
Payment for Intangible Assets		(266)	(11)
Proceeds from Sale of Plant and Equipment		1	0
<b>Net Cash used in Investing Activities</b>		<b>(319)</b>	(32)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of Dividend		(7,298)	(10,496)
<b>Net Cash used in Financing Activities</b>		<b>(7,298)</b>	(10,496)
Net (Decrease)/Increase in Cash and cash equivalents		(1,177,712)	1,629,285
Cash and cash equivalents at the Beginning of the Financial Year		3,584,220	1,954,933
Unrealised foreign exchange gain		0	2
Cash and cash equivalents at the End of the Financial Year	22a	<b>2,406,508</b>	3,584,220
Included in the above are the following			
<b>Cash Flows to State Government</b>			
Payment of Dividend		(7,298)	(10,496)
Payment of Taxation Equivalents		(11,738)	(6,240)
<b>Net Cash provided to State Government</b>		<b>(19,036)</b>	(16,736)

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

# Notes to the Financial Statements

For the year ended 30 June 2017

## 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 financing 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 2017 have been prepared in accordance with Australian Accounting Standards. The term "Australian Accounting Standards" includes 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'. There has been no early adoption of Australian Accounting Standards that have been issued or amended (but not operative) by WATC for the annual reporting period ended 30 June 2017.

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) General Statement

- i. WATC is a not-for-profit reporting entity that prepares general purpose financial statements 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 that govern 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 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.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 2 (CONTINUED)

### *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 recognised and 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:

	2017	2016
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.

### (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 lives.

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 2017. 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 present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 2 (CONTINUED)

### 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) and other fund providers administer 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 employment 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 have been able to choose their preferred superannuation fund provider. WATC makes contributions to GESB or other fund providers 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 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 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 75% 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.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income are recognised in other comprehensive income, and directly in equity are recognised directly in equity.

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 fair value.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 2 (CONTINUED)

### (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 2016. None have impacted financially on WATC, however some have impacted on disclosure.

#### 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' or by an exemption from TI 1101. 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' supersedes AASB 139 'Financial Instruments: Recognition and Measurement', introducing a number of changes to accounting treatments. WATC does not expect any financial impact when the Standard is first applied in the year ending 30 June 2019.

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

AASB Amendment	Affected Standards
AASB 16	'Leases'
AASB 1058	'Income of Not-for-Profit Entities'
AASB 2014-10	'Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'
AASB 2016-1	'Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]'
AASB 2016-2	'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107'
AASB 2016-4	'Amendments to Australian Accounting Standards - Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities [AASB 136]'
AASB 2016-5	'Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions [AASB 2]'
AASB 2016-6	'Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts'
AASB 2016-8	'Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-For-Profit Entities [AASB 1004 & 1058]'
AASB 2017-1	'Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments [AASB 1, 12, 128 & 140]'
AASB 2017-2	'Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle'
IFRS 17	'Insurance Contracts'



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

<b>AASB Amendment</b>	<b>Affected Standards</b>
AASB 15	'Revenue from Contracts with Customers'

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
<b>NOTE 4</b>		
<b>GAIN FROM SALE OF PLANT AND EQUIPMENT</b>		
<b>Computer Hardware</b>		
Gross proceeds of disposed hardware	<b>1</b>	0
Book Value of disposed hardware	<b>0</b>	0
Gain on disposal of hardware	<b>1</b>	0
<b>NOTE 5</b>		
<b>ADMINISTRATION EXPENSES</b>		
The following employee benefit expenses are included in Administration Expenses.		
Salaries	<b>8,956</b>	9,045
Workers Compensation costs	<b>31</b>	44
Superannuation expense	<b>988</b>	984
Long Service Leave Provision	<b>(109)</b>	221
	<b>9,866</b>	10,294

## **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 2017, after taking account of exchange fluctuations, no gain or loss (2016, gain of A\$2 thousand) had resulted on this balance.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

	2017 \$'000	2016 \$'000
<b>NOTE 7</b>		
<b>NET FAIR VALUE MOVEMENT</b>		
Unrealised Gain - Investments	2,450	461
Unrealised (Loss)/Gain - Loans to Authorities	(776,202)	552,730
Unrealised Gain/(Loss) - Borrowings	912,994	(605,103)
Unrealised (Loss)/Gain - Derivatives	(120,593)	139,790
Net Fair Value Movement	<b>18,649</b>	87,878
Add Interest movements		
Interest on Investments	72,367	70,803
Interest from Authorities	1,442,733	1,430,246
Interest on Borrowings	(1,500,352)	(1,558,017)
	<b>14,748</b>	(56,968)
Net gain on financial assets and financial liabilities at fair value through profit and loss	<b>33,397</b>	30,910

WATC manages its operations on a portfolio basis to achieve its long term objective. Realised losses totalling A\$178,623 thousand (2016, A\$205,054 thousand) 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	17,629	16,051
Income tax equivalent expense at 30% (2016, 30%)	5,289	4,815
Tax effect of expenses that are not deductible/assessable in determining taxable profit		
Sundry expenses	8	9
Income tax equivalent expense	<b>5,297</b>	4,824
Income tax equivalent expense comprises movements in:		
Current income tax equivalent expense	5,257	4,871
Deferred tax income relating to the origination and reversal of temporary differences	41	(45)
Deferred tax expense relating to the origination and reversal of temporary differences	(1)	(2)
Total income tax equivalent expense	<b>5,297</b>	4,824
Deferred Tax Assets:		
Employee Provisions	1,026	1,067
Total ( <a href="#">Note 13</a> )	<b>1,026</b>	1,067
Deferred Tax Liabilities:		
Payables	5	5
Foreign Currency Revaluation	0	1
Total ( <a href="#">Note 19</a> )	<b>5</b>	6

	2017 \$'000	2016 \$'000
<b>NOTE 9</b>		
<b>CASH ASSETS</b>		
Bank Deposits	170,858	221,639
Overseas Bank Accounts	20	24
	<b>170,878</b>	221,663
Average Balance	<b>214,805</b>	81,875
Interest Revenue	<b>3,961</b>	1,585
Average Interest Rate	<b>1.84%</b>	1.94%

Cash Assets represent only those funds held in accounts with banks and does not include money market investments. To facilitate the maturity of WATC's benchmark bond lines, larger than normal cash balances are left in the bank account overnight prior to bond maturities.

## NOTE 10

### INVESTMENTS – AT FAIR VALUE

#### 10a. Investments – non derivative

Investments comprise the following:

Short Term Money Market Investments	4,202,171	3,639,011
Government Stock	943,392	399,495
Corporate Bonds	0	0
Total	<b>5,145,563</b>	4,038,506

#### Maturity Profile

At Call	140,000	20,600
Up to 3 Months	3,619,559	3,719,719
3 to 12 Months	542,252	298,187
1 to 5 Years	843,752	0
Over 5 Years	0	0
Total	<b>5,145,563</b>	4,038,506

#### Repricing Profile

At Call	140,000	20,600
Up to 3 Months	3,619,559	3,719,719
3 to 12 Months	542,252	298,187
1 to 5 Years	843,752	0
Over 5 Years	0	0
Total	<b>5,145,563</b>	4,038,506

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

	2017 \$'000	2016 \$'000
<b>NOTE 10 (CONTINUED)</b>		
<b>10b. Investments – derivative</b>	<b>0</b>	0
<b>Maturity Profile</b>		
Up to 3 Months	0	0
3 to 12 Months	0	0
1 to 5 Years	0	0
Over 5 Years	0	0
Total derivatives shown as receivables and other financial assets ( <a href="#">Note 11</a> )	<b>0</b>	0
<b>Repricing Profile</b>		
Up to 3 Months	0	0
3 to 12 Months	0	0
1 to 5 Years	0	0
Over 5 Years	0	0
Total derivatives shown as receivables and other financial assets ( <a href="#">Note 11</a> )	<b>0</b>	0
<b>Credit Exposure</b>		
Rating	%	%
AAA	<b>8.24</b>	9.43
AA	<b>59.45</b>	55.64
A	<b>32.31</b>	34.44
BBB	<b>0.00</b>	0.49
	<b>100.00</b>	100.00
Average Balance	<b>3,447,526</b>	3,166,972
Interest Revenue	<b>68,406</b>	69,218
Average Interest Rate	<b>1.98%</b>	2.19%

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.

	2017 \$'000	2016 \$'000
<b>NOTE 11</b>		
<b>RECEIVABLES AND OTHER FINANCIAL ASSETS</b>		
Accrued Interest Receivable	<b>289,854</b>	277,422
Foreign Currency Receivable	<b>0</b>	4,547
Other Debtors	<b>25,495</b>	312,561
	<b>315,349</b>	594,530
Other Financial Assets ( <a href="#">Notes 10b</a> , <a href="#">12b</a> & <a href="#">18b</a> )	<b>516,283</b>	687,767
	<b>831,632</b>	1,282,297

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 2017 and due for settlement after 30 June 2017. 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

<b>48,838,044</b>	45,431,970
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#### Maturity Profile

Up to 3 Months	<b>2,888,318</b>	2,947,091
3 to 12 Months	<b>4,963,362</b>	4,307,920
1 to 5 Years	<b>25,921,755</b>	24,788,198
Over 5 Years	<b>15,064,609</b>	13,388,761
Total	<b>48,838,044</b>	45,431,970

#### Repricing Profile

Up to 3 Months	<b>16,528,735</b>	14,133,216
3 to 12 Months	<b>5,418,195</b>	6,805,990
1 to 5 Years	<b>12,423,856</b>	12,183,952
Over 5 Years	<b>14,467,258</b>	12,308,812
Total	<b>48,838,044</b>	45,431,970

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

	2017 \$'000	2016 \$'000
<b>NOTE 12 (CONTINUED)</b>		
<b>12b. Loans to Authorities – derivative</b>	<b>(2,361)</b>	29
<b>Maturity Profile</b>		
Up to 3 Months	550	234
3 to 12 Months	361	(179)
1 to 5 Years	93	(325)
Over 5 Years	(3,365)	299
Total derivatives shown as receivables and other financial assets ( <a href="#">Note 11</a> )	<b>(2,361)</b>	29
<b>Repricing Profile</b>		
Up to 3 Months	550	234
3 to 12 Months	(12,335)	(180)
1 to 5 Years	93	(4,150)
Over 5 Years	9,331	4,125
Total derivatives shown as receivables and other financial assets ( <a href="#">Note 11</a> )	<b>(2,361)</b>	29
Average Balance	<b>45,643,753</b>	41,314,792
Interest Revenue	<b>1,442,733</b>	1,430,246
Average Interest Rate	<b>3.16%</b>	3.46%

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 (98.4% of total (2016, 98.0%)) are guaranteed by the State whilst Local Government advances (1.6% of total (2016, 2.0%)) 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	<b>1,026</b>	1,067
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	<b>2017</b> <b>\$'000</b>	2016 \$'000
<b>NOTE 14</b>		
<b>PLANT AND EQUIPMENT</b>		
Equipment (at cost)	<b>2,751</b>	2,718
Less Accumulated Depreciation	<b>2,336</b>	2,166
Total Plant and Equipment	<b>415</b>	552
<b>Reconciliation</b>		
Equipment		
Opening balance	<b>552</b>	797
Additions	<b>54</b>	21
Disposals/Write-Offs	<b>(21)</b>	(101)
Depreciation	<b>(191)</b>	(266)
Accumulated depreciation on disposal	<b>21</b>	101
Closing balance	<b>415</b>	552

## **NOTE 15**

### **INTANGIBLE ASSETS**

Intangible Assets (at cost)	<b>8,510</b>	8,244
Less Accumulated Amortisation	<b>8,297</b>	8,205
Total Intangible Assets	<b>213</b>	39
<b>Reconciliation</b>		
Intangible Assets		
Opening balance	<b>39</b>	86
Additions	<b>266</b>	11
Disposals	<b>0</b>	0
Amortisation	<b>(92)</b>	(58)
Accumulated amortisation on disposal	<b>0</b>	0
Closing balance	<b>213</b>	39

## **NOTE 16**

### **IMPAIRMENT OF ASSETS**

There were no indications of impairment to Plant and Equipment and Intangible Assets at 30 June 2017.

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.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

	2017 \$'000	2016 \$'000
<b>NOTE 17</b>		
<b>PAYABLES</b>		
Interest Accrued (at amortised cost)	568,582	591,875
Other Creditors (at amortised cost)	2,995,942	2,956,559
Foreign Currency Payable	7,450	0
	<b>3,571,974</b>	3,548,434
Other Financial Liabilities (at fair value)	0	0
	<b>3,571,974</b>	3,548,434

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 2017 and due for settlement after 30 June 2017.

## NOTE 18

### BORROWINGS – AT FAIR VALUE

<b>18a. Borrowings – non derivative</b>	<b>51,287,667</b>	47,297,946
<b>Maturity Profile</b>		
Up to 3 Months	4,211,274	3,426,243
3 to 12 Months	3,942,588	2,015,764
1 to 5 Years	27,623,296	26,862,886
Over 5 Years	15,510,509	14,993,053
Total borrowings at fair value	<b>51,287,667</b>	47,297,946
<b>Repricing Profile</b>		
Up to 3 Months	13,626,644	11,692,039
3 to 12 Months	673,625	262,336
1 to 5 Years	21,476,889	20,371,042
Over 5 Years	15,510,509	14,972,529
Total borrowings at fair value	<b>51,287,667</b>	47,297,946



	2017 \$'000	2016 \$'000
<b>18b. Borrowings – derivative</b>	<b>(518,644)</b>	(687,738)
<b>Maturity Profile</b>		
Up to 3 Months	<b>(38,658)</b>	6,783
3 to 12 Months	<b>381</b>	13,765
1 to 5 Years	<b>(463,407)</b>	(552,348)
Over 5 Years	<b>(16,960)</b>	(155,938)
Total derivatives shown as receivables and other financial assets ( <a href="#">Note 11</a> )	<b>(518,644)</b>	(687,738)
<b>Repricing Profile</b>		
Up to 3 Months	<b>750,640</b>	789,280
3 to 12 Months	<b>(112,954)</b>	(1,623)
1 to 5 Years	<b>(1,075,092)</b>	(1,150,649)
Over 5 Years	<b>(81,238)</b>	(324,746)
Total derivatives shown as receivables and other financial assets ( <a href="#">Note 11</a> )	<b>(518,644)</b>	(687,738)
Average Balance	<b>49,226,386</b>	44,518,930
Interest Expense	<b>1,500,352</b>	1,558,017
Average Interest Rate	<b>3.05%</b>	3.50%

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](#).

## BORROWINGS – AT FACE VALUE

Payable 12 months or less from 30 June		
– Domestic	<b>7,797,775</b>	4,727,375
– Overseas	<b>356,542</b>	718,751
	<b>8,154,317</b>	5,446,126
Payable more than 12 months from 30 June		
– Domestic	<b>40,642,914</b>	38,181,443
– Overseas	<b>0</b>	0
	<b>40,642,914</b>	38,181,443
Balance 30 June at face value	<b>48,797,231</b>	43,627,569

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 18 (CONTINUED)

### Overseas Borrowings

Includes Australian currency and foreign currency loans. Foreign currency loans have been translated using the exchange rates applicable at 30 June 2017 and are shown below:

	Exchange Rate Translation at 30/06/17	
	Payable 12 Months or Less from 30/06/17	Payable More than 12 Months from 30/06/17
	A\$'000	A\$'000
<b>Foreign Currency Borrowing</b>		
USD 274,265,121	356,542	Nil

	Exchange Rate Translation at 30/06/16	
	Payable 12 Months or Less from 30/06/16	Payable More than 12 Months from 30/06/16
	A\$'000	A\$'000
Foreign Currency Borrowing		
USD 533,845,446	718,751	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.

	2017 \$'000	2016 \$'000
<b>NOTE 19</b>		
<b>TAX LIABILITIES</b>		
Current Income Tax Equivalent Liability	5,257	11,738
Deferred Tax Liability	5	6
	<b>5,262</b>	11,744

## NOTE 20

### PROVISIONS

Annual Leave	1,042	1,072
Long Service Leave	1,893	2,002
Superannuation – defined benefit plans	486	483
	<b>3,421</b>	3,557

## 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

#### *Nature of the benefits provided by the Scheme*

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.

#### *Description of the regulatory framework*

The Scheme operates under the *State Superannuation Act 2000* (Western Australia) and the *State Superannuation Regulations 2001* (Western Australia).

Although the scheme is not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Western Australian government has undertaken (in a Heads of Government Agreement) to operate the scheme in accordance with the spirit of the SIS legislation.

As an exempt public sector superannuation scheme (as defined in the SIS legislation), the Scheme is not subject to any minimum funding requirements.

As a constitutionally protected scheme, the Scheme is not required to pay tax.

#### *Description of other entities' responsibilities for the governance of the Scheme*

The Government Employees Superannuation Board (GESB) is the Scheme's Trustee and is responsible for the governance of the Scheme. As Trustee, GESB has a legal obligation to act solely in the best interests of Scheme beneficiaries. GESB has the following roles:

- Administration of the Scheme and payment to the beneficiaries when required in accordance with the Scheme rules;
- Management and investment of the Scheme assets (although the liabilities in this report are not supported by assets); and
- Compliance with the Heads of Government Agreement referred to above.

#### *Description of risks*

There are a number of risks to which the Scheme exposes WATC. The more significant risks relating to the defined benefits are:

- Inflation risk - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, and/or that inflation (which affects the indexation of deferred benefits) will be higher than assumed, increasing defined benefit amounts and the associated employer contributions; and
- Legislative risk - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

	2017 \$'000	2016 \$'000
<b>NOTE 20 (CONTINUED)</b>		
<b>Description of significant events</b>		
There were no Scheme amendments affecting the defined benefits payable, curtailments or settlements during the year.		
<b>Reconciliation of the Net Defined Benefit Liability/(Asset)</b>		
Defined Benefit Obligation	486	482
(+) Fair value of Scheme assets	0	0
Deficit/(surplus)	486	482
(+) Adjustment for effect of asset ceiling	0	0
Net defined benefit liability/(asset)	486	482
<b>Reconciliation of the Fair Value of Scheme Assets</b>		
Fair Value of Scheme assets at beginning of year	0	0
(+) Interest income	0	0
(+) Actual return on Scheme assets less Interest income	0	0
(+) Employer contributions	0	58
(+) Contributions by Scheme participants	0	0
(-) Benefits paid	0	58
(-) Taxes, premiums and expenses paid	0	0
(+) Transfers in	0	0
(+) Contributions to accumulation section	0	0
(+) Settlements	0	0
(+) Exchange rate changes	0	0
Fair value of Scheme assets at end of year	0	0
<b>Reconciliation of the Defined Benefit Obligation (DBO)</b>		
Present value of defined benefit obligations at beginning of year	482	545
(+) Current service cost	0	0
(+) Interest cost	10	14
(+) Contributions by Scheme participants	0	0
(+) Actuarial (gains)/losses arising from changes in demographic assumptions	0	1
(+) Actuarial (gains)/losses arising from changes in financial assumptions	(20)	(24)
(+) Actuarial (gains)/losses arising from liability experience	14	4
(-) Benefits paid	0	58
(-) Taxes, premiums and expenses paid	0	0
(+) Transfers in	0	0
(-) Contributions to accumulation section	0	0
(+) Past service cost/curtailments	0	0
(+) Gain/loss on settlements	0	0
(+) Settlements	0	0
(+) Exchange rate changes	0	0
Present value of defined benefit obligations at end of year	486	482

### Reconciliation of the Effect of the Asset Ceiling

The asset ceiling has no impact on the net defined benefit liability/(asset).

### Fair value of Scheme assets

There are no assets in Gold State Super for current employees to support the transferred benefits. Hence, there is/are:

- No fair value of Scheme assets;
- No asset allocation of Scheme assets;
- No financial instruments issued by the employer;
- No assets used by the employer; and
- No asset-liability matching strategies.

		2017	2016
<b>Significant Actuarial Assumptions at the Reporting Date</b>			
<i>Assumptions to Determine Start of Year DBO and Defined Benefit Cost for the Current Year</i>			
Discount rate		<b>2.26%</b>	2.74%
Expected salary increase rate	2016/17	<b>2.50%</b>	4.00%
	2017/18	<b>2.50%</b>	4.00%
	2018/19	<b>2.50%</b>	4.00%
	thereafter	<b>3.50%</b>	4.00%
Expected pension increase rate		<b>2.50%</b>	2.50%
<i>Assumptions to Determine DBO at Valuation Date</i>			
Discount rate		<b>2.26%</b>	2.26%
Expected salary increase rate	2016/17	<b>1.50%</b>	2.50%
	2017/18	<b>1.10%</b>	2.50%
	2018/19	<b>1.00%</b>	2.50%
	thereafter	<b>3.70%</b>	3.50%
Expected pension increase rate		<b>2.50%</b>	2.50%

The discount rate is based on the Government bond maturing in April 2025. The decrement rates used (eg mortality and retirement rates) are the same as those used for the actuarial review of the Scheme at 30 June 2016, as outlined in the report on the actuarial review dated 19 August 2016.

The salary increase assumption used at 30 June 2016 was 2.50% pa for the first three years and 3.50% pa thereafter.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 20 (CONTINUED)

### Sensitivity Analysis

The defined benefit obligation as at 30 June 2017 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to expected salary increase rate and indexation sensitivity.

Scenario A: 0.5% pa lower discount rate assumption

Scenario B: 0.5% pa higher discount rate assumption

Scenario C: 0.5% pa lower expected salary increase rate and indexation assumption

Scenario D: 0.5% pa higher expected salary increase rate and indexation assumption

	Base Case	Scenario A	Scenario B	Scenario C	Scenario D
		-0.5% pa discount	+0.5% pa discount	-0.5% pa salary	+0.5% pa salary
Discount rate	2.26% pa	1.76% pa	2.76% pa	2.26% pa	2.26% pa
Salary increase rate	3.70% pa	3.70% pa	3.70% pa	3.20% pa	4.20% pa
Defined benefit obligation (A\$'000s)	486	493	479	481	491

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other obligations.

### Funding arrangements

WATC contributes, as required, to meet the benefits paid.

### Expected contributions

	2018 \$'000
Expected employer contributions	87

### Maturity profile of defined benefit obligation

The weighted average duration of WATC's defined benefit obligation is 3.1 years.

## NOTE 21

### FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### POLICY

#### 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 Asset and Liability Management Committee meets on a monthly basis.

WATC incurs risk in relation to the financial services it provides to its clients. These services include 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 for the quantification of the interest rate, credit and operational risk capital requirements of banks. WATC is guided by these standards and pronouncements under the Basel Accord in determining its capital and operational risk requirements.

WATC, as a matter of policy, does not take any material exchange rate risk and seeks to minimise all other key risks.

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.

	<b>2017</b> <b>\$'000</b>	2016 \$'000
<b>Unrealised Fair Value on Swap Portfolio Credit Sensitivity Analysis</b>		
Unrealised fair value gain/(loss)	<b>(3,537)</b>	4,261
Basis Point Sensitivity	<b>284.002</b>	518.583
Increase of 80 basis points in credit spreads	<b>22,720</b>	41,487
Increase of 50 basis points in credit spreads	<b>14,200</b>	25,929
Increase of 30 basis points in credit spreads	<b>8,520</b>	15,557
Decrease of 80 basis points in credit spreads	<b>(22,720)</b>	(41,487)
Decrease of 50 basis points in credit spreads	<b>(14,200)</b>	(25,929)
Decrease of 30 basis points in credit spreads	<b>(8,520)</b>	(15,557)

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 21 (CONTINUED)

### Interest Rate Risk

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

WATC's interest rate risk capital requirement is determined using a risk multiplier of between 3 and 4 depending on back testing results for its Value-at-Risk (VaR) model which is 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, 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:

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
<b>Value at Risk (VaR)</b>		
Average Daily Balance for Year	<b>1,501</b>	1,807
Lowest for Year	<b>866</b>	1,254
Highest for Year	<b>2,438</b>	2,529
Closing Balance	<b>914</b>	2,529



## Interest Rate Risk Exposure

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

	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
<b>2017</b>								
<b>Financial Assets:</b>								
Cash and Cash Equivalents	1.84	170,878						170,878
Receivables – non derivative							315,349	315,349
– derivative			(750,090)	100,619	1,075,185	90,569		516,283
Investments	1.98	140,000	3,619,559	542,252	843,752			5,145,563
Loans to Authorities	3.16		16,528,735	5,418,195	12,423,856	14,467,258		48,838,044
		310,878	19,398,204	6,061,066	14,342,793	14,557,827	315,349	54,986,117
<b>Financial Liabilities:</b>								
Payables							3,571,974	3,571,974
Borrowings	3.05		13,626,644	673,625	21,476,889	15,510,509		51,287,667
		0	13,626,644	673,625	21,476,889	15,510,509	3,571,974	54,859,641
<b>2016</b>								
<b>Financial Assets:</b>								
Cash and Cash Equivalents	1.94	221,663						221,663
Receivables – non derivative							594,530	594,530
– derivative			(789,046)	1,443	1,146,499	328,871		687,767
Investments	2.19	20,600	3,719,719	298,187				4,038,506
Loans to Authorities	3.46		14,133,216	6,805,990	12,183,952	12,308,812		45,431,970
		242,263	17,063,889	7,105,620	13,330,451	12,637,683	594,530	50,974,436
<b>Financial Liabilities:</b>								
Payables							3,548,434	3,548,434
Borrowings	3.50		11,692,039	262,336	20,371,042	14,972,529		47,297,946
		0	11,692,039	262,336	20,371,042	14,972,529	3,548,434	50,846,380

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 21 (CONTINUED)

### 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. WATC does not set aside capital to cover its exposure to public sector agencies due to the nature of its relationship to such entities. As a result, WATC's credit risk is primarily limited to derivative, investment and local government counterparties.

WATC has a comprehensive Credit Risk Management 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 (CSAs).

The capital required to cover credit risk varies depending on the market value of the investment, the maturity of the investment and the credit standing of the counterparty. Capital is also set aside to cover the credit risk associated with WATC's derivative exposures.

	2017 %	2016 %
<b>Credit Exposure of Investments by Rating</b>		
AAA	8.24	9.43
AA	59.45	55.64
A	32.31	34.44
BBB	0.00	0.49
	<b>100.00</b>	100.00
<b>Credit Exposure of Derivatives by Rating</b>		
AAA	0.00	0.00
AA	93.02	96.58
A	6.98	3.42
	<b>100.00</b>	100.00

## Liquidity Risk

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

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

- ensuring that its holdings of liquid assets and/or standby facilities are equal to or above a minimum level guided by APRA's prudential standard "APS 210";
- preparing 50-day cash flow forecasts 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.

## Liquidity Table

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

	Up to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
<b>2017</b>					
<b>Financial Liabilities:</b>					
Borrowings					
– non derivative	4,671,802	5,306,989	30,757,940	15,993,935	56,730,666
	<b>4,671,802</b>	<b>5,306,989</b>	<b>30,757,940</b>	<b>15,993,935</b>	<b>56,730,666</b>
Derivatives					
– derivative payable	436,493	20,151	152,573	1,349	610,566
– derivative receivable	506,018	211,595	409,580	6,610	1,133,803
Derivatives Net	(69,525)	(191,444)	(257,007)	(5,261)	(523,237)
<b>Total</b>	<b>4,602,277</b>	<b>5,115,545</b>	<b>30,500,933</b>	<b>15,988,674</b>	<b>56,207,429</b>
<b>2016</b>					
Financial Liabilities:					
Borrowings					
– non derivative	3,961,725	3,378,124	30,074,406	14,225,486	51,639,741
	<b>3,961,725</b>	<b>3,378,124</b>	<b>30,074,406</b>	<b>14,225,486</b>	<b>51,639,741</b>
Derivatives					
– derivative payable	771,906	39,271	149,777	28,691	989,645
– derivative receivable	845,895	233,043	595,985	25,842	1,700,765
Derivatives Net	(73,989)	(193,772)	(446,208)	2,849	(711,120)
<b>Total</b>	<b>3,887,736</b>	<b>3,184,352</b>	<b>29,628,198</b>	<b>14,228,335</b>	<b>50,928,621</b>

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 21 (CONTINUED)

### Funding Risk

Funding risk is the risk that funding may not always be available. This can arise where there is a lack of funding facility diversification or the funding requirement over a particular time period is excessive.

This risk is minimised by WATC through the diversification of funding activity across domestic and offshore markets and across the maturity spectrum and by maintaining a highly liquid asset portfolio.

The Board requires ALCO to ensure that appropriate facilities and funding sources are maintained. In addition, the Board sets minimum debt maturity and liquidity coverage targets within which ALCO must operate in order to ensure funding risk is appropriately controlled.

### 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.

### 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, credit and operational risk capital requirement calculation is guided by APRA's prudential standards and the Basel Accord. 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 and profile 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 horizon) 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, 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 net borrower from the capital markets. WATC's funding preferences in terms of term structure and product usage must be balanced against investor preferences in order to source funds at the lowest cost. In this regard, WATC accepts a degree of market risk by allowing the maturity profile of its funding portfolio to only approximate the maturity profile of its lending portfolio. Derivative instruments, including swaps, forward rate agreements and futures, are used to economically hedge and 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 30 June 2017, 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 30 June 2017</b>			
Futures	423,100	(23)	0
Interest Rate Swaps	13,661,795	516,607	735,537
Forward Rate Agreements	650,000	(301)	0
<b>As at 30 June 2016</b>			
Futures	1,052,200	175	0
Interest Rate Swaps	12,832,140	687,591	927,173
Forward Rate Agreements	700,000	0	0

Interest rate swaps are used from time to time to manage funding and interest rate risk by issuing fixed rate benchmark bonds and interest rate swaps to generate floating rate exposures and 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 2017, WATC had lent funds amounting to A\$15,892,175 thousand (2016, A\$12,038,500 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.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 21 (CONTINUED)

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 A\$356,516 thousand (2016, A\$718,682 thousand) with a fixed future obligation in Australian dollars of A\$363,966 thousand (2016, A\$714,135 thousand). Additionally, WATC has arranged foreign exchange transactions for clients amounting to A\$114,903 thousand (2016, A\$151,136 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 \$1,004 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 2017	Market Rate as at 30 June 2016
Overnight	-	1.50%	1.75%
90 days	-	1.71%	1.96%
180 days	-	1.85%	2.12%
15 October 2019	7.00%	2.02%	1.92%
15 July 2021	7.00%	2.37%	2.08%
16 October 2023	6.00%	2.72%	2.37%
23 July 2025	5.00%	3.02%	2.53%
21 October 2027	3.00%	3.34%	2.76%

### 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 (i.e. as prices) or indirectly (i.e. derived from prices); and

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

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. There were no transfers between levels during the year ended 30 June 2017.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2017</b>				
Financial assets designated at fair value through profit or loss				
Investments	983,741	4,161,822	0	5,145,563
Loans to Authorities	0	48,838,044	0	48,838,044
Derivative financial assets	0	(2,360)	0	(2,360)
<b>Total Assets</b>	<b>983,741</b>	<b>52,997,506</b>	<b>0</b>	<b>53,981,247</b>
Financial liabilities designated at fair value through profit or loss				
Borrowings	39,445,253	11,842,414	0	51,287,667
Derivative financial liabilities	0	(512,758)	0	(512,758)
<b>Total Liabilities</b>	<b>39,445,253</b>	<b>11,329,656</b>	<b>0</b>	<b>50,774,909</b>
<b>30 June 2016</b>				
Financial assets designated at fair value through profit or loss				
Investments	20,600	4,017,906	0	4,038,506
Loans to Authorities	0	45,431,970	0	45,431,970
Derivative financial assets	0	29	0	29
<b>Total Assets</b>	<b>20,600</b>	<b>49,449,905</b>	<b>0</b>	<b>49,470,505</b>
Financial liabilities designated at fair value through profit or loss				
Borrowings	35,978,200	11,319,746	0	47,297,946
Derivative financial liabilities	0	(697,241)	0	(697,241)
<b>Total Liabilities</b>	<b>35,978,200</b>	<b>10,622,505</b>	<b>0</b>	<b>46,600,705</b>

The valuation technique used to determine the value of Level 2 assets or liabilities is the generation of a range of zero coupon yield curves using Level 1 inputs or the valuation of an asset or liability at a spread to a particular curve. Inputs include prices on WATC benchmark bond lines, bank bill swap rates, money market rates, exchange rates, observed spreads between issuers and benchmark rates and observed spreads between curves at particular points on the curve. These inputs are revised regularly to improve estimation results against observable criteria. In 2017, WATC made changes which improved the estimation and this had a \$2 million pre-tax impact on the 2017 results.

Investments are valued utilising quoted prices in an active market for identical assets where available or on a discounted cash flow basis using WATC zero coupon yield curves.

Loans to Authorities are valued on a discounted cash flow basis using WATC zero coupon yield curves.

Derivative financial assets and liabilities, which includes over the counter derivatives such as interest rate swaps, forward rate agreements and foreign currency swaps are valued on a discounted cash flow basis using WATC zero coupon yield curves.

Borrowings are valued utilising quoted prices in an active market for identical liabilities where available or on a discounted cash flow basis using WATC zero coupon yield curves.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

2017	2016
\$'000	\$'000

## 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:

Bank Deposits ( <a href="#">Note 9</a> )	170,858	221,639
Short Term Money Market Investments	2,235,630	3,362,557
Overseas Bank Accounts ( <a href="#">Note 9</a> )	20	24
	<b>2,406,508</b>	<b>3,584,220</b>

#### 22b. Reconciliation of Net Cash (used in)/provided by Operating Activities to Total Comprehensive Income for the period

Total Comprehensive Income for the period	12,332	11,227
Depreciation	191	266
Amortisation of Intangible Assets	92	58
Unrealised Foreign Exchange Gain	0	(2)
Gain on Sale of Equipment	(1)	0
Increase in Receivables	(15,754)	(30,940)
(Decrease)/Increase in Accrued Interest Payable	(43,720)	65,522
Decrease in Other Creditors	(49)	(1,532)
Current income tax equivalent expense	5,257	4,871
Other Receipt/(Payment) on behalf of Client Authorities	96	(13)
Decrease/(Increase) in deferred tax asset	41	(45)
Decrease in deferred tax liability	(1)	(2)
Tax Equivalent Payment	(11,738)	(6,240)
(Decrease)/Increase in Employee Benefits	(136)	151
Premium/discount amortisation	(349,190)	(301,340)
Fair Value Adjustment	(18,649)	(87,878)
Cash (Increase)/Decrease in Investments	(2,209,292)	274,378
Cash Increase in Lending	(4,165,828)	(5,658,779)
Cash Increase in Borrowings	5,626,254	7,370,111
Net Cash (used in)/provided by Operating Activities	<b>(1,170,095)</b>	<b>1,639,813</b>

#### 22c. Financing 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**

WATC has determined that key management personnel include Ministers, directors and senior officers of WATC. However, WATC is not obligated to compensate Ministers. Disclosures relating to Ministers' compensation is included in the Annual Report on State Finances.

**Directors' Remuneration**

M A Barnes, Chairperson, K P Gulich, Deputy Chairperson, J M Collins, Chief Executive Officer, G J Searle, Director, J A Seabrook, 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:

\$	2017	2016
0	3	3
30,001 - 40,000	-	*1
40,001 - 50,000	2	1
410,001 - 420,000	-	-
420,001 - 430,000	-	-
430,001 - 440,000	1	-
440,001 - 450,000	-	1

\* Ms Seabrook's term as a Director commenced on 1 October 2015 and therefore this remuneration represents part year only.

	2017	2016
	\$	\$
The total remuneration of the directors of WATC is:	<b>524,386</b>	522,833
Which comprises:		
Short Term Employment Benefits	<b>463,539</b>	463,711
Other Long Term Employment Benefits	<b>15,316</b>	13,231
Post Employment Benefits	<b>45,531</b>	45,891

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

No directors are members of the Pension Scheme.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 23 (CONTINUED)

### Other Key Management Personnel Remuneration

Other Key Management Personnel are V Cinquina, Head of Financial Markets, S L Luff, Chief Financial Officer and Board Secretary, W L McEwen, Chief Risk Officer, S J B Morhall, General Manager Client Services, M A Nunes, Deputy Chief Executive Officer and R L Ridgway, 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:

\$	2017	2016
170,001 - 180,000	1	1
220,001 - 230,000	1	-
230,001 - 240,000	1	-
240,001 - 250,000	1	1
250,001 - 260,000	-	1
270,001 - 280,000	-	-
280,001 - 290,000	1	-
290,001 - 300,000	-	2
320,001 - 330,000	-	-
340,001 - 350,000	-	-
350,001 - 360,000	-	-
360,001 - 370,000	1	-
370,001 - 380,000	-	1

	2017 \$	2016 \$
The total remuneration of other key management personnel is:	<b>1,519,174</b>	1,637,308
Which comprises:		
Short Term Employment Benefits	<b>1,332,288</b>	1,420,585
Other Long Term Employment Benefits	<b>31,994</b>	59,828
Post Employment Benefits	<b>154,892</b>	156,895

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:	<b>2,043,560</b>	2,160,141
Which comprises:		
Short Term Employment Benefits	<b>1,795,827</b>	1,884,296
Other Long Term Employment Benefits	<b>47,310</b>	73,059
Post Employment Benefits	<b>200,423</b>	202,786

	2017 \$	2016 \$
<b>NOTE 24</b>		
<b>AUDITOR'S REMUNERATION</b>		
Amounts paid or due and payable to the Office of the Auditor General for auditing the financial statements and performance indicators.	<b>175,000</b>	183,000

## NOTE 25

### RELATED PARTY TRANSACTIONS

WATC is wholly-owned and controlled by the State of Western Australia. Related parties of WATC include:

- all Ministers and their close family members, and their controlled or jointly controlled entities;
- all senior officers and their close family members, and their controlled or jointly controlled entities;
- other statutory authorities and State government departments, including their related bodies, that are included in the whole of government consolidated financial statements;
- associates and joint ventures of an entity that are included in the whole of government financial statements; and
- the Government Employees Superannuation Board (GESB).

#### Significant transactions with government related entities.

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 2017, 98.4% (2016, 98.0%) 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 and include superannuation payments to GESB and accommodation rental payments to the Department of Finance.

#### Material transactions with related parties

WATC had no material related party transactions with key management personnel or their close family members or their jointly controlled entities.

Continued

# Notes to the Financial Statements

For the year ended 30 June 2017

## NOTE 26

### EXPLANATORY STATEMENT

#### 26a. Actual/Budget Comparison 2016/17

	Actual \$'000	Budget \$'000	Variance \$'000	Comment
<b>Revenue</b>				
Interest on Investments	72,367	61,250	11,117	1
Interest from Authorities	1,442,733	1,590,307	(147,574)	2
Fee Income	1,642	1,685	(43)	
	1,516,742	1,653,242	(136,500)	
<b>Gains</b>				
Foreign Exchange Gain	0	0	0	
Gains from Sale of Plant and Equipment	1	0	1	
Net Fair Value Movement	18,649	0	18,649	3
Total Income	1,535,392	1,653,242	(117,850)	
<b>Expenses</b>				
Interest on Borrowings	1,500,352	1,609,964	(109,612)	4
Borrowing Related Expenses	1,422	4,188	(2,766)	
Depreciation	191	533	(342)	
Amortisation of Intangible Assets	92	572	(480)	
Administration Expenses	15,712	16,911	(1,199)	
	1,517,769	1,632,168	(114,399)	
Profit before income tax equivalent	17,623	21,074	(3,451)	
Income tax equivalent expense	5,297	6,322	(1,025)	
Profit for the period	12,326	14,752	(2,426)	
Other Comprehensive Income	6	0	6	
Total Comprehensive Income	12,332	14,752	(2,420)	

#### Comments – reasons for variations from Budgeted Amounts

1. The increase in Interest on Investments compared to budget was due to a higher than anticipated balance invested.
2. The decrease in Interest from Authorities compared to budget was due to lower than anticipated interest rates.
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.
4. The decrease in Interest on Borrowings compared to budget was due to lower than anticipated interest rates.

**26b. Comparison between 2016/17 and the Previous Year**

	2017 \$'000	2016 \$'000	Change \$'000	Comment
<b>Revenue</b>				
Interest on Investments	72,367	70,803	1,564	1
Interest from Authorities	1,442,733	1,430,246	12,487	2
Fee Income	1,642	2,056	(414)	
	<b>1,516,742</b>	1,503,105	13,637	
<b>Gains</b>				
Foreign Exchange Gain	0	2	(2)	
Gains from Sale of Plant and Equipment	1	0	1	
Net Fair Value Movement	18,649	87,878	(69,229)	3
Total Income	<b>1,535,392</b>	1,590,985	(55,593)	
<b>Expenses</b>				
Interest on Borrowings	1,500,352	1,558,017	(57,665)	4
Borrowing Related Expenses	1,422	1,070	352	
Depreciation	191	266	(75)	
Amortisation of Intangible Assets	92	58	34	
Administration Expenses	15,712	15,542	170	
	<b>1,517,769</b>	1,574,953	(57,184)	
Profit before income tax equivalent	<b>17,623</b>	16,032	1,591	
Income tax equivalent expense	<b>5,297</b>	4,824	473	
Profit for the period	<b>12,326</b>	11,208	1,118	
Other Comprehensive Income	6	19	(13)	
Total Comprehensive Income	<b>12,332</b>	11,227	1,105	

- Interest on Investments has increased by \$1.564 million from the previous year mainly due to a higher balance invested.
- Interest from Authorities has increased by \$12.487 million from the previous year mainly due to increases in client debt levels.
- Net Fair Value Movement has decreased by \$69.229 million from the previous year mainly due to changes in interest rates.
- Interest on Borrowings has decreased by \$57.665 million from the previous year as a result of a decrease in interest rates.

**NOTE 27****COMMITMENTS**

There are no expenditure commitments contracted for and payable at 30 June 2017 (2016, nil).

**NOTE 28****SUBSEQUENT EVENTS**

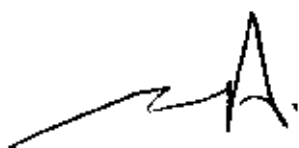
There have been no events subsequent to balance date which would have a material effect on WATC's financial statements at 30 June 2017.

# Certification of Financial Statements

For the year ended 30 June 2017

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 2017 and the financial position as at 30 June 2017.

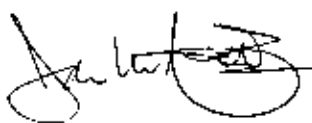
At the date of signing, we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



**S L LUFF** B.BUS, CPA, GAICD  
CHIEF FINANCIAL OFFICER

WESTERN AUSTRALIAN  
TREASURY CORPORATION

21 August 2017



**J M COLLINS**  
CHIEF EXECUTIVE OFFICER

WESTERN AUSTRALIAN  
TREASURY CORPORATION

21 August 2017



**M A BARNES**  
CHAIRPERSON

WESTERN AUSTRALIAN  
TREASURY CORPORATION

21 August 2017

# Key Performance Indicators

## VISION (2016/2017)

To be recognised as the best at providing financial solutions for the benefit of the Western Australian public sector.

## KEY OUTCOME

The key outcome of this vision is that clients are able to borrow from WATC at a commercially competitive cost.

## KEY OUTPUT

A key output flowing from the pursuit of this vision 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.

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

Term to Maturity as at 30/6/17 (Years)	AAA			AA+			AA			AA-		
	16/17 %	15/16 %	14/15 %	16/17 %	15/16 %	14/15 %	16/17 %	15/16 %	14/15 %	16/17 %	15/16 %	14/15 %
1 to 2	<b>0.26</b>	0.38	0.59	<b>0.37</b>	0.67	0.13	<b>0.61</b>	0.58		<b>0.59</b>	0.84	0.35
2 to 3	<b>0.34</b>	0.26	0.07	<b>0.42</b>	0.49	0.49	<b>0.65</b>	0.72		<b>0.52</b>	0.86	0.50
3 to 4		0.45		<b>0.55</b>	0.42	0.41	<b>0.63</b>	0.73		<b>0.61</b>	0.78	0.56
4 to 5	<b>0.35</b>			<b>0.40</b>	0.49	0.34	<b>0.70</b>	0.42	0.89	<b>0.79</b>		0.59
5 to 6	<b>0.38</b>	0.31	0.02	<b>0.46</b>	0.58	0.64		0.77		<b>0.56</b>	0.94	
6 to 7	<b>0.29</b>	0.31		<b>0.56</b>	0.55	0.30	<b>0.83</b>			<b>0.46</b>		
7 to 8		0.21	0.40			0.41		0.75				
8 to 9	<b>0.29</b>		0.00	<b>0.47</b>		0.23	<b>0.74</b>			<b>0.63</b>		
9 to 10	<b>0.26</b>	0.15			0.11		<b>0.63</b>			<b>0.62</b>		
10 to 11												
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.

Continued

## Key Performance Indicators

### KEY EFFECTIVENESS INDICATOR – ESTIMATED INTEREST RATE SAVINGS (CONTINUED)

By way of example, the saving of 0.26% identified in the first row of the AAA 16/17 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 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 allows WATC to reduce the initial interest cost of bond issues by improving the secondary market and hence liquidity of its bonds.

#### Cost Estimation Methodology

A number of corporate bonds were selected for the purpose of comparison to WATC's Debt Portfolio Manager (DPM) lending program. To be selected, a bond had to satisfy the following conditions:

- be rated between AAA and AA-;
- be on issue at 30 June 2016 and have at least one year until maturity at 30 June 2017;
- not be guaranteed by the Commonwealth or other central governments; and
- not be subordinated debt.

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 DPM fixed rate for an equivalent term lending, 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 equivalent DPM fixed 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.

Table 2 – WATC Administration Cost Ratio 2012/13 to 2016/17

Year	Net Administration Expense \$m	Average Loan Funds Outstanding \$m	Administration Cost Ratio %
2012/13	14.728	29,466	0.050
2013/14	14.786	31,783	0.047
2014/15	14.806	33,692	0.044
2015/16	14.860	37,897	0.039
<b>2016/17</b>	<b>15.768</b>	<b>42,828</b>	<b>0.037</b>



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.

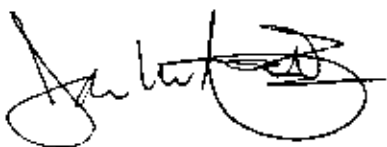
WATC's administration cost ratio will fluctuate from time to time due to changes in aggregate debt levels as well as direct management action. Changes in aggregate debt levels are impacted by government asset sales and debt management policy in general which is beyond the control of WATC.

## 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

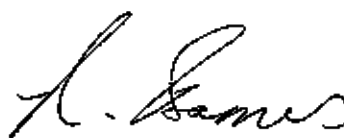
We hereby certify that the key performance indicators are based on proper records, are relevant and appropriate for assisting users to assess Western Australian Treasury Corporation's performance and fairly represent the performance of Western Australian Treasury Corporation for the financial year ended 30 June 2017.



**J M COLLINS**  
CHIEF EXECUTIVE OFFICER

WESTERN AUSTRALIAN  
TREASURY CORPORATION

21 August 2017



**M A BARNES**  
CHAIRPERSON

WESTERN AUSTRALIAN  
TREASURY CORPORATION

21 August 2017

# Independent Auditor's Report

To the Parliament of Western Australia

## WESTERN AUSTRALIAN TREASURY CORPORATION

### Report on the Financial Statements

#### *Opinion*

I have audited the financial statements of the Western Australian Treasury Corporation which comprise the Statement of Financial Position as at 30 June 2017, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the operating results and cash flows of the Western Australian Treasury Corporation for the year ended 30 June 2017 and the financial position at the end of that period. They are in accordance with Australian Accounting Standards, the [Financial Management Act 2006](#) and the Treasurer's Instructions.

#### *Basis for opinion*

I conducted my audit in accordance with the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the [Auditor General Act 2006](#) and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial statements. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### *Key audit matters*

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

#### *Valuation of financial assets and financial liabilities*

The fair value of financial instruments is determined through the application of valuation techniques which involve the exercise of judgment and the use of assumptions and estimates, such as the swap curve and foreign exchange rates. Due to the significance of financial instruments and the related estimation uncertainty, this is considered a key audit risk.

At 30 June 2017, financial assets carried at fair value represented 99% of total assets, and financial liabilities carried at fair value represented 99% of total liabilities.

Details of the financial assets are disclosed at [Notes 10, 11](#) and [12](#) to the financial statements, and details of the financial liabilities are disclosed at [Notes 17](#) and [18](#) to the financial statements.

My audit procedures included the assessment and testing of the design and operating effectiveness of relevant controls over the identification, measurement and management of valuation risk, and evaluating the methodologies, inputs and assumptions used by the Corporation in determining fair values.

I assessed the appropriateness of the assumptions and inputs. I compared observable inputs against independent sources and externally available market data.

For a sample of instruments, with the involvement of valuation specialists, I assessed the assumptions and models used or re-performed the assessment, by reference to what I considered to be available alternative methods and sensitivities to key factors.

I also evaluated the methodology and inputs used by the Corporation in determining credit value adjustments (CVA) and debit value adjustments (DVA) for credit risk when measuring the fair value of derivative instruments, and compared that against current market practice based on my experience of comparable entities.

#### *Use of mid prices instead of bid-offer prices for measurement of financial assets and liabilities*

The judgments 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, Loan to Authorities and Borrowings.

Western Australian Treasury Corporation aims to minimise its exposure to risk in these financial assets and liabilities. To the extent that the risk positions in these items offset, mid prices are used, with bid-offer prices being applied to any net open position held by the Corporation.

This is considered a key audit matter because of the significance of financial instruments and the related estimation uncertainty in relation to the bid-offer prices.

Details of accounting policies on Investments, Loans to Authorities and Borrowings are disclosed at [Notes 2 \(f\), \(g\) and \(h\)](#).

My audit procedures included assessing the Corporation's methodology to assess whether it was in line with Australian Accounting Standard - AASB 139 *Recognition and Measurement of Financial Instruments*. I assessed the bid-offer spread applied for various financial instruments and tenors for appropriateness.

### **Responsibility of the Board 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, the [Financial Management Act 2006](#) 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.

In preparing the financial statements, the Board is responsible for assessing the agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Western Australian Government has made policy or funding decisions affecting the continued existence of the Corporation.

### **Auditor's responsibility for the audit of the financial statements**

As required by the [Auditor General Act 2006](#), my responsibility is to express an opinion on the financial statements. The objectives of my audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Board, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.

Continued

# Independent Auditor's Report

To the Parliament of Western Australia

## Report on controls

### Opinion

I have undertaken a reasonable assurance engagement on the design and implementation of controls exercised by the Western Australian Treasury Corporation. The controls exercised by the Corporation are those policies and procedures established by the Board to ensure 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 (the overall control objectives).

### *My opinion has been formed on the basis of the matters outlined in this report.*

In my opinion, in all material respects, 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 during the year ended 30 June 2017.

### *The Board's responsibilities*

The Board is responsible for designing, implementing and maintaining controls to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities are in accordance with the [Financial Management Act 2006](#), the Treasurer's Instructions and other relevant written law.

### *Auditor General's responsibilities*

As required by the [Auditor General Act 2006](#), my responsibility as an assurance practitioner is to express an opinion on the suitability of the design of the controls to achieve the overall control objectives and the implementation of the controls as designed. I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements and plan and perform my procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the overall control objectives and the controls, necessary to achieve the overall control objectives, were implemented as designed.

An assurance engagement to report on the design and implementation of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the overall control objectives and the implementation of those controls. The procedures selected depend on my judgement, including the assessment of the risks that controls are not suitably designed or implemented as designed. My procedures included testing the implementation of those controls that I consider necessary to achieve the overall control objectives.

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

### *Limitations of controls*

Because of the inherent limitations of any internal control structure it is possible that, even if the controls are suitably designed and implemented as designed, once the controls are in operation, the overall control objectives may not be achieved so that fraud, error, or noncompliance with laws and regulations may occur and not be detected. Any projection of the outcome of the evaluation of the suitability of the design of controls to future periods is subject to the risk that the controls may become unsuitable because of changes in conditions.

## Report on the key performance indicators

### Opinion

I have undertaken a reasonable assurance engagement on the key performance indicators of the Western Australian Treasury Corporation for the year ended 30 June 2017. The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide performance information about achieving outcomes and delivering services.

In my opinion, in all material respects, 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 2017.

### *The Board's responsibility for the key performance indicators*

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 and for such internal control as the Board determines necessary to enable the preparation of key performance indicators that are free from material misstatement, whether due to fraud or error.

In preparing the key performance indicators, the Board is responsible for identifying key performance indicators that are relevant and appropriate having regard to their purpose in accordance with Treasurer's Instruction 904 *Key Performance Indicators*.

### **Auditor General's responsibility**

As required by the [Auditor General Act 2006](#), my responsibility as an assurance practitioner is to express an opinion on the key performance indicators. The objectives of my engagement are to obtain reasonable assurance about whether the key performance indicators are relevant and appropriate to assist users to assess the agency's performance and whether the key performance indicators are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements relating to assurance engagements.

An assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the key performance indicators. It also involves evaluating the relevance and appropriateness of the key performance indicators against the criteria and guidance in Treasurer's Instruction 904 for measuring the extent of outcome achievement and the efficiency of service delivery. The procedures selected depend on my judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments I obtain an understanding of internal control relevant to the engagement in order to design procedures that are appropriate in the circumstances.

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

### **My independence and quality control relating to the reports on controls and key performance indicators**

I have complied with the independence requirements of the [Auditor General Act 2006](#) and the relevant ethical requirements relating to assurance engagements. In accordance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, the Office of the Auditor General maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Matters relating to the electronic publication of the audited financial statements and key performance indicators**

This auditor's report relates to the financial statements and key performance indicators of the Western Australian Treasury Corporation for the year ended 30 June 2017 included on the Corporation's website. The Corporation's management is responsible for the integrity of the Corporation's website. This audit does not provide assurance on the integrity of the Corporation's website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.



**COLIN MURPHY**  
AUDITOR GENERAL  
FOR WESTERN AUSTRALIA  
Perth, Western Australia  
22 August 2017

# Client Authorities

Face Value Net Debt Outstanding to WATC at 30 June 2017

Authority Name	Balance at 1 July 2016 \$'000	Net Advances During Year \$'000	Balance at 30 June 2017 \$'000
Albany City Council	16,097	(504)	15,593
Animal Resources Authority	840	(151)	689
Armadale City Council	31,191	(1,135)	30,056
Ashburton Shire Council	5,224	61	5,285
Augusta-Margaret River Shire Council	8,480	(601)	7,879
Bassendean Town Council	1,051	(116)	935
Bayswater City Council	37	(11)	26
Belmont City Council	1,729	(300)	1,429
Beverley Shire Council	1,155	(85)	1,070
Boddington Shire Council	2,807	(301)	2,505
Boyup Brook Shire Council	618	(54)	565
Bridgetown-Greenbushes Shire Council	2,532	(263)	2,269
Brookton Shire Council	1,730	(122)	1,608
Broome Shire Council	3,673	(761)	2,912
Broomehill-Tambellup Shire Council	204	1,098	1,302
Bruce Rock Shire Council	273	(66)	207
Bunbury City Council	13,876	(762)	13,114
Bunbury Water Corporation	450	(57)	393
Busselton City Council	29,024	1,103	30,127
Busselton Water Corporation	1,648	(257)	1,392
Cambridge Town Council	13,730	(1,749)	11,981
Canning City Council	10,718	(1,762)	8,955
Capel Shire Council	7,904	(592)	7,312
Carnamah Shire Council	678	(408)	270
Carnarvon Shire Council	650	74	724
Chapman Valley Shire Council	208	144	352
Chittering Shire Council	1,036	(56)	979
Claremont Town Council	9,201	(334)	8,867
Cockburn City Council	25,743	(3,243)	22,500
Collie Shire Council	1,395	(137)	1,258
Coolgardie Shire Council	1,347	(316)	1,030
Coorow Shire Council	389	(132)	257
Corrigin Shire Council	2,101	(156)	1,945
Cottesloe Town Council	5,093	(425)	4,669
Country High School Hostels Authority	14,884	(951)	13,933
Country Housing Authority	41,833	(6,132)	35,701
Cranbrook Shire Council	537	(84)	453
Cuballing Shire Council	289	(67)	222
Cunderdin Shire Council	1,447	(66)	1,381
Curtin University of Technology	55,370	(1,820)	53,550
Dalwallinu Shire Council	1,091	(104)	987
Dandaragan Shire Council	738	(213)	525
Dardanup Shire Council	2,307	717	3,024
Denmark Shire Council	2,738	243	2,981
Derby-West Kimberley Shire Council	2,157	(133)	2,023

<b>Authority Name</b>	<b>Balance at 1 July 2016 \$'000</b>	<b>Net Advances During Year \$'000</b>	<b>Balance at 30 June 2017 \$'000</b>
Donnybrook-Balingup Shire Council	801	(493)	308
Dowerin Shire Council	496	686	1,182
Dumbleyung Shire Council	219	175	393
Dundas Shire Council	0	478	478
East Pilbara Shire Council	6,324	(764)	5,560
Edith Cowan University	90,140	24,813	114,953
Electricity Generation and Retail Corporation	246,934	(53,100)	193,834
Electricity Networks Corporation	7,288,715	(127,615)	7,161,100
Esperance Shire Council	2,399	(223)	2,177
Exmouth Shire Council	1,224	1,293	2,517
FES Ministerial Body	50,826	(2,440)	48,386
Fremantle City Council	19,315	(7)	19,308
Fremantle Port Authority	208,336	(11,757)	196,578
Gingin Shire Council	2,381	28	2,409
Gnowangerup Shire Council	1,311	(235)	1,076
Gosnells City Council	18,300	2,591	20,891
Government Employees Superannuation Board	244,991	(42,644)	202,347
Greater Geraldton City Council	27,900	(50)	27,850
Halls Creek Shire Council	1,114	(70)	1,045
Harvey Shire Council	1,770	429	2,199
Housing Authority	4,938,921	(887,134)	4,051,787
Irwin Shire Council	2,479	108	2,587
Jerramungup Shire Council	993	194	1,187
Joondalup City Council	14,282	2,419	16,701
Kalamunda Shire Council	6,294	77	6,371
Kalgoorlie-Boulder City Council	12,050	(972)	11,077
Karratha City Council	476	(63)	413
Katanning Shire Council	222	406	628
Kellerberrin Shire Council	1,468	271	1,738
Kent Shire Council	582	(76)	506
Kimberley Ports Authority	15,190	(1,028)	14,162
Kojonup Shire Council	372	(47)	325
Kondinin Shire Council	1,708	(167)	1,541
Kulin Shire Council	1,500	(80)	1,420
Kwinana City Council	23,256	(567)	22,689
Lake Grace Shire Council	1,766	(201)	1,566
Laverton Shire Council	1,010	(128)	882
Mandurah City Council	29,043	53	29,095
Manjimup Shire Council	4,095	1,084	5,179
Melville City Council	2,776	(85)	2,691
Merredin Shire Council	1,101	442	1,543
Metropolitan Redevelopment Authority	311,310	19,255	330,565
Mid West Ports Authority	19,582	(4,838)	14,744
Mingenew Shire Council	887	(96)	791
Minister for Education	295,537	19,262	314,799

Continued

# Client Authorities

Face Value Net Debt Outstanding to WATC at 30 June 2017

Authority Name	Balance at 1 July 2016 \$'000	Net Advances During Year \$'000	Balance at 30 June 2017 \$'000
Minister for Finance (utilising powers under the <i>State Supply Commission Act 1991</i> as amended)	75,237	(27,766)	47,471
Minister for Fisheries	30,128	(4,523)	25,605
Moora Shire Council	1,589	(312)	1,278
Morawa Shire Council	519	(67)	453
Mosman Park Town Council	6,336	(209)	6,127
Mount Magnet Shire Council	243	(40)	203
Mount Marshall Shire Council	209	1,100	1,308
Mukinbudin Shire Council	922	(148)	774
Mundaring Shire Council	12,914	(548)	12,366
Murdoch University	7,210	(551)	6,659
Murray Shire Council	4,338	396	4,733
Nannup Shire Council	82	(15)	67
Narembeen Shire Council	1,130	(1)	1,129
Narrogin Shire Council	1,376	(234)	1,142
Nedlands City Council	7,188	(940)	6,248
Northam Shire Council	2,302	(66)	2,236
Northampton Shire Council	835	238	1,073
Nungarin Shire Council	660	(40)	620
Peppermint Grove Shire Council	864	(24)	840
Perenjori Shire Council	1,488	(238)	1,250
Perth City Council	36,327	(6,772)	29,555
Pilbara Ports Authority	199,947	(22,535)	177,412
Pingelly Shire Council	3,083	(554)	2,529
Plantagenet Shire Council	2,996	(335)	2,661
Port Hedland Town Council	23,821	(1,179)	22,642
Public Transport Authority	2,106,931	33,310	2,140,240
Quairading Shire Council	183	(31)	153
Ravensthorpe Shire Council	2,276	(186)	2,090
Regional Power Corporation	713,400	49,550	762,950
Rockingham City Council	15,666	(1,974)	13,692
Serpentine-Jarrahdale Shire Council	1,751	(387)	1,364
Shark Bay Shire Council	365	(64)	301
South Perth City Council	13,081	(1,392)	11,689
Southern Metropolitan Regional Council	24,980	(3,657)	21,323
Southern Ports Authority	41,607	(7,880)	33,727
Subiaco City Council	9,185	(2,022)	7,162
Swan City Council	42,086	4,900	46,985
Tammin Shire Council	400	(48)	353
The Minister for Agriculture and Food exercising power under Sec 6(1) of the <i>Loans (Co-operative Companies) Act 2004</i>	31,469	1,121	32,590
The Treasurer on behalf of the State of Western Australia	17,239,096	5,011,401	22,250,497
Three Springs Shire Council	419	(149)	270
Toodyay Shire Council	2,557	(270)	2,288
Traying Shire Council	727	(96)	631



<b>Authority Name</b>	<b>Balance at 1 July 2016 \$'000</b>	<b>Net Advances During Year \$'000</b>	<b>Balance at 30 June 2017 \$'000</b>
University of Western Australia	151,741	(2,925)	<b>148,816</b>
Upper Gascoyne Shire Council	634	(36)	<b>598</b>
Victoria Park Town Council	10,970	(2,133)	<b>8,837</b>
Victoria Plains Shire Council	140	142	<b>282</b>
Vincent City Council	16,597	(819)	<b>15,778</b>
Wagin Shire Council	626	123	<b>749</b>
Wandering Shire Council	283	(68)	<b>215</b>
Wanneroo City Council	60,778	0	<b>60,778</b>
Waroon Shire Council	286	(30)	<b>256</b>
Water Corporation	5,447,000	199,000	<b>5,646,000</b>
West Arthur Shire Council	558	416	<b>974</b>
Western Australian Land Authority	150,000	35,000	<b>185,000</b>
Westonia Shire Council	331	(85)	<b>246</b>
Wickepin Shire Council	137	(28)	<b>109</b>
Williams Shire Council	647	106	<b>753</b>
Wiluna Shire Council	1,258	(159)	<b>1,099</b>
Wongan-Ballidu Shire Council	748	(53)	<b>696</b>
Wyalkatchem Shire Council	217	(68)	<b>149</b>
Wyndham-East Kimberley Shire Council	6,163	(997)	<b>5,166</b>
Yalgoo Shire Council	695	(84)	<b>611</b>
York Shire Council	2,747	(205)	<b>2,542</b>
<b>TOTAL</b>	<b>40,747,096</b>	<b>4,162,053</b>	<b>44,909,149</b>

Note: Due to rounding some figures do not add.

## Contact Details

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### Registry Information

Link Market Services Limited is the agent for supplying registry services to Western Australian Treasury Corporation's stockholders. Please call Link Market Services Limited on Freecall 1800 098 828 for all stockholding enquiries.

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