

WESTERN AUSTRALIAN
TREASURY CORPORATION

FINANCIAL SOLUTIONS FOR THE BENEFIT OF ALL WESTERN AUSTRALIANS



ANNUAL REPORT 2016

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About this Report

This Annual Report provides information about the services and performance of WATC and includes audited financial statements and performance indicators for the financial year ending 30 June 2016. A full copy of this annual report, along with previous years' annual reports, is available on WATC's website www.watc.wa.gov.au and is also available in alternative formats upon [request](#).

WESTERN AUSTRALIAN
TREASURY CORPORATION

FINANCIAL SOLUTIONS FOR THE BENEFIT OF ALL WESTERN AUSTRALIANS

The Hon. Dr Mike Nahan, MLA
Treasurer of Western Australia; Minister for Energy; Citizenship and
Multicultural Interests

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 2016.

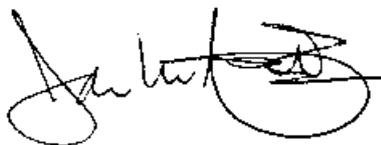
The Annual Report has been prepared in accordance with the provisions of the *Financial Management Act 2006*.



M A BARNES
CHAIRPERSON

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2016



J M COLLINS
CHIEF EXECUTIVE OFFICER

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2016

Western Australian Treasury Corporation fulfils the role of the State's central financing authority and corporate treasury services provider, working with its public sector clients to assist them to achieve sound financial risk management consistent with the Government's goal of financial and economic responsibility.

Vision

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

Mission

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

Values

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

- **Leadership** We provide an environment where our clients and colleagues feel valued and inspired. We have courage to pursue ambitious outcomes and to innovate and improve.
- **Integrity** We are open and honest. We adhere to the highest professional and ethical standards.
- **Partnership** We work collaboratively with common purpose. We act with care and respect.
- **Accountability** We honour our commitments. We take ownership of our actions and behaviours and accept responsibility for the results.
- **Excellence** We are committed to delivering excellence. We continuously improve to be the best we can.



*WATC continues to build a continuously improving culture to produce better outcomes for stakeholders. As part of a comprehensive strategic planning and review process undertaken during the year, new corporate **Vision, Objectives and Values** were developed which will come into effect from 1 July 2016.*

Highlights

SUCCESSFUL OUTCOMES



- ▮ **Lowest ever Administration Cost Ratio** – 0.039%
- ▮ **Successfully achieved State balance sheet management objectives** – debt maturing within 12 months 12.6% (target < 20%) and liquidity portfolio coverage of 158.6% (target > 100%)
- ▮ **Successfully issued more than \$11.5 billion** in term debt and FRNs

NEW INITIATIVES



- ▮ **New Debt Portfolio Manager service** – \$18.7 billion of debt managed for 13 clients
- ▮ **New Interest Cost Projection service** – improving debt management and project costing estimation for clients
- ▮ **New Interest Rate Swap product** – enhancing debt management and interest rate risk management for clients
- ▮ **New Leadership Development Program** – developing and encouraging desired leadership behaviours for all WATC employees

CLIENT ENGAGEMENT



- ▮ **Continued expansion of advisory engagements** – contributing to a diverse range of key State and client initiatives
- ▮ **High levels of client satisfaction** – very strong client survey results across a range of measures, outperforming comparative finance industry benchmarks

AWARDS AND RECOGNITION



- ▮ **Silver Lonnie award** – awarded by IPAA for 2014/15 annual report
- ▮ **Wellness Program success** – ranked second in HBF's Corporate Wellness Index for WA
- ▮ **Platinum Certificate of Achievement** – awarded by WorkSafe for occupational safety and health
- ▮ **Best Practice agency for financial reporting** – recognised by the Office of the Auditor General

Chairperson's and Chief Executive Officer's Review

This was Western Australian Treasury Corporation's (WATC) thirtieth year of operation. It has been an active and productive year on a number of fronts. The State's \$5.7 billion term borrowing program, the second largest to date, was successfully achieved.

Debt maturing within 12 months was reduced from 16.4 per cent last year to 12.6 per cent at 30 June 2016, consistent with the target of less than 20 per cent established by the Board. This was accomplished by the issuance of approximately \$11.5 billion in term debt. WATC's liquidity portfolios covered over 158 per cent of debt maturing within 12 months, providing an increased buffer if market conditions were to deteriorate and theoretically allowing WATC to stay out of the market for over a year.

The continuing [State budget](#) deficits over the next few years, with a reduced level of royalties, historically low levels of goods and services tax (GST) revenue and softening domestic demand, accompanied by a larger refinancing program in 2017/18, will see WATC's [annual call on term markets](#) grow from approximately \$7 billion next year to around \$13 billion in 2017/18 (inclusive of refinancing). This, of course, does not include any proceeds from potential State asset sales. WATC pre-funded approximately \$1.0 billion of the 2015/16 program and \$1.5 billion for 2016/17. Anticipated pre-funding work in 2016/17 will help reduce the requirement in 2017/18.

Australian dollar short-term interest rates remained at historically low levels during the year, driven by one 25 basis point cut to the cash rate and expectations of another by the Reserve Bank of Australia (RBA) in the first half of 2016/17. Long-term Australian interest rates have declined by 50 to 100 basis points, initially driven by the cash rate reduction and, later, by the 'risk off' response by global financial markets to the surprising Brexit vote. The Australian dollar has remained largely in the US\$0.68 to US\$0.78 range, being in the middle of the range more recently.

WATC funded the net increase of \$5.7 billion in new client loans by creating a new [2022 benchmark bond](#) in April 2016, a new [2027 benchmark bond](#) in June 2016, and adding to other lines during the year. One benchmark bond and one floating rate note (FRN) maturity occurred in June 2016. With additional term debt sold into WATC's existing benchmark lines, the weighted average maturity of WATC's debt stood at 3.64 years at 30 June 2016. This included a larger component of short-term debt than normal in anticipation of the expected disposal of over \$1.0 billion in Keystart home loans in the first half of the 2016/17 financial year.

Standard and Poor's retained its AA+ rating with a negative outlook for the State and WATC during the year. Moody's Investors Service reduced its rating for the

State and WATC to Aa2 with a stable outlook, from Aa1 with a negative outlook, on 8 February 2016 in response to the State's budgetary position. In spite of more than 25 years of strong economic growth ranging between 2 and 7 per cent, ratings agencies expressed concerns with the State's reliance on volatile sources of revenue, particularly iron ore royalties and GST. The rapid decline in the US dollar iron ore price has only been partially offset by volume increases and a softer Australian dollar, resulting in a further reduction in royalty income this year. To add further challenges, about 75 per cent of the State's royalty income is transferred to other states indirectly via the GST process, with a three to five year delay. In two to four years' time, current softer royalty income will translate into an increase in GST revenues returned to Western Australia, to a level over 70 per cent (compared to the current 30 per cent) of Western Australia's population share. This will close the current budget deficit in the absence of other adverse changes. Evidence of further progress on expense control initiatives and the potential execution of asset sales (which are yet to be reflected in the State's financial projections) will assist the State in strengthening its credit standing in future years.

Improving the Knowledge of and Relationship with Clients

Positive financial outcomes for state government agencies remain of critical importance to WATC. Ongoing dialogue with WATC's peers in other states ensures that WATC captures the learnings of others and shares its positive outcomes where appropriate. WATC continued to visit clients on a regular basis to assess and strategically assist with their financial needs. The [Working Capital Facility](#) now has five active clients, which allows for more efficient and cost-effective balance sheet management. WATC's balance sheet project includes a requirement for clients to keep debt maturing within 12 months to 15 per cent or less without prior negotiation. This contributed strongly to the positive balance sheet outcomes achieved for the State since implementation of this project.

Foreign exchange (FX) sessions were held with a number of agencies to educate and assist them to identify and manage FX risks in accordance with [Treasurer's Instruction 826](#). This year, WATC staff have provided over 225 Western Australian government employees with training regarding the identification of FX risk and the proper management of these exposures.

The Advisory Services branch worked on a range of [engagements](#) this year, including the provision of advice to Western Australian public sector authorities on a broad range of financial matters. The 10 staff in this team were supported by specialist WATC employees from Financial Markets, Risk, Finance, Legal and Compliance and ICT branches as required. During the year, using a cost recovery methodology, over \$1 million in fees was generated from a portion of this work.

Deepening and Broadening Access to Financial Markets

WATC provided both post-mid-year review and post-budget presentations in Sydney again this year, with the Western Australian Treasurer speaking to approximately 80 domestic bank and investor representatives in December 2015 and June 2016. WATC also participated with other Australian states at three bond conferences on the east coast during 2015/16. WATC resumed its offshore investor marketing program, with trips to South East Asia, North Asia and Europe during the year. The Treasurer also supported this initiative by participating in offshore marketing efforts in China, Japan, India, Korea and Singapore. For years, the other large Australian states have been featuring their Treasurers in annual offshore marketing, but this was the first for some time for a Western Australian Treasurer and was well received. These activities remind investors of the positive (if softer than its average), economic environment in Western Australia. Many are unaware that Western Australia is still performing above the Australian average in many economic categories, although to a lesser extent than in recent years.

Current and prospective investors in WATC paper include central banks, commercial banks, fund managers and insurance companies in Australia, Asia, Europe, North America and South America. Approximately 20–25 per cent of WATC's paper is held by offshore buyers, and more than 50 per cent is held by Australian domiciled commercial banks.

A total of \$6.9 billion (\$10.2 billion in 2014/15) in short-term debt (short-term inscribed stock and Euro Commercial Paper) was sold in varying maturities, while \$11.5 billion (\$7.5 billion in 2014/15) of long-term debt (benchmark bonds and FRNs) was issued in the past financial year. At 30 June 2016, a total of \$2.8 billion in short-term paper (\$1.1 billion in 2015), \$31.3 billion in benchmark bonds (\$26.5 billion in 2015) and \$8.2 billion in FRNs (\$7.9 billion in 2015) was outstanding.

WATC's sixth year of Australian Financial Markets Association (AFMA) accreditation for financial markets and client-facing staff has seen 26 staff accredited this year. In addition, five WATC staff and four Directors hold Australian Institute of Company Directors accreditation.

Reviewing and Refining the Business Model

WATC is continuing to build a systemically supported, continuously improving culture to produce better outcomes. This year, in conjunction with Western Australian-based consultant Modal, WATC commenced its [Leadership Development Program](#), with all staff participating in the three-day 'Leading Self' component. In 2016/17, the next component, 'Leading Others', will be introduced. Staff feedback has been positive regarding this initiative.

Building Capacity

Total staff numbers increased by 3 to 66 employees, as staff turnover declined to approximately 3 per cent. Two staff resigned during the year with five new individuals hired. Two long-serving staff members also retired, with effect from early July 2016.

Financial Performance and Key Performance Indicators (KPIs)

[Profit before tax](#) was \$16.0 million, down from last year's \$23.1 million, which equates to approximately \$255,000 per full time equivalent employee. This resulted in a return to the State of \$12.1 million in tax equivalent payments and dividends.

In 2015/16, WATC's administration cost increase was larger than in previous years at approximately 3.7 per cent. WATC's historic rate of growth has approximated inflation, in spite of a balance sheet that has more than doubled and an increased commitment to building WATC's advisory services capabilities for clients. The resumption of the offshore investor marketing program, the leadership development program and other smaller initiatives contributed to this outcome.

Five of WATC's six KPIs were achieved this year, including the [Return on Capital](#) measure of 14.3 per cent against a target minimum of 6.0 per cent. WATC's [Administration Cost Ratio](#) was 0.039 per cent, an improvement from 0.044 per cent last year and well below the reduced 0.060 per cent target. In WATC's estimation, this continues to be the lowest cost ratio for any Australian state since 1996. WATC's [Estimated Interest Rate Savings](#) also compared favourably to benchmarks established in previous years.

WATC's sixth [employee engagement](#) survey conducted by AON Hewitt produced some interesting results. The headline number showed an encouraging increase from 40 per cent to 51 per cent of staff 'engaged'. This, however, remains below the current 55 per cent target. The participation rate remained at 90 per cent of staff. 'Engagement' is not simply a measure of staff satisfaction but rather a measure of the number of staff willing to apply discretionary effort required to meet corporate goals.

CONTINUED

Chairperson's and Chief Executive Officer's Review

The survey showed there was an increase in the perception of the quality of communication, which was a focal point in previous years. However, after four years of using a variation of the same approach – which had not achieved the desired results – WATC used a different method this past year. A more strategic approach using WATC's Strategic Development Plan process focused on developing, communicating and sharing WATC's new Vision, Objectives and Values and related elements to staff. WATC commenced implementation of a multi-year, modular Leadership Development Program, with elements applicable to all staff, to help define and embed desired staff behaviours to support and continuously improve WATC's culture into the future.

[Client surveys](#), following the completion of advisory engagements, were used to assess client perceptions, as well as another independent client survey conducted by Peter Lee Associates which produced strong results. These are used to help promote WATC, assess previous initiatives and identify ways to advance WATC's client service proposition.

Other

On 31 December 2014, Ms Gaye McMath completed her formal term as a WATC director which totalled 12 years, however she remained as an advisor and member of the Audit Committee through to September 2015. We again thank Ms McMath for her many past contributions and wish her continued success in the future.

We also welcomed Ms Jennifer Seabrook onto the Board and the Audit Committee, commencing 1 October 2015 for a three-year term. Ms Seabrook's experience in both public and private sector organisations, particularly banking and advisory services, are an appropriate addition to the Board's skill set.

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

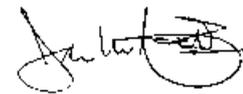


Michael Barnes

Chairperson and
Under Treasurer

Western Australian
Treasury Corporation

19 July 2016



John Collins

Chief Executive Officer
and Director

Western Australian
Treasury Corporation

19 July 2016



Michael Barnes Chairperson

John Collins Chief Executive Officer

Five-Year Summary

Financial Summary

	2015/16 \$m	2014/15 \$m	2013/14 \$m	2012/13 \$m	2011/12 \$m
Financial Performance					
Profit Before Income Tax Equivalent Expense	16.0	23.1	20.5	22.8	25.0
Gross Administration Expenses	16.9	16.3	16.1	15.5	15.0
Income Tax Equivalent Expense	4.8	6.9	6.2	6.9	7.5
Dividends Paid	10.5	9.4	10.4	11.4	7.4
Financial Position					
Investments	4,038.5	2,900.1	2,716.3	4,192.4	5,383.9
Loans to Authorities	45,432.0	39,163.6	36,527.3	33,429.7	30,414.8
Other Assets	1,505.6	759.8	765.9	812.9	1,098.9
Total Assets	50,976.1	42,823.5	40,009.5	38,435.0	36,897.6
Percentage Change in Assets (%)	19.0	7.0	4.1	4.2	30.6
Borrowings	47,297.9	39,268.7	36,167.9	36,434.3	34,720.2
Other Liabilities	3,563.8	3,441.1	3,734.7	1,897.8	2,079.1
Total Liabilities	50,861.7	42,709.8	39,902.6	38,332.1	36,799.3
Equity	114.4	113.7	106.9	102.9	98.3

Key Performance Indicator Summary

	2015/16	2014/15	2013/14	2012/13	2011/12
Estimated Interest Rate Savings > 0.00%	Yes	Yes	Yes	Yes	Yes
Administration Cost Ratio	0.039%	0.044%	0.047%	0.050%	0.056%
Return on Capital	14.30%	22.08%	19.98%	23.80%	29.39%
Pre-tax Profit	\$16.0m	\$23.1m	\$20.5m	\$22.8m	\$25.0m
Assessment of Client Satisfaction	100%	100%	98%	100%	100%
Staff Engagement Survey	51%	40%	43%	44%	55%

Key Business Results: 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 16I(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 compared with the estimated cost to clients of borrowing in the corporate bond market. The following table shows the average of the estimated month-end savings for the year. (See [page 84](#) for a more detailed explanation.)

Target: Savings > 0.00%
Outcome: Refer to Table 1 below.

Table 1: 2015/16 Estimated Interest Rate Savings to Clients by Reference Bond Credit Rating and Term to Maturity*

Maturity Bucket (Years)	AAA	AA+	AA	AA-
1 to 2	0.38%	0.67%	0.58%	0.84%
2 to 3	0.26%	0.49%	0.72%	0.86%
3 to 4	0.45%	0.42%	0.73%	0.78%
4 to 5		0.49%	0.42%	
5 to 6	0.31%	0.58%	0.77%	0.94%
6 to 7	0.31%	0.55%		
7 to 8	0.21%		0.75%	
8 to 9				
9 to 10	0.15%	0.11%		

* A blank entry in the 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 now rating the State AA+ and Aa2 respectively, the AA+ savings category in the above table becomes the most accurate estimate of the interest rate savings delivered by WATC to its Western Australian public sector clients. As can be seen, WATC continued to deliver material interest rate savings in 2015/16.

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.

Target: Return = 6.0%
Outcome: Return = 14.3%

WATC achieved well above its target minimum return on capital for 2015/16 through its effectiveness in constraining administrative and loan-raising expenses, as well as effective hedge management of portfolio exposures.

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.

Target: Profit = \$15.1 millionn
Outcome: Profit = \$16.0 million

WATC exceeded its target pre-tax profit for 2015/16 despite a loss on portfolio management activities. A significant reduction in budgeted loan-raising expenses, together with administrative expenditure savings, helped to deliver an above-budget profit outcome for the year.

Administration Cost Ratio

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

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

Net Administration Expense is defined as total administration expenses less non-interest revenue. Average Lending Assets is defined as the average of the opening and closing book value of loans to clients for the period.

Target: Administration Cost Ratio < 0.060%

Outcome: Administration Cost Ratio = 0.039%

WATC continued to deliver scale benefits to the State by keeping net administration expenses in check while average client debt funding requirements increased by 16.3 per cent over the year.

Client Satisfaction

As part of a process of continuous development and improvement, and to ensure WATC continues to deliver on client requirements, [Peter Lee Associates](#), a leading research and consulting firm specialising in the financial services sector, was engaged to undertake an independent survey of all state government clients that currently use a WATC product or service.

Target: 90% Client Satisfaction

Outcome: 100% client satisfaction with the alignment of WATC's products and services to client needs.

100% client satisfaction with the overall quality of service provided.

The survey results also indicated that WATC continued to outperform a range of related financial industry benchmarks in terms of quality of service and understanding of clients' financial needs. The results provide a positive validation that WATC continues to deliver on client requirements.

Staff Engagement Rating

The Staff Engagement Rating for 2015/16 is composed of dimensions of the Aon Hewitt Best Employer Survey report and uses employee engagement as a key performance measure to allow WATC to benchmark against 'best employer' standards within the region. WATC's goal is to achieve 'best employer' accreditation from Aon Hewitt.

Target: Employee Engagement Rating > 55%

Outcome: Employee Engagement Rating = 51%

WATC did not achieve its target but it has improved on previous years' results. A number of initiatives are being progressed to address key staff engagement issues identified from the survey.

Future Outlook

WATC continues to work towards producing a more aligned, objective and transparent set of outcomes and realistically expects to improve on the above results. It is well placed to meet future challenges, delivering further savings and services to the State of Western Australia. Details of WATC's future borrowing program and budget are included on [page 42](#).

"The results provide a positive validation that WATC continues to deliver on client requirements."

Overview of Western Australian Treasury Corporation



Western Australian Treasury Corporation (WATC) fulfils the role of the State's central financing authority and corporate treasury services provider, working with its public sector clients to assist them to achieve sound financial risk management consistent with the Government's goal of financial and economic responsibility. Within this broader role, WATC's principal activities involve funding and debt management, asset and investment management, financial advisory services, financial risk management and treasury management services and systems.

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 Dr Mike Nahan, BEc MS PhD MLA; [Treasurer](#); Minister for Energy; Citizenship and Multicultural Interests.

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

“WATC is staffed by highly motivated and highly skilled individuals who share WATC’s goal to achieve sound financial risk management for both WATC’s clients and the State.”

Organisational Structure

The Board sets the strategic direction of WATC and establishes the policies and principles under which WATC operates.

At 30 June 2016, WATC’s Board comprised:

Michael A Barnes	Chairperson
Kaylene P Gulich	Deputy Chairperson
John M Collins	Chief Executive Officer
Catherine A Nance	Director
Jennifer A Seabrook	Director
Grahame J Searle	Director

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

WATC is staffed by highly motivated and highly skilled individuals who share WATC’s goal to achieve sound financial risk management for both WATC’s clients and the State. WATC has four key functional areas that work together to deliver on WATC’s Mission ‘*to provide leadership and innovation in the delivery of effective and efficient financial solutions for our Western Australian public sector clients*’.

Client Services

[Client Services](#) is responsible for working with WATC’s public sector clients in the provision of, and ongoing management support for, a comprehensive range of financial products and services, including debt finance and investment transaction and management services, foreign exchange transaction and risk management services, and specialist financial risk management and corporate finance advisory services.

Legal and Compliance and Risk

[Legal and Compliance](#) is responsible for administering compliance with legal, financial, corporate and statutory matters, providing oversight of, and guidance in relation to, the origination and documentation of WATC’s borrowings and other agreements, including financial

market and client agreements. Legal and Compliance is also responsible for the oversight of WATC compliance with legislation, policies and its corporate governance practices.

[Risk](#) measures and monitors market, credit, operational, liquidity and funding risks to prevent adverse impacts for WATC. Risk also provides guidance to the Asset and Liability Management Committee, the Executive, the Chief Executive Officer, the Audit Committee and the Board of WATC on all risk matters, and is responsible for developing and embedding a strong risk management culture across the organisation.

Corporate Services

[Corporate Services](#) provide essential support in the areas of accounting, administration, treasury operations, information management, and information and communications systems and technology.

Financial Markets

[Financial Markets](#) is responsible for sourcing domestic and offshore funding to meet the borrowing requirements of the Western Australian public sector. It establishes and maintains funding facilities, programs and professional relationships with financial market participants for that purpose. In addition to its market activities in physical securities, Financial Markets uses derivative instruments to manage risk. Financial Markets undertakes the asset and liability risk management function to manage the financial risks associated with WATC’s borrowing and lending activities.

Financial Markets also manages a portfolio of financial assets, comprising investments for WATC, the Public Bank Account, the Western Australian Future Fund and other public sector clients. In addition, it executes foreign exchange management transactions and contributes to the development of foreign exchange strategies for clients. Financial Markets also provides [economic and financial market analysis](#) and commentary for the benefit of clients and stakeholders.

Board of Directors

Michael A Barnes, Chairperson

Mr Barnes was appointed to the Board as the Deputy Chairperson in August 2013 and 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. Mr Barnes was previously the Deputy Chairperson for the period from July 2005 to February 2009. He is also the Chairperson of the 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 other non-executive board and panel roles. Ms Seabrook currently holds the positions of non-executive director of Iluka Resources Limited, IRESS Limited and MMG Limited, and is a special advisor to Gresham Partners Limited.

Grahame J Searle

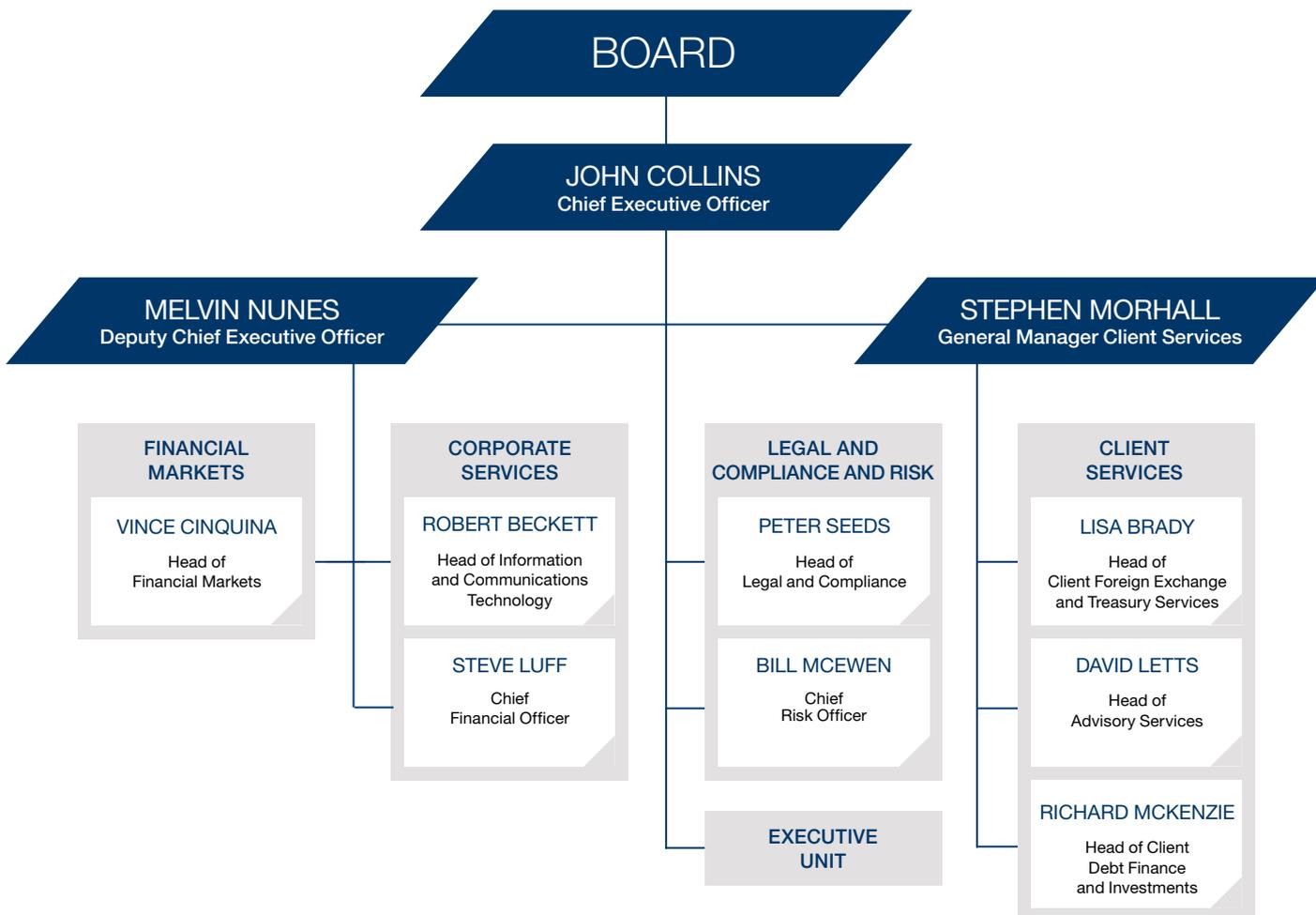
Mr Searle was appointed to the Board as a director on 1 January 2009 and is a member of the Remuneration Committee. He is currently leading the State's Regional Services Reform Unit. Prior to this, Mr Searle held a number of executive positions, including Director General Department of Housing and Chief 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. He is also a board member of Leadership WA.

John M Collins

Mr Collins was appointed CEO of WATC and a director of the Board effective 15 October 2009. He serves as a member of the Remuneration Committee. Mr Collins has previously worked in 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.

"The Board sets the strategic direction of WATC and establishes the policies and principles under which WATC operates."

Organisational Structure



Board of Directors (left to right): Grahame Searle, John Collins, Kaylene Gulich, Catherine Nance, Michael Barnes and Jennifer Seabrook.

The Economy

It was another challenging year for the global economy and financial markets.

Key highlights of the economic environment in which WATC operated during 2015/16 were:

- Western Australian real Gross State Product (GSP) increased by an estimated 1.0 per cent in 2015/16 and is forecast to grow 1.25 per cent in 2016/17
- Western Australian merchandise exports totalled \$99.7 billion in 2015/16
- the Australian economy is estimated to have grown 2.5 per cent in 2015/16, and is forecast to grow 2.5 per cent in 2016/17.

Outlook for Western Australia

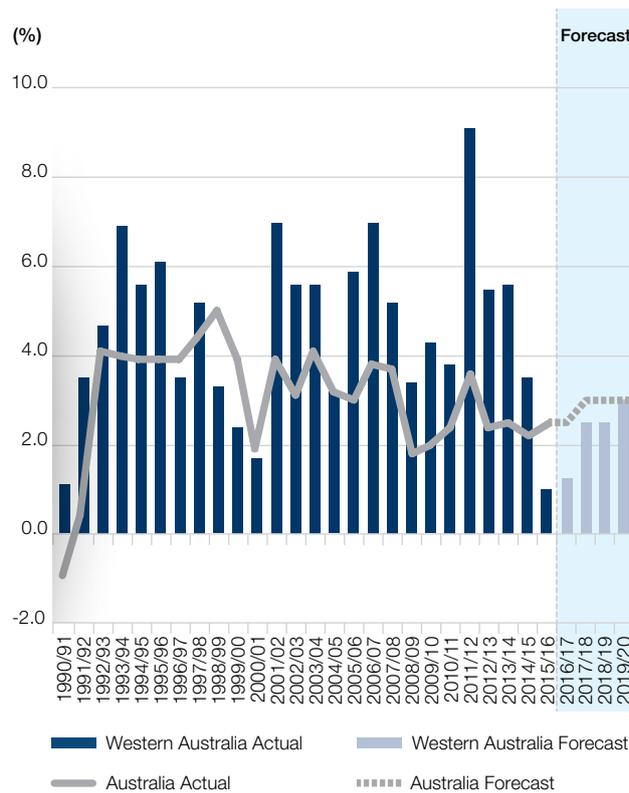
The State economy is forecast to expand 1.25 per cent in 2016/17, with rising export volumes remaining the major contributor to the expansion. Real state final demand is projected to fall 3.75 per cent, with declining mining investment again the major drag on the economy. Business investment is forecast to decline a further 19.0 per cent, as a number of major projects move into their operational phase. Dwelling investment is forecast to fall 8.75 per cent. Household consumption growth is expected to remain relatively subdued at 1.75 per cent, while government investment is forecast to rise 10.75 per cent. The State unemployment rate is expected to average 6.75 per cent in 2016/17, after averaging 6.0 per cent in 2015/16.

The Western Australian Economy

Western Australia is a leading global producer and exporter of a wide variety of commodities. The State accounted for 41 per cent of the total value of Australia’s merchandise exports in 2015/16. The State is estimated to have accounted for 37 per cent of global iron ore production in 2015, while ongoing investment in LNG production capacity is expected to see LNG exports more than double by 2019/20. By 2020, Western Australian installed LNG production capacity is expected to advance to third largest in the world behind Qatar and the United States.

Western Australian real GSP increased by an estimated 1.0 per cent in 2015/16, after rising 3.5 per cent in 2014/15 (see Figure 1 opposite). An estimated 5.5 per cent rise in export volumes made the largest contribution to overall growth. Real state final demand fell 4.25 per cent, as an estimated 17.5 per cent fall in business investment more than offset a 1.75 per cent rise in household consumption and a 3.75 per cent increase in dwelling investment.

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



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

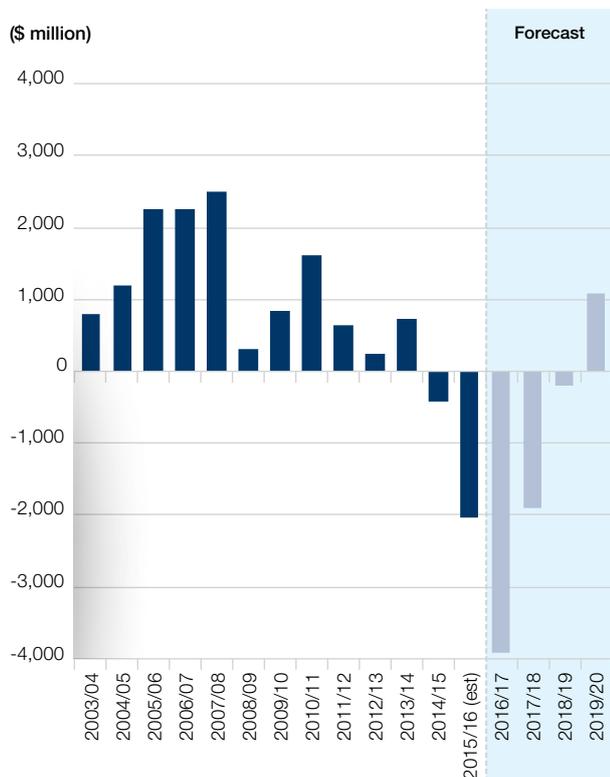


Melvin Nunes Deputy Chief Executive Officer

Fiscal Outlook for Western Australia

The [State Budget](#) forecasts a general government operating deficit of \$3,914 million for 2016/17, following an estimated \$2,037 million deficit in 2015/16 (see Figure 2 below). Revenue is expected to decline 3.1 per cent in 2016/17. Western Australia remains heavily disadvantaged by the Horizontal Fiscal Equalisation regime, with the State GST ‘relativity’ (the ratio of its GST grant to its population share of the GST) for 2016/17 virtually unchanged at just 30.3 per cent following a record low of 30 per cent in 2015/16. As a result, the State’s GST receipts will be an estimated \$4.7 billion lower in 2016/17 than if it received its full per capita share. Expenses are forecast to increase 3.7 per cent in 2016/17.

Figure 2: Western Australian Government Net Operating Balance



Source: Department of Treasury

The Australian Economy

Australian economic growth is estimated to have picked up to 2.5 per cent in 2015/16. The transition from resource-driven to non-mining sector-driven growth has been slow. The strong rise in export volumes and the [Reserve Bank of Australia](#) (RBA) engineered housing construction boom has helped cushion the economy from the effects of the unwinding of the mining investment boom. However, the domestic economy is still in search of the increase in non-mining business investment needed for sustainable growth.

Solid employment growth in 2015/16, particularly in the second half of 2015, has seen the seasonally adjusted unemployment rate fall to 5.8 per cent in June 2016, down from 6.1 per cent in June 2015. The unemployment rate averaged 5.9 per cent over the course of 2015/16. CPI inflation continued to soften in 2015/16. The June quarter CPI report showed headline inflation was 1.0 per cent in 2015/16. The real surprise, however, has been weak underlying inflation, with the RBA’s favoured measures falling well below the 2–3 per cent target range over the first half of 2016.

The Global Economy

The global economy has remained sluggish in the first half of 2016, following poor growth in 2015. Among the major economies, growth in the United States (US) for the first six months of 2016 was, once again, disappointing. With business investment sluggish and productivity growth poor, the outlook for the US economy remains clouded. Elsewhere, the Chinese economy continues to settle into a lower growth profile but questions persist over its sustainability, while the Japanese and Eurozone economies remain fragile.

Voters in the United Kingdom (UK) stunned the world in the Brexit referendum in June 2016, with the majority voting to leave the European Union (EU). While the news caused a great deal of volatility on financial markets, the full ramifications of the decision are as yet unknown. At the time of writing, there is no word as to when the UK will formally notify the EU of its decision to withdraw from the Union, with new Prime Minister Theresa May saying Britain won’t start the process until it is ready. The current treaties will remain in place for up to two years from the date of that notification.

The monetary policy stance of key central banks remains highly stimulatory. The [US Federal Reserve](#) raised the range for the Fed fund rate by 25 basis points in December 2015 to 0.25–0.50 per cent, but has not followed up with a second increase as yet. The [Bank of Japan](#) and [European Central Bank](#) continue to run large quantitative easing programs and both have lowered the interest rate paid to banks for excess reserves held at the central bank into negative territory.

The July update of the [International Monetary Fund](#) (IMF) World Economic Outlook saw the IMF once again revise its global growth forecast down. The IMF now expects global growth of 3.1 per cent in 2016, down from the April forecast of 3.2 per cent. If accurate, this would make the expansion this year, together with the 3.1 per cent growth in 2015, the slowest since the recession year of 2009. The downward revision was mainly the result of downgraded expectations for growth in the US (2.2 per cent), Japan (0.3 per cent) and the UK (1.7 per cent), which were only partly offset by upward revisions to forecast growth in the Eurozone (1.6 per cent) and China (6.6 per cent).

CONTINUED

The Economy

Financial Markets

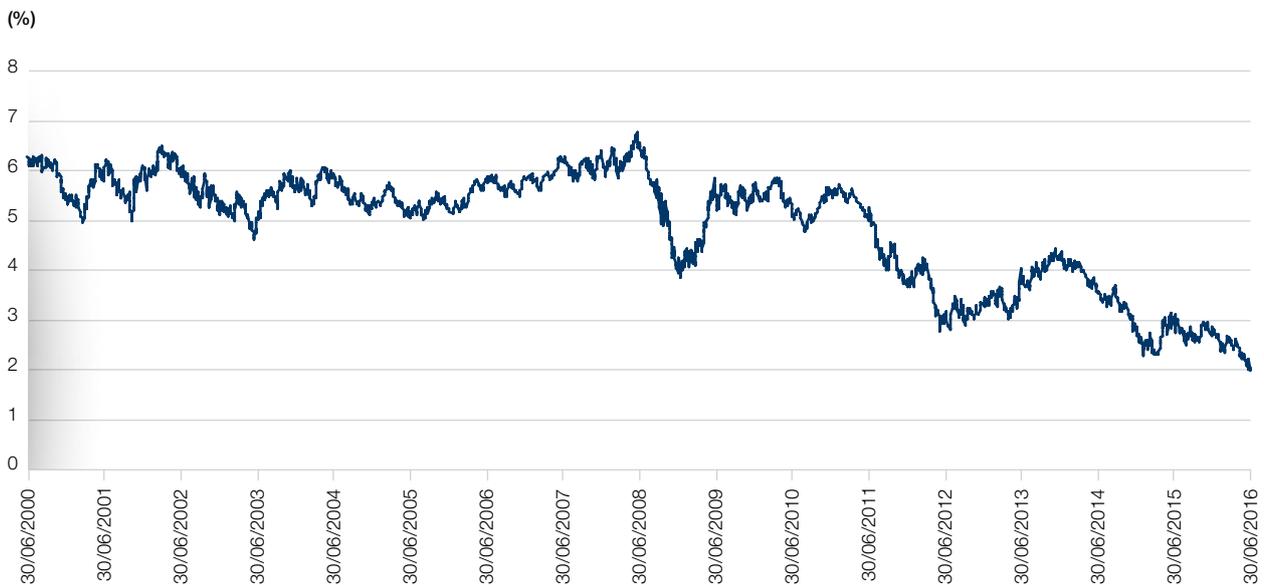
The surprisingly soft March quarter inflation report saw the RBA cut the cash rate by 25 basis points to a fresh record low of 1.75 per cent in May 2016. The quarterly Statement on Monetary Policy in May saw the RBA lower its inflation forecasts out to mid-2018 to between 1.5 and 2.5 per cent, strongly suggesting at least one more 25 basis point cut is likely.

The 3-year Australian government bond yield opened the financial year at 2.02 per cent and peaked at 2.18 per cent in December 2015. Yields fluctuated through the first four months of 2016, before a soft March quarter inflation report and RBA cash rate cut drove the 3-year yield to 1.55 per cent by 30 June 2016. The 10-year Australian government bond yield began the

2015/16 financial year at 3.01 per cent and followed a downward trend for most of the year. The RBA rate cut in May and a sharp fall in global bond yields, following the surprising referendum result in the UK in June, saw the 10-year yield close 2015/16 at a record low of 1.98 per cent (see Figure 3 below).

The Australian dollar began the 2015/16 financial year trading at USD0.7707, but soon fell as rising expectations for US Federal Reserve interest rate increases pushed the US dollar higher. The Australian dollar reached a near seven-year low of USD0.6864 in January 2016 before traders again began to discount the likelihood of US rate hikes, driving the Australian dollar higher again. The Australian dollar closed 2015/16 trading at USD0.7451.

Figure 3: Australian Government 10-year Bond Yield – 2000 to 2016



Source: Bloomberg



Water Corporation

WATC continued to partner with Water Corporation with the provision of debt finance, and ongoing debt management support and foreign exchange services. In 2015/16, debt finance from WATC assisted Water Corporation with two of its major capital works projects, the East Rockingham Wastewater Treatment Plant and the Beenyup Wastewater Treatment Plant upgrade.

Photo: Water Corporation

Financial Markets Activity

Throughout 2015/16, WATC continued to successfully access domestic and offshore capital markets to meet the funding and asset management requirements of its public sector clients.

During 2015/16, financial markets activities centred primarily on:

- issuing across the yield curve to fund lending to WATC's clients
- establishing two new benchmark bond lines maturing in 2022 and 2027
- maintaining sufficient volumes on issue and enhancing the liquidity in its existing benchmark bond lines maturing in 2017, 2018, 2019, 2020, 2021, 2023 and 2025
- refinancing its maturing June 2016 benchmark bond and Floating Rate Note (FRN) lines
- launching a new FRN maturing in March 2021
- issuing FRNs to fund the term floating rate borrowing requirements of clients
- examining opportunities to issue through its Euro Medium Term Note (EMTN) Program and other offshore markets to generate term fixed and floating rate funding
- issuing short-term paper, either through domestic inscribed stock or the Euro Commercial Paper (ECP) Program, for liquidity funding
- transacting in derivative products to meet WATC's asset and liability management requirements and to generate floating rate funding for its clients
- undertaking domestic and international investor marketing activities to promote investment in WATC debt issuance.

WATC utilised four of its five funding facilities during the year to complete the borrowing program. Funding for liquidity and short-term requirements was met through domestic short-term inscribed stock and the offshore ECP Program. Long-term fixed rate funding was generated through the domestic benchmark bond program, whereas term floating rate funding was generated through a combination of FRN issuance and the swapping of fixed rate benchmark bond issuance.

The primary source of WATC's long-term borrowings was the domestic fixed interest market. Domestic benchmark bonds comprised approximately 80 per cent of total term borrowings. FRNs continued to remain an important component of WATC's suite of products, accounting for 20 per cent of total term borrowings at 30 June 2016.

Overseas, WATC's ongoing strategy is to tap markets on an opportunistic basis through bond issues, private loans and its range of continuous note issuance facilities, such as its EMTN Program. WATC did not undertake any overseas medium-term note or bond issues during 2015/16 due to the ongoing comparatively lower cost of borrowing domestically through the benchmark bond and FRN programs.

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.

The Financial Markets Branch is responsible for sourcing funding from domestic and offshore markets and undertakes the asset and liability risk management function to manage the financial risks associated with WATC's borrowing and lending activities. The branch also manages a portfolio of financial assets, executes foreign exchange management transactions for clients and provides economic and financial market analysis and commentary.

"The primary source of WATC's long-term borrowings was the domestic fixed interest market."

CONTINUED

Financial Markets Activity

Long-term Borrowings

Domestic Fixed Interest

In completing the borrowing program for the year, WATC continued to tap into its existing benchmark bond lines on a reverse inquiry basis and, in addition, undertook three syndicated issues. In October 2015, WATC tapped its existing [5.00% 23 July 2025](#) benchmark bond for \$600 million, with Commonwealth Bank of Australia (CBA), Deutsche Bank AG (DBAG) and UBS AG Australia Branch (UBS) as joint lead managers. Eighty-five per cent of the issue was placed with domestic investors, with the remainder going to overseas-based investors.

In April 2016, WATC launched a new [2.75% 20 October 2022](#) benchmark bond for \$1.10 billion, with CBA, DBAG and UBS as joint lead managers. Market response to the issue was strong, being 50 per cent oversubscribed, and enjoyed support from offshore investors, with 20 per cent placed overseas. In June 2016, WATC launched a new [3.00% 21 October 2027](#) benchmark bond for \$700 million, with Australia and New Zealand Banking Group (ANZ), CBA and UBS as joint lead managers. Market response was again very positive, being almost twice oversubscribed, and over 20 per cent was placed with overseas investors.

During the year, the 3.00% 8 June 2016 benchmark bond line matured. On maturity, the amount outstanding was \$1.41 billion, having peaked in August 2014 at \$3.59 billion on issue. By the end of the financial year, benchmark bonds outstanding had increased from \$26.46 billion in

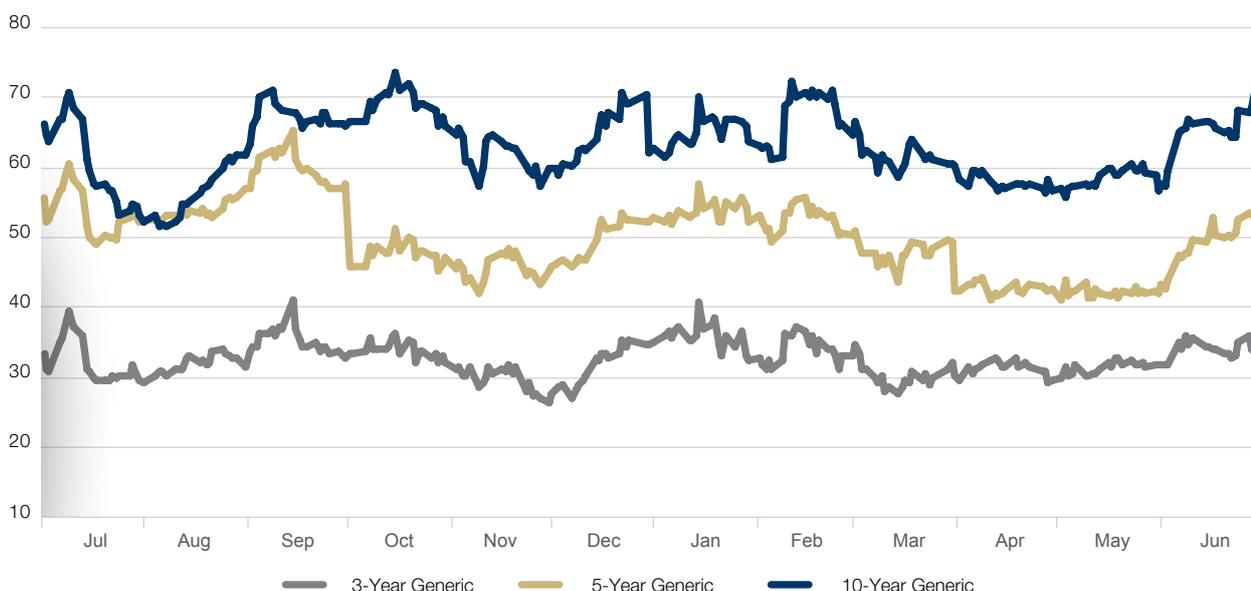
2014/15 to \$31.27 billion in 2015/16. The net increase is the result of \$7.9 billion of new issuance over the year against \$3.08 billion of maturing bonds.

Spreads between the yields on 10-year maturities on the WATC benchmark bond curve and the Australian Government bond curve traded in a band between 0.50 per cent and 0.75 per cent over the course of the year. Although volatile, outright yields fell, particularly over the second half of the year and by year-end, the yield on 10-year maturities on the WATC benchmark bond curve had fallen over 1.00 per cent. The fall in domestic bond yields shadowed global trends, which in turn were driven by concerns over global growth prospects, the move by the US Federal Reserve to raise the Fed Funds rate, the timing of further rises and the unexpected outcome of the UK referendum on EU membership. Additionally, there were factors affecting WATC spreads in particular, such as weaker commodity prices, a State rating downgrade to Aa2 (in February 2016) by Moody's Investors Service and an outlook change by Standard & Poor's. Figure 4 below highlights the movement in spreads for selected generic WATC bond maturities to the equivalent Australian Government bond curve.

During the year, WATC partnered with a number of its 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 presentations by the Treasurer of Western Australia to investors and market intermediaries in Sydney, North Asia, India and Singapore.

Figure 4: Spread of Selected WATC Maturities Above the Equivalent Australian Government Curve – 2015/16

(Basis points)



Turnover

Turnover in WATC’s benchmark bonds for the financial year ended 30 June 2016 was \$265.0 billion (see Figure 5 below).

WATC’s domestic benchmark bond volumes on issue at 30 June 2016 and the turnover volumes for the financial year were:

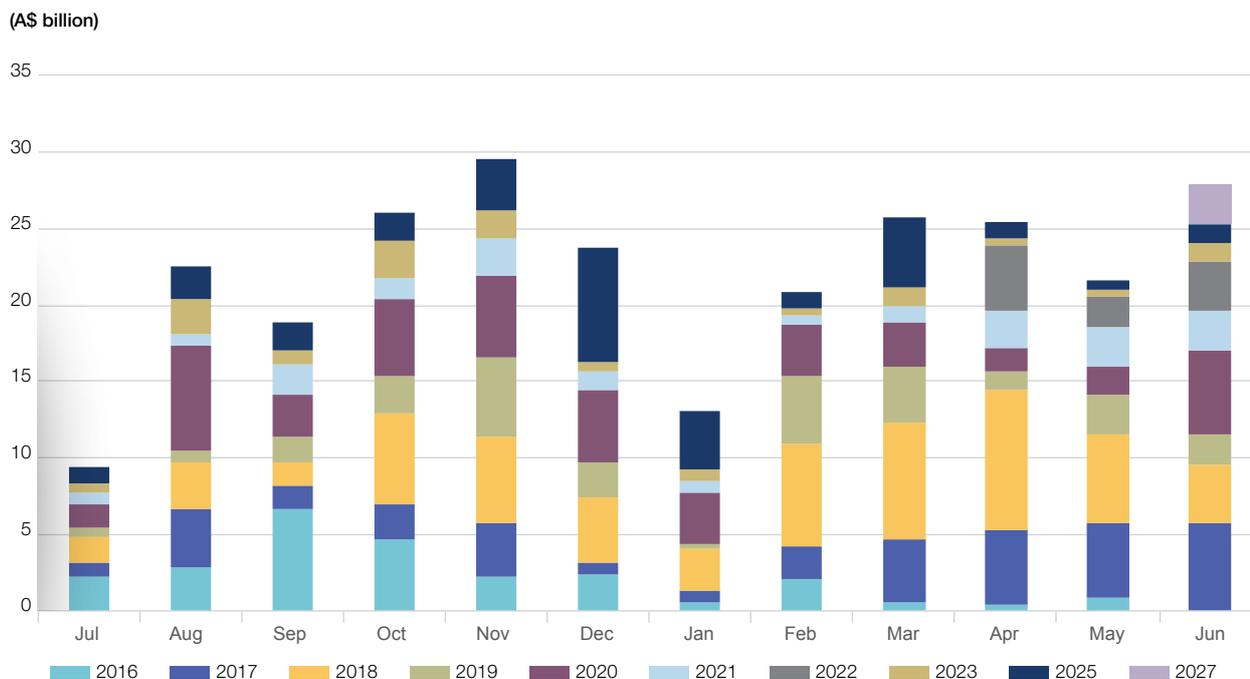
Coupon % p.a.	Maturity Date	Volume on Issue (\$ million)	Turnover Volume (\$ million)
3.00	08/06/2016		25,307
8.00	15/07/2017	5,459	35,642
3.75	23/10/2018	5,126	58,120
7.00	15/10/2019	4,174	26,939
2.50	22/07/2020	4,109	45,173
7.00	17/07/2021	3,362	18,310
2.75	22/10/2022	1,514	9,466
6.00	16/10/2023	3,658	13,460
5.00	23/07/2025	3,060	29,906
3.00	21/10/2027	813	2,626

Floating Rate Notes

In March 2016, WATC launched a new [March 2021 FRN](#) for \$750 million by syndication with ANZ and Westpac Banking Corporation as joint lead managers. Market response to the FRN was positive, being 60 per cent oversubscribed, and enjoyed strong support from domestic investors. WATC also continued to issue into its existing FRNs in response to investor demand and to accommodate the term floating rate borrowing requirements of its clients.

During the year, the December 2015 and June 2016 FRN lines matured. On maturity, the total amount outstanding was \$0.15 billion and \$0.85 billion respectively, with the June 2016 FRN having peaked in late 2014 at \$2.27 billion on issue. By financial year-end, FRNs outstanding had increased from \$7.88 billion in 2014/15 to \$8.22 billion in 2015/16. The net increase is the result of \$1.34 billion of new issuance over the year against \$1.00 billion of maturing FRNs.

Figure 5: WATC Benchmark Bond Turnover – 2015/16



CONTINUED

Financial Markets Activity

WATC's FRN volumes on issue at 30 June 2016 were:

Maturity Date	Volume on Issue (\$ million)
27/03/2017	1,752
12/12/2017	650
21/05/2018	2,655
18/03/2019	566
19/11/2019	1,839
10/03/2021	760

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 2016 are shown in Table 2 below.

Table 2: Market Making Panel at 30 June 2016

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 Simon Novak	02 8062 8619
Royal Bank of Canada	Ms Ying Yi Ann Cheng	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

Taking into account overall performance throughout the year, the leading institutions on WATC's Market Making Panel for 2015/16 were:

1. Commonwealth Bank of Australia
2. UBS AG, Australia Branch
3. National Australia Bank Limited
4. ANZ Investment Bank
5. Deutsche Capital Markets Australia Ltd.



MRA Metropolitan
Redevelopment
Authority

Metropolitan Redevelopment Authority

WATC continued its support of the Metropolitan Redevelopment Authority during 2015/16 providing debt funding for its major urban revitalisation projects, including the Perth City Link and Riverside developments.

Photos: Metropolitan Redevelopment Authority

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. Under WATC's Risk Management Policy, foreign currency issues may only be undertaken when the borrowings can be swapped back in Australian dollars at rates below domestic funding equivalents.

The dealer panel for the program in 2015/16 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.

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 2016.

Retail Borrowing

During 2015/16, retail investors contributed \$51.9 million towards the completion of WATC's domestic borrowing program. Of this amount, \$10.9 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 the financial year was \$41.0 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 \$39.3 million was raised from designated investments and complying investments during 2015/16.

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

“During the year, WATC partnered with a number of its 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.”

CONTINUED

Financial Markets Activity

Short-term Borrowings

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

Short-term Inscribed Stock

During 2015/16, WATC issued a total of \$5.25 billion of [short-term inscribed stock](#) with an average weighted maturity of 121 days. At 30 June 2016, \$2.07 billion was outstanding in short-term inscribed stock.

Aggregate monthly issuance activity for short-term inscribed stock is shown in Figure 6 below.

The leading participants in WATC's short-term inscribed stock facility for 2015/16 were:

1. Westpac Banking Corporation
2. ANZ Banking Group Limited
3. Bank of America NA Australian Branch
4. BNP Paribas
5. National Australia Bank Limited.

Euro Commercial Paper Program

WATC maintains a multicurrency [ECP Program](#). The limit on the program is US\$6 billion. Issues under this program can be made for terms from seven to 364 days through the dealer panel. ECP is only issued when it can be swapped back into Australian dollars at rates lower than equivalent domestic funding.

During 2015/16, WATC issued ECP in US dollars and Singapore dollars. A total equivalent to A\$1.22 billion of ECP was issued during the year with an average weighted maturity of 108 days. At 30 June 2016, US\$535 million was outstanding in ECP.

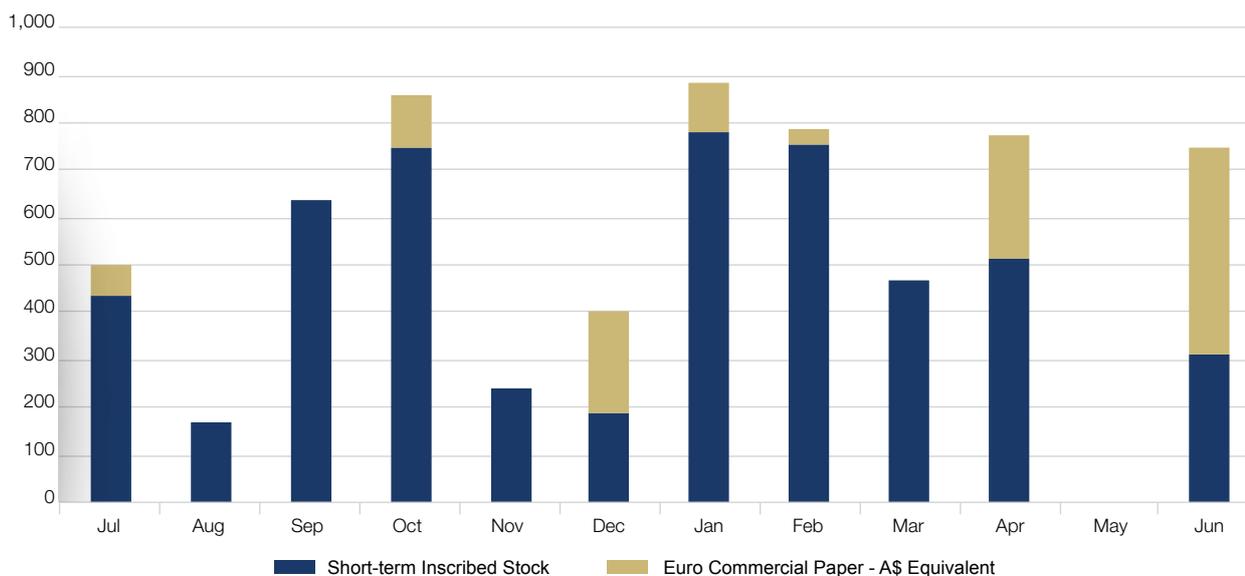
The dealer panel for the program comprised:

- 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.

Figure 6: Short-term Borrowings Monthly Issuance – 2015/16

(A\$ million)



Risk Management

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. WATC's goal in managing risk is not to eliminate risk at any cost, but rather to balance the portfolio of risks it faces.

Key highlights for the year were:

- WATC's continued success in transitioning to a lower funding risk profile that is less reliant on short-term funding
- the success in managing risks during a year where the global environment continued to present some significant risk management challenges.

The Risk Management Branch has a key role in promoting good risk management practices and culture within WATC. The branch also provides independent risk exposure reporting to senior management and the Board.

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

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. The credit risk associated with WATC's investment portfolio is managed using various controls, including a rating-based system that reduces WATC's credit limits to a counterparty if and when its credit rating deteriorates. No investments can be made with banks or corporations whose credit rating falls below a minimum level set by the Board.

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 2015/16. The emerging issue of concern was the Chinese economic slowdown which created increased solvency risk for highly indebted corporate and sub-sovereign Chinese borrowers, resulting in flow-on risks for Chinese banks. Impairment levels also rose across the Association of Southeast Asian Nations (ASEAN) economies, including Singapore, but not sufficiently to threaten the solvency of the banking systems. Europe continued to face multiple risks. Greece secured a further bailout from the European Central Bank and IMF following a technical default on its

repayments. Italian banks faced rising default rates and trended towards insolvency. The UK referendum to exit from the EU created uncertainty for UK banks, although it is unlikely to trigger an outright banking crisis. In the US, credit conditions continued to slowly improve. However, the multiple global risks restrained the Federal Reserve from its intended rate increase trajectory. Future US rate rises will continue to present a risk for offshore borrowers with US dollar denominated debt.

In this context, 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, and assessing emerging credit risks. Of WATC's 72 bank and government counterparties, eight suffered downgrades by Moody's Investors Service or Standard & Poor's in 2015/16 and five were upgraded. However, no counterparty failed to meet its financial obligations to WATC.

Market Risk

WATC's exposure to market risk arises primarily from movements in interest rates on borrowing, lending and hedging instruments. Foreign exchange exposure is kept to a minimum 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.

During 2013/14, in response to concerns regarding WATC's relatively high reliance on short-term funding, the Board endorsed a strategy aimed at reducing funding risk. 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 and continued throughout 2015/16. Extensive analysis was undertaken prior to, and during, the implementation to minimise the increase in market risk and the Board subsequently authorised VaR limit increases based on those projections.

As expected, the increased maturity mismatch resulting from the use of longer term funding for WATC's liquidity portfolio resulted in an increase in market risk exposure. There were additional increases in exposure resulting from increasing the maturity profile of client lending. The increases were, however, in line with projections and within Board-authorised limits.

CONTINUED

Risk Management

Market volatility spiked several times throughout 2015/16, without trending upwards or downwards. WATC's calculated portfolio VaR followed this pattern in volatility. Meanwhile, continued efforts were made to reduce the maturity mismatch between funding and client lending. New 2022 and 2027 benchmark bonds were issued in April and June 2016 respectively, resulting in WATC now having nine liquid benchmark bonds, which will support efforts to reduce maturity mismatches in the future.

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 that is 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 (broadly in line with standards set by APRA and the Basel Committee on Banking Supervision). The 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 2015/16 and WATC was able to access short- and long-term funding to ensure sufficient liquidity coverage throughout the year, including the periods preceding the maturities of WATC's June 2016 benchmark bond and June 2016 FRN.

Operational Risk

Like all financial entities, WATC must plan for operational risk events such as settlement failure, fraud, ICT outages, loss of key personnel and loss of access to its business premises. WATC's Operational Risk Management Framework ensures operational risks are regularly assessed and treatment plans are put in place to reduce risk to an acceptable level.

During 2015/16, the branch reviewed several aspects of WATC's operational risk management processes, monitored risks and advised line managers on the identification and control of operational 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 impact on WATC's ability to deliver critical business outcomes (such as meeting scheduled principal and interest payments). Several component elements of WATC's Business Continuity Plan were reviewed and successfully tested during 2015/16.

Risk Capital Requirements

Table 3 compares WATC's average and peak capital provisioning requirements by risk category during 2015/16 with those for the previous two financial years. (Note the Total Capital figures are not the sum of the three risk components.)

Table 3: Required Risk Capital

Source of Risk	Average 2015/16 (\$m)	Average 2014/15 (\$m)	Average 2013/14 (\$m)	Peak 2015/16 (\$m)	Peak 2014/15 (\$m)	Peak 2013/14 (\$m)
Credit Risk	22.0	23.3	27.1	28.3	27.2	33.0
Market Risk	19.0	17.3	12.6	26.5	24.8	29.3
Operational Risk	15.5	13.9	12.4	16.2	14.5	13.1
Total Capital	56.4	54.5	52.2	65.5	61.5	65.6

"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."

Delivering Solutions: Client Services

As the central financial services provider for the Western Australian public sector, WATC had another successful year as it continued to expand its product and service offerings and grow its client base.

Key highlights for the year included:

- a \$5.7 billion increase in client debt to a total of \$40.7 billion at 30 June 2016
- the launch of the new Debt Portfolio Manager service for clients, with \$18.7 billion of debt managed on behalf of 13 clients at 30 June 2016
- a new Interest Cost Projection service, supporting clients by modelling future expected interest costs, improving debt management and project costing estimation
- reviewing and enhancing client debt management strategies to support State balance sheet management objectives
- a new Interest Rate Swap facility, enhancing flexibility in debt management and interest rate risk management for clients
- continued expansion of a diverse and interesting range of advisory engagements contributing to a number of key State and client initiatives, generating over \$1 million in fees on a cost-recovery basis
- in excess of \$415 million of foreign exchange transactions in 11 currencies on behalf of clients
- over \$4.6 billion in investments managed on behalf of clients at 30 June 2016
- investment portfolios managed on behalf of clients continuing to outperform established benchmarks
- continued client support and participation in foreign exchange education seminars and WATC-hosted economic presentations by leading financial markets economists.

WATC, through the Client Services Division, delivers high quality, cost-effective financial products and services in the following domains:

- Funding and Debt Management
- Financial Asset and Investment Management
- Financial Advisory Services
- Financial Risk Management
- Treasury Management Services and Systems

for the benefit of its public sector clients.



Stephen Morhall General Manager Client Services

CONTINUED

Delivering Solutions: Client Services

As part of a process of continuous development and improvement, and to ensure WATC's products and services align to client requirements, feedback from clients is actively sought through various channels.

Client feedback received throughout the year on advisory engagements was again very positive, with clients citing very high levels of satisfaction across a range of measures, including WATC's understanding of client requirements, technical support provided and value added to the client's project.

Peter Lee Associates, a research and consulting firm specialising in the financial services sector, was engaged to undertake a comprehensive and independent survey of all WATC's state government clients that currently use a WATC product or service. The survey results were very positive, with clients rating very high levels of satisfaction across all products and services offered by WATC on a range of measures including:

- alignment to client needs
- overall quality of service
- value adding
- cost-effectiveness
- partnering
- delivering improved outcomes.

Feedback received from clients provides positive reinforcement that WATC continues to successfully deliver financial solutions that are meeting the needs of the Western Australian public sector.

Client Debt Finance and Investments

The principal purpose of the Client Debt Finance and Investments Branch is to ensure the efficient and effective provision of lending, investment and associated management services to deliver quality financial solutions for the benefit of its Western Australian public sector clients.

Lending

Loan Products

WATC's suite of [loan products](#) is designed to provide clients with access to cost-effective funding with the flexibility to structure loans to satisfy specific financing needs for terms from one day to more than 20 years. WATC offers its clients an extensive range of loan products including:

- Working Capital Facility
- Short-term Loans
- Compound Cash Rate Lending
- Term Floating Rate Loans
- Term Fixed Rate Lending, including:
 - interest-only loans
 - amortising loans
 - zero-coupon loans
 - structured loans designed to meet individual client needs
- Capital Indexed Lending.



Shire of Murray

WATC provided the Shire of Murray with debt finance for the development of the Murray Regional Equestrian Centre. Stage 1 of the 3 stage state-of-the-art \$10 million project was completed in 2015/16 and included work on access roads and vehicle parking, construction of polocrosse grounds, recreation and warm up-area, and installation of a waste water treatment plant, ablution blocks and a new water storage tank.

Photos: Shire of Murray



Evolution of Lending to State Government

In the year to 30 June 2016, borrowings by state government authorities increased by \$5.7 billion to \$39.7 billion. This equated to growth of 16.6 per cent, up from 8.5 per cent in 2014/15.

The distribution of WATC lending across broad client sectors, and its evolution since 30 June 2013, is shown in Figure 7 below. Approximately 90 per cent of the increase in borrowings over 2015/16 was on behalf of the Department of Treasury for the purpose of capital expenditure within the general government sector, supporting the development of infrastructure within public health, education, law and order, recreation, roads and other important public services. The transport sector also recorded strong growth in borrowings, arising from a 12.9 per cent increase in net lending to the Public Transport Authority, whilst total debt outstanding to port authorities continued its steady decline over recent years.

Smaller changes in debt outstanding were recorded across other sectors, and the chart shows that electricity utilities, water utilities and housing continued to be important government services provided by statutory authorities and government trading enterprises that utilised debt funding from WATC.

Lending to Local Government and Public Universities

WATC continued to be the financier of choice to the State’s local government authorities, providing loan funds

to finance a range of community infrastructure projects across the State, including:

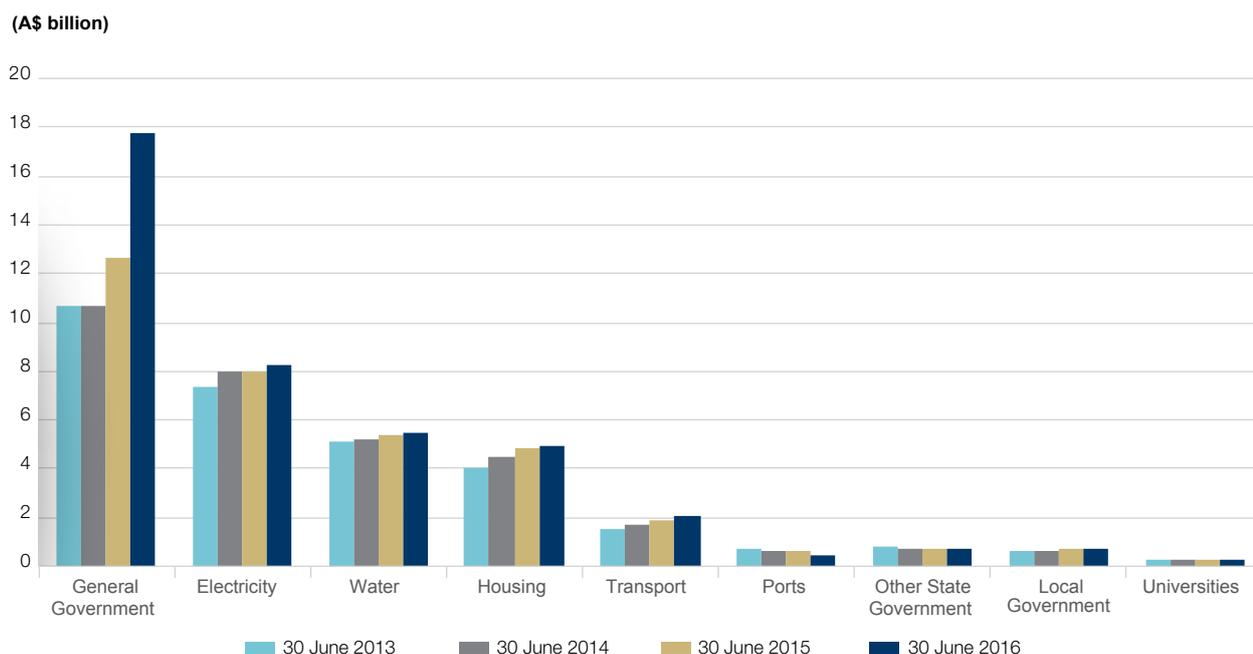
- administration facilities and libraries
- recreation, sporting and aquatic facilities
- underground power
- roadworks
- commercial and residential land development
- aged care facilities.

In the year to 30 June 2016, 96 new loans for a combined value of \$188 million were funded, resulting in total debt outstanding to local government authorities increasing by 4.5 per cent, or \$31.4 million, to \$727.8 million.

WATC worked closely with its local government client base during 2015/16 to improve the value added of its service offering. A key initiative completed during the year was the preparation, dissemination and presentation of a series of information papers relevant to local government on interest rate markets, debt financing and debt management, with the aim to support informed decision-making when considering debt finance options.

WATC also lends to Western Australia’s public universities to support their infrastructure development requirements. Borrowings by the university sector increased by 4.5 per cent to \$304.5 million at 30 June 2016.

Figure 7: Lending by Broad Sector – Evolution of Debt Outstanding – 30 June 2013 to 30 June 2016



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Delivering Solutions: Client Services

Investment

During 2015/16, WATC's clients continued to take advantage of its state government-guaranteed at call and fixed term investment products. At 30 June 2016, WATC held \$262.1 million of client investment funds from 33 entities, an increase of 25.4 per cent or \$53.2 million from the \$208.9 million held at 30 June 2015.

Supporting Financial Services

Debt Portfolio Manager (DPM) Service

During the year WATC launched its new DPM Service. The DPM service is a passive debt portfolio management service designed to manage interest rate risk in a manner appropriate to clients' business needs through an administratively efficient debt management system. The DPM automatically allocates new, and refinances maturing, client debt within separate portfolio(s) of term fixed rate and/or term floating rate loans in accordance with interest rate risk management settings provided by clients. WATC also assists clients in determining interest rate risk management settings appropriate for their business needs.

From July 2015 to March 2016, WATC decommissioned the Portfolio Lending Arrangements (PLA) product and successfully transitioned all clients previously utilising this product to the new DPM service – which also provides significantly enhanced portfolio management and reporting services. An additional client subsequently signed up to the DPM service, and WATC is in active discussions with a further five clients on potential future usage. At 30 June 2016, WATC was managing approximately \$18.7 billion of borrowings on behalf of 13 clients through the DPM service.

Interest Cost Projection (ICP) Service

In conjunction with the new DPM service, WATC has developed a new ICP service to assist clients to improve debt management and project costing estimation by providing robust forecasts of future interest costs. Utilising sophisticated financial modelling and incorporating financial markets expertise, the ICP system is able to model clients' debt portfolios and future borrowing requirements and determine future expected interest costs.

The ICP service is designed to help clients with budgeting, project evaluation, managing and reporting of future debt levels and associated interest costs, and to support informed decision-making when considering debt finance options.

State Balance Sheet Management Principles

WATC worked closely with its client base over 2015/16 to assist in reviewing and documenting their debt management strategies and, if necessary, transitioning to a strategy that meets specific parameters consistent with client requirements and WATC's target metrics for managing the refinancing risk of the State as a whole. At 30 June 2016, all except two of WATC's lending clients were maintaining or implementing debt management strategies consistent with the State's overall target requirement or had been granted formal exemptions following thorough evaluation of their business need for the use of debt finance.

Interest Rate Swap (IRS) Facility

During the year, WATC introduced an IRS facility to its range of debt-related products available to clients. An IRS is a form of financial derivative that enables a client to exchange a future stream of floating rate interest payments (normally benchmarked to the bank bill swap rate or BBSW) for a stream of fixed interest payments, or vice versa, based on a specified principal (face value) amount.

The IRS facility will enable WATC's clients with debt facilities to modify the interest rate exposure of their debt portfolio without requiring termination and reissuance of physical loans. It also enables clients to decouple the management of their debt maturity profile and interest rate exposure, significantly enhancing flexibility in debt management and interest rate risk management.

“WATC continues to successfully deliver financial solutions that are meeting the needs of the Western Australian public sector.”

Advisory Services

WATC's Advisory Services has been working to build on its goal of helping the Western Australian public sector to make better financial decisions. The Advisory Services team achieves this goal through its continued effort to provide the State and Western Australian public sector entities with high-quality corporate finance advice and financial risk management expertise.

Advisory Services works with clients to identify and understand their financial needs. Working cooperatively with clients, Advisory Services develops cost-effective solutions using sophisticated financial modelling techniques and current financial management theory, with the aim of resolving the identified issue and adding value for clients.

Advisory Services expertise, accumulated experience and knowledge is available to all Western Australian public sector agencies. Services offered include:

- debt structure analysis and advice
- financial risk modelling and simulation
- asset and project investment evaluation
- project financing and alternative financing options
- business case development
- cost of capital analysis
- asset-liability modelling
- investment policy development
- general financial analysis, modelling and advice.

Key achievements and service offerings over the past year are described below.

Department of Corrective Services – Commercial Advisory Role

WATC assisted the [Department of Corrective Services](#) (DCS) with the procurement of a private operator to run a metropolitan women's prison complex. This involved assisting with: establishing the commercial principles; issuing the Expression of Interest and, later, the Request for Proposal; and modelling and final negotiation of the commercial charging and incentivisation principles. As part of this innovative project, WATC worked with DCS to create and model new financial incentive structures for the private operator, who will focus substantial effort towards improving the success rate of reintegration of prisoners by developing and implementing relevant reintegration training opportunities, and reducing the average length of time female prisoners eligible for bail are remanded in custody. Further efficiency incentives were developed to encourage effective running of the prison within the requirements of the contract, including taking good care of prisoners in custody, safety, order and control.

WATC created new financial solutions and incentives, was able to show the impacts of the incentives and contract arrangements under a range of scenarios, and worked with DCS and other government agencies to optimise both the financial and performance outcomes. The result will be a lower cost prison with improved reintegration capability. The prison is due to commence operations in December 2016.



Public Transport Authority

Public Transport Authority

WATC provided the Public Transport Authority with debt finance and foreign exchange advisory and transactional services to support a number of major transport projects in 2015/16, including the new landmark underground Perth Busport. The \$217 million world-class asset marks the completion of the transport component of the wider Perth City Link project.

Photos: Public Transport Authority



CONTINUED

Delivering Solutions: Client Services

Department of Transport – Revenue Modelling

The [Department of Transport](#) (DoT) requested WATC to assist with modelling a wide array of potential revenue sources arising from proposed new transport infrastructure.

WATC analysed international and national experiences in transport-related revenues and developed models to analyse the potential revenue that could be created, given factors such as shifts in population, transport infrastructure, transportation methods, and other factors. The modelling was undertaken to assist a cross-functional team representing several government departments involved in transport planning to understand the financial implications of the many competing options.

WATC suggested and analysed new financial and revenue techniques, combining experiences from international examples, including both private and

public sector approaches, to enable the working group to ensure they had comprehensively considered the available options, and to help the working group to make better financial decisions on behalf of the State.

Department of Local Government and Communities – Financial Health Indicator

WATC Advisory Services was engaged by the [Department of Local Government and Communities](#) (DLGC) to extend and further develop the work previously done by Advisory Services on the financial sustainability of local governments in Western Australia.

The aim of this project was to provide local governments throughout Western Australia with financial toolsets that would aid them in making better financial decisions, and also allow interested ratepayers and other members of the community to understand more about the financial position and financial competitiveness of their local government.



CITY OF GOSNELLS

City of Gosnells

WATC provided the City of Gosnells with debt finance to support its innovative redevelopment of Mills Park. The 24 hectare site in Beckenham has been transformed into a state-of-the-art sport and community facility as part of the City's \$47 million redevelopment. Stage 1 was officially opened by the Premier, Colin Barnett, on 27 May 2016 and features a 6 Star Green Star-awarded Community Centre, nature play space, skate plaza, WA's first synthetic soccer pitches, tennis courts and an oval with kiosk, change rooms, cricket nets, barbecues, shade shelters, seating and path network.

Photo: City of Gosnells

WATC worked with DLGC to create the Financial Health Indicator (FHI) that is now used to show the status of financial health of local governments across Western Australia in relation to each other. The FHI has several components available as follows:

- The 'MyCouncil' website can be used to find:
 - the FHI level for each local government in Western Australia
 - a spider-web chart showing the detail behind the FHI, based on the key ratios that local governments are required to report every year. This allows the viewer to see where potential areas of weakness are, and where the ratios are very strong – indicating a healthier (financially) local government.
- The 'MyCouncil' website can also be used to:
 - compare and contrast any two Western Australian local governments' FHI ratings
 - compare and contrast any two Western Australian local governments' ratios on a combined spider-web chart.
- WATC and DLGC have provided template financial models to local governments to allow them to model and project their own FHIs and spider-web charts for up to 10 years forward.
- WATC and DLGC have also provided template financial models to allow local governments to model and project their borrowing capacity to assist in planning borrowings for large capital works projects.

The aim of this is to improve the financial planning and management capacity of local governments in Western Australia, and to give members of the public improved tools to understand more about the financial situation of local governments in Western Australia.

Department of Regional Development – Royalties for Regions Portfolio

The [Department of Regional Development](#) (DRD) analyses, funds and oversees an extensive portfolio of [Royalties for Regions](#) (RfR) related projects in conjunction with the [Regional Development Commissions](#). DRD requested WATC to assist in examining new approaches to planning and funding the RfR investment portfolio as part of a major DRD review of RfR.

WATC analysed the current situation and developed new methods and approaches for assessing and allocating the RfR portfolio. Working cooperatively with DRD, WATC ran interactive workshops sessions to gain insight into the current process, which involves DRD, several Regional Development Commissions, a trust managing oversight of the RfR fund and other interested parties.

WATC recommended approaching the RfR on a multiple portfolio basis, using research and methods from international best practice in portfolio management to guide the formation of the new approach. The aim was to improve the speed and efficiency of decision-making for RfR allocations, to delegate authorities to appropriate levels, provide feedback mechanisms, and improve the selection and classification of RfR projects into coherent portfolios of related projects. The net result would be a more efficient and higher return group of RfR portfolios employed for the benefit of regional Western Australians.

Government Authority – Vehicle Fleet Analysis

WATC assisted a government trading enterprise (GTE) in the review and comparison of its vehicle fleet financing to determine if the GTE should lease the fleet or continue to own the vehicle fleet.

WATC worked to understand the value and technical challenges of the current fleet and future changes that may occur. WATC modelled various approaches and efficiencies that could be derived under different scenarios, including leasing, outsourcing management of the fleet, and various financing options available.

The final analysis was presented to the client, and also to State Treasury, to assist in making better financial decisions about the GTE fleet and the State vehicle fleet.

Local Government – Lease Analysis of a Major Asset

The WATC Advisory Services team worked with a local government to assist in structuring a 50-year lease of a major council asset. This involved verification of the lease-versus-own decision-making models and process; and working with external industry expert consultants to compare and contrast the results of their models and recommendations against WATC's analysis to provide additional assurance to the local government.

WATC presented the results to the council, and attended public feedback and comment sessions in order to assist the local government to assure its councillors and ratepayers that reasonable and effective financial decisions were being made by the local government, based on the forecasts and facts available at the time.

“Client feedback received throughout the year on advisory engagements was again very positive, with clients citing very high levels of satisfaction across a range of measures.”

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Delivering Solutions: Client Services

Client Foreign Exchange and Treasury Services

The role of WATC's Client Foreign Exchange and Treasury Services Branch is to provide high quality, cost-effective foreign exchange (FX) and treasury management products and services. These products and services are designed to promote and support sound financial risk management practices for WATC's clients and across the Western Australian public sector.

Client Foreign Exchange

WATC understands the challenges that FX risk can present for public sector agencies and authorities and, through its Client FX and Treasury Services Branch, supports the Western Australian public sector in identifying, understanding and managing this risk.

The branch works with policymakers to develop and maintain a framework, such as [Treasurer's Instruction 826](#), that supports the management of FX risks and, in turn, works closely with clients to understand their business and ensure they have the information necessary to support their decision-making and risk management requirements.

During 2015/16, WATC continued to provide a range of tailored FX services designed to support the alignment of the broader government policy and agency practice including:

- analysis and guidance for the development and implementation of internal policies to govern the identification and management of FX risk
- FX education seminars to create awareness, build knowledge and develop skills across the Western Australian public sector
- analysis for the development of business cases for asset procurement and infrastructure projects
- guidance on procurement strategies for projects that will support robust decision-making in relation to FX risk
- assisting clients to evaluate the respondent bids and designing and implementing strategies to manage FX risk during the procurement process.

During 2015/16, WATC transacted in excess of A\$415 million over 11 currencies on behalf of its clients.

Treasury Services

As part of its strategic focus to create value for clients through understanding their needs and providing effective financial solutions, WATC provides treasury management services to a number of clients. Through these services, clients have access to WATC's considerable experience and expertise, together with the benefits of systems, pricing and oversight that come with the scale of operations undertaken by WATC in both domestic and offshore financial markets.

During 2015/16, [Landgate](#) engaged WATC to provide investment management services in relation to its investment portfolio. WATC currently provides transactional, settlement, credit risk management, reporting and accounting services as part of its investment management services for both the Landgate and [Lotterywest](#) investment portfolios.

WATC continues to provide treasury management and support services, including execution, reporting and advising for borrowing, investment and foreign exchange, to Regional Power Corporation ([Horizon Power](#)).

At 30 June 2016, WATC managed in excess of \$8.6 billion in investment funds in its own name and that of its clients. This included over \$4.3 billion for the Public Bank Account and the Western Australian Future Fund.

Clients utilising WATC's treasury management services for investment portfolios achieved returns that outperformed established benchmarks.

"Strategic focus to create value for clients through understanding their needs and providing effective financial solutions."

Our People

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

Highlights for the year included:

- implementation of a Leadership Development Program to develop and encourage desired leadership behaviours for all WATC employees
- the Wellness Program being ranked second out of 59 Western Australian companies in HBF's Corporate Wellness Index
- receiving a third WorkSafe Platinum Certificate of Achievement for Occupational Safety and Health.

The Human Resources unit's purpose is to maximise WATC's productivity by optimising the effectiveness of its employees. Services provided by Human Resources include recruitment, performance management, learning and development, occupational safety and health, compensation, organisational development and employee relations.

Building Capacity

The focus of Human Resources for 2015/16 was on building staff capability and affecting cultural change through the implementation of a Leadership Development Program. Aligned to the new corporate Vision, Objectives and Values to be introduced from 1 July 2016, the ongoing program recognises, develops and encourages desired leadership behaviours for all WATC employees.

The Leadership Development Program has been divided into three parts – Leading Self, Leading Others and Leading the Organisation. Leading Self was introduced through a series of workshops tailored specifically to WATC's requirements and facilitated by leadership specialists Modal, in which all staff participated. WATC's Executive Team received coaching as part of the Leading

the Organisation component. The focus for 2016/17 will be to implement the third part of the program – Leading Others – and design and enhance work practices to apply and embed leadership concepts and behaviours into WATC's everyday activities and processes.

The annual employee engagement survey saw an increase of 11 per cent in the overall engagement score to 51 per cent, a great achievement and closer to the organisational KPI of 55 per cent. The participation rate remained extremely high at approximately 90 per cent. Work continues on the strategic approach to improve employee engagement by encouraging and developing staff self leadership, accountability and continuous improvement aligned to WATC's new [Vision, Objectives and Values](#).

Education and Professional Development

WATC builds capability through supporting staff with learning and development opportunities. In 2015/16, WATC supported three people undertaking tertiary studies, with one staff member undertaking a PhD. Additionally, one staff member was accepted into the Committee for Economic Development of Australia's [Copland Leadership Program](#). All staff are encouraged to undertake regular professional development.

WATC continues to support Curtin University and The University of Western Australia (UWA) with sponsorship of a subject award for final year students.

- The WATC award for the highest mark in Portfolio Management at Curtin School of Business was awarded to Emma Brown.
- The WATC award for the highest mark in Monetary Economics at the UWA Business School was awarded to Ellie Mai.

WATC Staff Safety Representatives with the WorkSafe Platinum Certificate of Achievement (left to right): Lily Costanzo, Ashley Barton, Anne Woodhams and Tom Branch.



CONTINUED

Our People

Safety, Health, Illness and Injury Management

WATC received its third [WorkSafe Platinum Certificate of Achievement](#) for Occupational Safety and Health (OSH), acknowledging WATC's commitment to safety and health in the workplace. The OSH Committee, comprised of safety representatives, employee representatives and management representatives, met every quarter throughout the year with a focus on continuous improvement of WATC's OSH system and culture.

The Wellness Program was expanded to include mental health initiatives, with WATC facilitating Mental Health First Aid training and qualification for interested staff. Other Wellness Program initiatives included skin cancer screening, Healthy Heart checks, flu vaccinations, healthy nutrition, weight loss challenges and various sporting activities. WATC's commitment to its Wellness Program was acknowledged and reinforced when it was ranked second out of 59 Western Australian companies in HBF's Corporate Wellness Index.

There were no fatalities during the year, but there was one lost time injury, as outlined in Table 4 below.

Workforce

WATC's workforce numbers increased from 63 at 30 June 2015 to a total of 66 employees at 30 June 2016, as a number of vacant positions were filled. WATC's workforce possesses a high level of professional experience and technical skill and capability which has been acknowledged by clients and stakeholders.

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.

WATC's workforce profile at 30 June 2016 is shown in Table 5 below.

Table 5: Profile of Workforce

	No.	%
Total Workforce	66	100
Female Employees	18	27.27
Male Employees	48	72.73
Culturally Diverse Background Employees	11	16.67
Tertiary Qualified Employees	61	92.42
Employees over 50	26	39.39
Employees under 25	4	6.06
Annual Turnover Rate	2	3.10

WATC continued its tradition of acknowledging staff who have achieved 25 years of service and in 2015/16, Asset and Liability Manager Geoff Williams was acknowledged for his 25 years of service to WATC. A total of 15 employees have achieved this significant milestone in the 30 years of WATC's operation.

Table 4: Occupational Safety, Health and Injury Management Annual Performance – Three-Year Comparison

Measure	Actual Results		Results Against Target	
	2013/14	2015/16	Target	Comment
Number of fatalities	0	0	0	
Lost time injury and/or disease (LTI/D) incidence rate	1.52	1.62	0	
Lost time injury and/or disease severity rate	0	0	0	
Percentage of injured workers returned to work within 13 weeks.	100%	100%	100%	No lost time injuries during reporting period.
Percentage of injured workers returned to work within 26 weeks.	100%	100%	≥ 80%	No lost time injuries during reporting period.
Percentage of managers and supervisors trained in occupational safety, health and injury management responsibilities.	100%	100%	≥ 80%	All staff completed online OSH training in 2015/16.

Corporate Services

Information and Communications Technology

The highlights for 2015/16 included:

- replacing and decommissioning the legacy Portfolio Lending Arrangements (PLA) system
- commencing the construction of a client-focused extranet.

The Information and Communications Technology (ICT) Branch is focused on ensuring that WATC's 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.

Business Applications

The Summit treasury management system continued to provide the basis for WATC's operations and management of its financial assets and liabilities. The system operated smoothly and reliably with minimal changes during the year.

Infrastructure

Security remained a major focus, with work on firewall infrastructure, email and virus scanning given particular attention during 2015/16. A review of potential new storage area network (SAN) technologies was undertaken

and evaluated against cloud storage facilities and functionality. The flexibility and lower operational costs of cloud infrastructure make it an attractive alternative and it is under consideration. This aligns with the Western Australian Government Information and Communications Technology (ICT) Strategy 2016–2020 and its theme of transitioning technology to cloud services.

Product and Service Delivery

The development of an enterprise data warehouse continued during 2015/16. This has enabled the warehouse to produce invoices and reports, and to store and calculate the State Government Loan Guarantee Fee.

An external consultant was engaged to implement a client portal (extranet) and is working closely with the business units and ICT. The extranet will improve efficiency of internal business processes and information delivery for clients.

The PLA system was replaced in 2015/16 with core Summit functionality and a new Debt Portfolio Manager service that allows management of client debt via a single platform.

Business Continuity

Business continuity is an essential aspect of the services delivered by ICT. WATC continued to monitor, test and maintain its current remote business continuity facilities on a regular basis, ensuring the facilities are available in the event of a threat to business continuity. Future business continuity planning options will focus on the integration of in-house and cloud facilities.



Western Australia Police

WATC assisted WA Police with foreign currency payments and procurement advice associated with the ongoing maintenance of helicopters and fixed wing aircraft to support its specialist units in providing policing services to the community of Western Australia.

Photos: Courtesy of WA Police Corporate Communications



CONTINUED

Corporate Services

Recordkeeping

WATC is committed to implementing recordkeeping best practice and meeting compliance requirements. The following information is provided in accordance with the *State Records Act 2000* s. 61 and the State Records Commission Standard 2, Principle 6.

Efficiency and Effectiveness of WATC's Recordkeeping Systems

The efficiency and effectiveness of WATC's recordkeeping systems and practices are evaluated and reviewed on a regular basis through staff surveys, compliance audits and routine monitoring of recordkeeping systems.

In 2015/16, WATC's biannual Information Management staff survey was undertaken. Results indicated satisfaction with services provided and with the electronic recordkeeping system (TRIM) in general, but identified a requirement for more system training.

WATC's internal auditors, KPMG, undertook an audit focusing on recordkeeping compliance, processes and practices. Overall, the audit results were positive and highlighted some minor areas for improvement which are currently being addressed.

Training and Induction Program

All staff are required to routinely undertake recordkeeping awareness training, with new employees required to undertake this training as part of WATC's induction process.

Following the Information Management survey undertaken during the year, a series of TRIM training modules was developed, with all staff completing the mandatory modules. It is anticipated that future training will be targeted to meet the needs of specific business units/functional areas.

Recordkeeping and TRIM user guides are made available to all staff via the corporate intranet.

The recordkeeping component of the induction program includes topics covering:

- recordkeeping responsibilities, processes and practices
- use and application of TRIM
- completion of the online recordkeeping awareness training module.

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 made available to the public via WATC's website.

The Information Statement was updated during the year and is prepared in accordance with the requirements of the FOI Act and provides guidance to obtaining access to documents held by WATC.

During 2015/16, WATC received one FOI application which was dealt with in accordance with the FOI Act.

Quarterly Report to the Treasurer

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

Pricing Policy

WATC operates in a dynamic market where the price of its lending to the public sector is primarily driven by the 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 of the [branch offices of Link](#) appear on the last page of this report.

WATC uses the systems and services detailed in Table 6 below to facilitate confirmation and settlement of financial transactions.

Electoral Act Disclosures

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 2016, the only disclosable expenditure incurred was in relation to advertising, where an amount of \$14,546 was spent.

Table 6: 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	CreationOnline	Repurchase of offshore issues
Citibank NA London Branch	CitiDirect for Securities	Issuance of Euro Commercial Paper and Euro Medium Term Notes



City of Mandurah

WATC provided debt finance to the City of Mandurah towards its \$42 million Mandurah Aquatic and Recreation Centre Redevelopment (MARC) project. Stage 1 of the project was officially opened on 27 September 2015 and includes a new 50m outdoor pool, a new leisure pool and change room village, refurbishment of the existing 25m lap pool, a new clubroom facility, and an indoor aqua, pirate-themed playground.

Photos: City of Mandurah



Corporate Governance

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

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

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

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

Board Composition

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

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

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

The directors of WATC at 30 June 2016 are shown in Table 7 below.

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 7: Directors of WATC at 30 June 2016

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 ¹	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	31/12/2016

¹ 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 2016 were:

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

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

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



City of Cockburn

WATC provided the City of Cockburn with debt finance to support the construction of the Cockburn ARC project – a state-of-the-art major aquatic and recreation centre which is one of the largest developments of its kind in Australia. The \$109 million development is scheduled for completion in mid-2017 and, in addition to the first-class community facilities provided, will also be the new home of the Fremantle Football Club and a branch of Curtin University.

Photos: City of Cockburn

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 it on appropriate levels of remuneration and other terms and conditions of employment for WATC staff, including the Chief Executive Officer.

The remuneration and allowances payable to appointed directors 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 2016 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.



CONTINUED

Corporate Governance

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 8 below.

Constitution and Proceedings of the Board

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

Statutory Corporations (Liability of Directors) Act 1996

WATC's directors are bound by the provisions of the [Statutory Corporations \(Liability of Directors\) Act 1996](#). Accordingly, directors are required to comply with the same fiduciary responsibilities and duties of loyalty and good faith owed by directors of companies incorporated under the [Corporations Act 2001](#).

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

Insurance Policy

An insurance policy has been taken out to indemnify members of the Board against liabilities under Sections 13 and 14 of the [Statutory Corporations \(Liability of Directors\) Act 1996](#). The amount of the insurance premium paid for 2015/16 was \$59,802.

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](#).

Table 8: Attendance at Meetings by Directors

Director	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
M A Barnes	7	7			2	2
K P Gulich	7	7	4	3		
J M Collins ¹	7	7	4	4	2	2
C A Nance	6	5	3	1	2	1
J A Seabrook	6	6	3	3		
G J Searle	7	5			2	2

¹ John Collins was invited to attend Audit Committee Meetings

"Highest standards of corporate governance practices and ethical conduct by WATC's directors and staff."

Professional Advice

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

Performance Evaluation

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.

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](#)

Changes in Written Law

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

Ministerial Directives

No ministerial directives were received during the financial year.

Future Outlook and Budget 2016/17

Budget 2016/17

Table 9: Budget 2016/17

	\$'000
Income	
Interest on Investments	61,250
Interest from Authorities	1,590,307
Fee Income	1,685
	1,653,242
Expenses	
Interest on Borrowings	1,609,964
Depreciation/Amortisation	1,105
Borrowing Related Expenses	4,188
Administration Expenses	16,911
	1,632,168
Profit before Income Tax Equivalent	21,074
Income Tax Equivalent Expense	6,322
Profit for the Period	14,752

Estimated Borrowing Program 2016/17

Table 10: WATC's Estimated Term Debt Borrowing Program 2016/17

	\$m	\$m
Term Funding Requirement		
New Lending to Clients		5,800
Less: Pre-funding		(1,500)
Projected Maturities		
FRNs	1,750	
Refinancing from short-term	830	2,580
Total Term Funding Requirement		6,880

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

Borrowing Strategy

In order to meet its funding and debt management needs for 2016/17, WATC proposes to:

- issue across the yield curve to fund lending to its clients
- enhance the liquidity in its 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](#), either by tender, private placement or syndication
- issue a new intermediate benchmark bond line maturing in 2024 and consider the issuance of a new bond line maturing in 2026
- consider the issuance of new 2020 and 2022 maturity floating rate notes and continue to issue floating rate notes into outstanding lines in response to investor demand and to accommodate the term floating rate borrowing requirements of clients
- maintain approximately \$1.5 billion to \$3.0 billion of short-term paper on issue through its domestic [short-term inscribed stock](#) or [Euro Commercial Paper Program](#) to meet its short-term lending or liquidity funding requirements
- continue to monitor opportunities to issue through its [Euro Medium Term Note Program](#) and other offshore markets
- transact in derivative products to meet WATC's asset and liability management requirements and to generate floating rate funding for its clients
- ensure that debt issuance undertaken through any of its domestic or 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](#).

WESTERN AUSTRALIAN TREASURY CORPORATION

FINANCIAL SOLUTIONS FOR THE BENEFIT OF ALL WESTERN AUSTRALIANS

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

Statement of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
INCOME			
Revenue			
Interest on Investments		70,803	92,835
Interest from Authorities		1,430,246	1,337,833
Fee Income		2,056	1,500
Total Revenue		1,503,105	1,432,168
Gains			
Foreign Exchange Gain	6	2	8
Net Fair Value Movement	7	87,878	22,523
Total Other Income		87,880	22,531
Total Income		1,590,985	1,454,699
EXPENSES			
Expenses			
Interest on Borrowings		1,558,017	1,415,315
Borrowing Related Expenses		1,070	1,251
Depreciation		266	290
Amortisation of Intangible Assets		58	139
Administration Expenses	5	15,542	14,614
Total Expenses		1,574,953	1,431,609
Profit before income tax equivalent expense		16,032	23,090
Income Tax Equivalent Expense	8	4,824	6,931
Profit for the period		11,208	16,159
Other Comprehensive Income			
Remeasurements of Defined Benefit Liability		19	(12)
Total Comprehensive Income for the period		11,227	16,147

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

Statement of Financial Position

As at 30 June 2016

	Note	2016 \$'000	2015 \$'000
ASSETS			
Cash Assets	9	221,663	2,259
Investments	10	4,038,506	2,900,125
Receivables and Other Financial Assets	11	1,282,297	755,632
Loans to Authorities	12	45,431,970	39,163,589
Tax Assets	13	1,067	1,022
Plant and Equipment	14	552	797
Intangible Assets	15	39	86
Total Assets		50,976,094	42,823,510
LIABILITIES			
Payables and Other Financial Liabilities	17	3,548,434	3,424,567
Borrowings	18	47,297,946	39,268,741
Tax Liabilities	19	11,744	13,114
Provisions	20	3,557	3,406
Total Liabilities		50,861,681	42,709,828
NET ASSETS		114,413	113,682
EQUITY			
Retained Earnings		111,413	110,682
Reserves		3,000	3,000
Total Equity		114,413	113,682

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 2016

	Reserves \$'000	Retained Earnings \$'000	Total Equity \$'000
Balance at 1 July 2014	3,000	103,891	106,891
Profit for the period	0	16,159	16,159
Other comprehensive income	0	(12)	(12)
Total comprehensive income for the period	0	16,147	16,147
Transactions with owners in their capacity as owners:			
Capital appropriations	0	0	0
Distributions to owners	0	(9,356)	(9,356)
Total	0	(9,356)	(9,356)
Balance at 30 June 2015	3,000	110,682	113,682
Balance at 1 July 2015	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)
Balance at 30 June 2016	3,000	111,413	114,413

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 2016

	Note	2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received on Loans to Authorities		1,378,507	1,306,325
Interest received on Investments		68,606	98,683
Proceeds from Sale and Maturity of Investments		2,168,302	4,843,341
Payment for Investments		(1,893,924)	(4,286,942)
Loans to Authorities		(13,407,924)	(9,460,374)
Loans repaid by Authorities		7,749,145	6,707,397
Other Payment on behalf of Authorities		(13)	(628)
Proceeds from Issuance of Borrowings		19,790,062	20,905,740
Repayment of Borrowings		(12,419,951)	(17,804,291)
Fee Income		1,977	1,443
Interest and other Cost of Finance paid		(1,770,759)	(1,547,497)
Administration and Borrowing Related Expenses		(17,975)	(15,501)
Payment of Taxation Equivalents		(6,240)	0
Net Cash provided by Operating Activities	22b	1,639,813	747,696
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for Plant and Equipment		(21)	(135)
Payment for Intangible Assets		(11)	(45)
Net Cash used in Investing Activities		(32)	(180)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of Dividend		(10,496)	(9,356)
Net Cash used in Financing Activities		(10,496)	(9,356)
Net Increase in Cash and cash equivalents		1,629,285	738,160
Cash and cash equivalents at the Beginning of the Financial Year		1,954,933	1,216,765
Unrealised foreign exchange gain		2	8
Cash and cash equivalents at the End of the Financial Year	22a	3,584,220	1,954,933
Included in the above are the following			
Cash Flows to State Government			
Payment of Dividend		(10,496)	(9,356)
Payment of Taxation Equivalents		(6,240)	0
Net Cash provided to State Government		(16,736)	(9,356)

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 2016

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 2016 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 2016.

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.

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:

	2016	2015
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.

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

NOTE 2 (CONTINUED)

(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 2016. 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.

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 65% of WATC's after tax equivalent profit subject to adjustments which have been agreed with the Treasurer. Dividends for the current financial year will be declared by the Board and paid in the subsequent financial year.

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

NOTE 2 (CONTINUED)

(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.

(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 2015, 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. By virtue of a limited exemption, WATC is permitted to early adopt AASB 2015-7 'Amendments to Australian Accounting Standards - Fair Value Disclosures of Not-for-Profit Public Sector Entities', however WATC has not applied this early or 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.

AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'.

AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: amendments to AASB 101'.

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

NOTE 3 (CONTINUED)

Future impact of Australian Accounting Standards issued but not yet operative (CONTINUED)

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

AASB Amendment Affected Standards

AASB 14	'Regulatory Deferral Accounts'
AASB 16	'Leases'
AASB 1056	'Superannuation Entities'
AASB 1057	'Application of Australian Accounting Standards'
AASB 2014-3	'Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & 11]'
AASB 2014-4	'Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and 138)'
AASB 2014-6	'Amendments to Australian Accounting Standards - Agriculture: Bearer Plants [AASB 101, 116, 117, 123, 136, 140 & 141]'
AASB 2014-9	'Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements'
AASB 2014-10	'Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'
AASB 2015-5	'Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exception'
AASB 2015-6	'Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities [AASB 10, 124 & 1049]'
AASB 2015-7	'Amendments to Australian Accounting Standards - Fair Value Disclosures of Not-for-Profit Public Sector Entities [AASB 13]'
AASB 2015-9	'Amendments to Australian Accounting Standards - Scope and Application Paragraphs [AASB 8, 133 & 1057]'
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]'
IFRS 2	'Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2]'

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

AASB Amendment Affected Standards

AASB 15	'Revenue from Contracts with Customers'
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NOTE 4

GAIN/(LOSS) FROM SALE OF PLANT AND EQUIPMENT

WATC did not sell any plant or equipment during the financial year ended 30 June 2016.

	2016 \$'000	2015 \$'000
NOTE 5		
ADMINISTRATION EXPENSES		
The following employee benefit expenses are included in Administration Expenses.		
Salaries	9,045	9,186
Workers Compensation costs	44	36
Superannuation expense	984	983
Long Service Leave Provision	221	14
	10,294	10,219

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 2016, after taking account of exchange fluctuations, a gain of A\$2 thousand (2015, gain of A\$8 thousand) had resulted on this balance.

NOTE 7**NET FAIR VALUE MOVEMENT**

Unrealised Gain - Investments	461	(1)
Unrealised Gain - Loans to Authorities	552,730	132,845
Unrealised Loss - Borrowings	(605,103)	(124,194)
Unrealised Gain - Derivatives	139,790	13,873
Net Fair Value Movement	87,878	22,523
Add Interest movements		
Interest on Investments	70,803	92,835
Interest from Authorities	1,430,246	1,337,833
Interest on Borrowings	(1,558,017)	(1,415,315)
	(56,968)	15,353
Net gain on financial assets and financial liabilities at fair value through profit and loss	30,910	37,876

WATC manages its operations on a portfolio basis to achieve its long term objective. Realised losses totalling A\$205,054 thousand (2015, A\$120,432 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.

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

	2016 \$'000	2015 \$'000
NOTE 8		
INCOME TAX EQUIVALENT EXPENSE		
The prima facie income tax equivalent expense on accounting profit reconciles to the income tax equivalent expense in the accounts as follows:		
Accounting Profit	16,051	23,078
Income tax equivalent expense at 30% (2015, 30%)	4,815	6,924
Tax effect of expenses that are not deductible/assessable in determining taxable profit		
Sundry expenses	9	7
Income tax equivalent expense	4,824	6,931
Income tax equivalent expense comprises movements in:		
Current income tax equivalent expense	4,871	6,867
Deferred tax income relating to the origination and reversal of temporary differences	(45)	61
Deferred tax expense relating to the origination and reversal of temporary differences	(2)	3
Total income tax equivalent expense	4,824	6,931
Deferred Tax Assets:		
Employee Provisions	1,067	1,022
Total (Note 13)	1,067	1,022
Deferred Tax Liabilities:		
Payables	5	6
Foreign Currency Revaluation	1	2
Total (Note 19)	6	8
NOTE 9		
CASH ASSETS		
Bank Deposits	221,639	2,226
Overseas Bank Accounts	24	33
	221,663	2,259
Average Balance	81,875	2,144
Interest Revenue	1,585	216
Average Interest Rate	1.94%	10.10%

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. This resulted in higher interest revenue and a distortion of the average rate in 2014/15 with a return to more normal levels in 2015/16.

	2016 \$'000	2015 \$'000
NOTE 10		
INVESTMENTS – AT FAIR VALUE		
10a. Investments – non derivative		
Investments comprise the following:		
Short Term Money Market Investments	3,639,011	2,900,125
Government Stock	399,495	0
Total	4,038,506	2,900,125
Maturity Profile		
At Call	20,600	674,500
Up to 3 Months	3,719,719	2,225,625
3 to 12 Months	298,187	0
1 to 5 Years	0	0
Over 5 Years	0	0
Total	4,038,506	2,900,125
Repricing Profile		
At Call	20,600	674,500
Up to 3 Months	3,719,719	2,225,625
3 to 12 Months	298,187	0
1 to 5 Years	0	0
Over 5 Years	0	0
Total	4,038,506	2,900,125

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

	2016 \$'000	2015 \$'000
NOTE 10 (CONTINUED)		
10b. Investments – derivative	0	0
Maturity Profile		
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 (Note 11)	0	0
Repricing Profile		
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 (Note 11)	0	0
Credit Exposure		
Rating	%	%
AAA	9.43	0.00
AA	55.64	55.58
A	34.44	44.42
BBB	0.49	0.00
	100.00	100.00
Average Balance	3,166,972	3,376,267
Interest Revenue	69,218	92,619
Average Interest Rate	2.19%	2.74%

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.

	2016 \$'000	2015 \$'000
NOTE 11		
RECEIVABLES AND OTHER FINANCIAL ASSETS		
Accrued Interest Receivable	277,422	242,159
Foreign Currency Receivable	4,547	0
Other Debtors	312,561	78
	594,530	242,237
Other Financial Assets (Notes 10b, 12b & 18b)	687,767	513,395
	1,282,297	755,632

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 2016 and due for settlement after 30 June 2016. 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

	45,431,970	39,163,589
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Maturity Profile

Up to 3 Months	2,947,091	1,617,987
3 to 12 Months	4,307,920	5,062,906
1 to 5 Years	24,788,198	20,555,470
Over 5 Years	13,388,761	11,927,226
Total	45,431,970	39,163,589

Repricing Profile

Up to 3 Months	14,133,216	11,394,244
3 to 12 Months	6,805,990	4,949,059
1 to 5 Years	12,183,952	12,928,236
Over 5 Years	12,308,812	9,892,050
Total	45,431,970	39,163,589

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

	2016 \$'000	2015 \$'000
NOTE 12 (CONTINUED)		
12b. Loans to Authorities – derivative	29	(2,613)
Maturity Profile		
Up to 3 Months	234	(1,141)
3 to 12 Months	(179)	(681)
1 to 5 Years	(325)	(791)
Over 5 Years	299	0
Total derivatives shown as receivables and other financial assets (Note 11)	29	(2,613)
Repricing Profile		
Up to 3 Months	234	(1,141)
3 to 12 Months	(179)	(681)
1 to 5 Years	(325)	(791)
Over 5 Years	299	0
Total derivatives shown as receivables and other financial assets (Note 11)	29	(2,613)
Average Balance	41,314,792	35,691,754
Interest Revenue	1,430,246	1,337,833
Average Interest Rate	3.46%	3.75%

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 (98.0% of total (2015, 98.0%)) are guaranteed by the State whilst Local Government advances (2.0% of total (2015, 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	1,067	1,022
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	2016 \$'000	2015 \$'000
NOTE 14		
PLANT AND EQUIPMENT		
Equipment (at cost)	2,718	2,798
Less Accumulated Depreciation	2,166	2,001
Total Plant and Equipment	552	797
Reconciliation		
Equipment		
Opening balance	797	952
Additions	21	135
Disposals/Write-Offs	(101)	0
Depreciation	(266)	(290)
Accumulated depreciation on disposal	101	0
Closing balance	552	797
NOTE 15		
INTANGIBLE ASSETS		
Intangible Assets (at cost)	8,244	8,233
Less Accumulated Amortisation	8,205	8,147
Total Intangible Assets	39	86
Reconciliation		
Intangible Assets		
Opening balance	86	180
Additions	11	45
Disposals	0	0
Amortisation	(58)	(139)
Accumulated amortisation on disposal	0	0
Closing balance	39	86
NOTE 16		
IMPAIRMENT OF ASSETS		

There were no indications of impairment to Plant and Equipment and Intangible Assets at 30 June 2016.

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 2016

	2016 \$'000	2015 \$'000
NOTE 17		
PAYABLES		
Interest Accrued (at amortised cost)	591,875	518,586
Other Creditors (at amortised cost)	2,956,559	2,905,783
Foreign Currency Payable	0	198
	3,548,434	3,424,567
Other Financial Liabilities (at fair value)	0	0
	3,548,434	3,424,567

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 2016 and due for settlement after 30 June 2016.

NOTE 18

BORROWINGS – AT FAIR VALUE

18a. Borrowings – non derivative

	47,297,946	39,268,741
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Maturity Profile

Up to 3 Months	3,426,243	1,351,023
3 to 12 Months	2,015,764	4,623,241
1 to 5 Years	26,862,886	21,814,029
Over 5 Years	14,993,053	11,480,448
Total borrowings at fair value	47,297,946	39,268,741

Repricing Profile

Up to 3 Months	11,692,039	9,248,546
3 to 12 Months	262,336	3,537,744
1 to 5 Years	20,371,042	15,002,003
Over 5 Years	14,972,529	11,480,448
Total borrowings at fair value	47,297,946	39,268,741

	2016 \$'000	2015 \$'000
18b. Borrowings – derivative	(687,738)	(516,008)
Maturity Profile		
Up to 3 Months	6,783	(1,162)
3 to 12 Months	13,765	(2,285)
1 to 5 Years	(552,348)	(404,774)
Over 5 Years	(155,938)	(107,787)
Total derivatives shown as receivables and other financial assets (Note 11)	(687,738)	(516,008)
Repricing Profile		
Up to 3 Months	132,585	148,812
3 to 12 Months	38,128	38,817
1 to 5 Years	(672,757)	(529,579)
Over 5 Years	(185,694)	(174,058)
Total derivatives shown as receivables and other financial assets (Note 11)	(687,738)	(516,008)
Average Balance	44,518,930	38,945,025
Interest Expense	1,558,017	1,415,314
Average Interest Rate	3.50%	3.63%

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	4,727,375	5,902,005
– Overseas	718,751	52,022
	5,446,126	5,954,027
Payable more than 12 months from 30 June		
– Domestic	38,181,443	30,318,922
– Overseas	0	0
	38,181,443	30,318,922
Balance 30 June at face value	43,627,569	36,272,949

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

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 2016 and are shown below:

	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

	Exchange Rate Translation at 30/06/15	
	Payable 12 Months or Less from 30/06/15	Payable More than 12 Months from 30/06/15
	A\$'000	A\$'000
Foreign Currency Borrowing		
USD 39,957,345	52,022	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.

	2016 \$'000	2015 \$'000
NOTE 19		
TAX LIABILITIES		
Current Income Tax Equivalent Liability	11,738	13,106
Deferred Tax Liability	6	8
	11,744	13,114

NOTE 20

PROVISIONS

Annual Leave	1,072	1,079
Long Service Leave	2,002	1,782
Superannuation – defined benefit plans	483	545
	3,557	3,406

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 2016

	2016 \$'000	2015 \$'000
NOTE 20 (CONTINUED)		
Description of significant events		
There were no Scheme amendments affecting the defined benefits payable, curtailments or settlements during the year.		
Reconciliation of the Net Defined Benefit Liability/(Asset)		
Defined Benefit Obligation	482	545
(+) Fair value of Scheme assets	0	0
Deficit/(surplus)	482	545
(+) Adjustment for effect of asset ceiling	0	0
Net defined benefit liability/(asset)	482	545
Reconciliation of the Fair Value of Scheme Assets		
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	58	199
(+) Contributions by Scheme participants	0	0
(-) Benefits paid	58	199
(-) 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
Reconciliation of the Defined Benefit Obligation		
Present value of defined benefit obligations at beginning of year	545	707
(+) Current service cost	0	0
(+) Interest cost	14	24
(+) Contributions by Scheme participants	0	0
(+) Actuarial (gains)/losses arising from changes in demographic assumptions	1	0
(+) Actuarial (gains)/losses arising from changes in financial assumptions	(24)	(18)
(+) Actuarial (gains)/losses arising from liability experience	4	30
(-) Benefits paid	58	199
(-) 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	482	545

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.

	2016	2015
Significant Actuarial Assumptions at the Reporting Date		
<i>Assumptions to Determine Start of Year DBO and Defined Benefit Cost for the Current Year</i>		
Discount rate (active members)	2.74%	3.69%
Discount rate (pensioners)	2.74%	3.69%
Expected salary increase rate	4.00%	5.00%
Expected pension increase rate	2.50%	2.50%
<i>Assumptions to Determine DBO at Valuation Date</i>		
Discount rate (active members)	2.26%	2.74%
Discount rate (pensioners)	2.26%	2.74%
Expected salary increase rate	3.50%	4.00%
Expected pension increase rate	2.50%	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 based on those used at the last actuarial valuation for the Schemes, with changes as described in our report on the experience investigation dated 27 October 2015.

The expected salary increase rate above is the long term rate. The salary increase rate for the first three years is assumed to be 2.50%.

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

NOTE 20 (CONTINUED)

Sensitivity Analysis

The defined benefit obligation as at 30 June 2016 under several scenarios is presented below.

Scenarios A and B relate to discount rate sensitivity. Scenarios 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	3.50% pa	3.50% pa	3.50% pa	3.00% pa	4.00% pa
Defined benefit obligation (A\$'000s)	482	492	473	467	498

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

	2017 \$'000
Expected employer contributions	98

Maturity profile of defined benefit obligation

The weighted average duration of WATC's defined benefit obligation is 4.0 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.

	2016 \$'000	2015 \$'000
Unrealised Fair Value on Swap Portfolio Credit Sensitivity Analysis		
Unrealised fair value gain/(loss)	4,261	4,161
Basis Point Sensitivity	518,583	452,849
Increase of 80 basis points in credit spreads	41,487	36,228
Increase of 50 basis points in credit spreads	25,929	22,642
Increase of 30 basis points in credit spreads	15,557	13,585
Decrease of 80 basis points in credit spreads	(41,487)	(36,228)
Decrease of 50 basis points in credit spreads	(25,929)	(22,642)
Decrease of 30 basis points in credit spreads	(15,557)	(13,585)

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

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:

	2016 \$'000	2015 \$'000
Value at Risk (VaR)		
Average Daily Balance for Year	1,807	1,450
Lowest for Year	1,254	982
Highest for Year	2,529	2,243
Closing Balance	2,529	2,208

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
2016								
Financial Assets:								
Cash and Cash Equivalents	1.94	221,663						221,663
Receivables – non derivative							594,530	594,530
– derivative			(132,351)	(38,307)	672,432	185,993		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	17,720,584	7,065,870	12,856,384	12,494,805	594,530	50,974,436
Financial Liabilities:								
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

2015

Financial Assets:

Cash and Cash Equivalents	10.10	2,259						2,259
Receivables – non derivative							242,237	242,237
– derivative			(149,953)	(39,498)	528,788	174,058		513,395
Investments	2.74	674,500	2,225,625					2,900,125
Loans to Authorities	3.75		11,394,244	4,949,059	12,928,236	9,892,050		39,163,589
		676,759	13,469,916	4,909,561	13,457,024	10,066,108	242,237	42,821,605
Financial Liabilities:								
Payables							3,424,567	3,424,567
Borrowings	3.63		9,248,546	3,537,744	15,002,003	11,480,448		39,268,741
		0	9,248,546	3,537,744	15,002,003	11,480,448	3,424,567	42,693,308

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

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.

	2016 %	2015 %
Credit Exposure of Investments by Rating		
AAA	9.43	0.00
AA	55.64	55.58
A	34.44	44.42
BBB	0.49	0.00
	100.00	100.00
Credit Exposure of Derivatives by Rating		
AAA	0.00	0.00
AA	96.58	96.93
A	3.42	3.07
	100.00	100.00

Liquidity Risk

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

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

- ensuring that its holdings of liquid assets and/or standby facilities are equal to or above a minimum level 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
2016					
Financial Liabilities:					
Borrowings					
– non derivative	3,961,725	3,378,124	30,074,406	14,225,486	51,639,741
	3,961,725	3,378,124	30,074,406	14,225,486	51,639,741
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)
Total	3,887,736	3,184,352	29,628,198	14,228,335	50,928,621
2015					
Financial Liabilities:					
Borrowings					
– non derivative	1,822,212	5,827,763	24,881,558	11,459,932	43,991,465
	1,822,212	5,827,763	24,881,558	11,459,932	43,991,465
Derivatives					
– derivative payable	60,686	81,894	178,105	91,923	412,608
– derivative receivable	138,656	218,318	538,753	40,826	936,553
Derivatives Net	(77,970)	(136,424)	(360,648)	51,097	(523,945)
Total	1,744,242	5,691,339	24,520,910	11,511,029	43,467,520

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Notes to the Financial Statements

For the year ended 30 June 2016

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 2016, 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
As at 30 June 2016			
Futures	1,052,200	175	0
Interest Rate Swaps	12,832,140	687,591	927,173
Forward Rate Agreements	700,000	0	0
As at 30 June 2015			
Futures	1,539,400	(149)	0
Interest Rate Swaps	9,565,875	513,970	790,776
Forward Rate Agreements	1,650,000	(426)	81

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 2016, WATC had lent funds amounting to A\$12,038,500 thousand (2015, A\$10,320,029 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.

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Notes to the Financial Statements

For the year ended 30 June 2016

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\$718,682 thousand (2015, A\$52,006 thousand) with a fixed future obligation in Australian dollars of A\$714,135 thousand (2015, A\$52,204 thousand). Additionally, WATC has arranged foreign exchange transactions for clients amounting to A\$151,136 thousand (2015, A\$176,763 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 A\$270 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 2016	Market Rate as at 30 June 2015
Overnight	-	1.75%	2.00%
90 days	-	1.96%	2.15%
180 days	-	2.12%	2.26%
15 July 2017	8.00%	1.76%	2.26%
15 October 2019	7.00%	1.92%	2.65%
15 July 2021	7.00%	2.08%	3.01%
16 October 2023	6.00%	2.37%	3.43%

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 2016.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2016				
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
Total Assets	20,600	49,449,905	0	49,470,505
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)
Total Liabilities	35,978,200	10,622,505	0	46,600,705
30 June 2015				
Financial assets designated at fair value through profit or loss				
Investments	674,500	2,225,625	0	2,900,125
Loans to Authorities	0	39,163,589	0	39,163,589
Derivative financial assets	0	(2,613)	0	(2,613)
Total Assets	674,500	41,386,601	0	42,061,101
Financial liabilities designated at fair value through profit or loss				
Borrowings	30,034,301	9,234,440	0	39,268,741
Derivative financial liabilities	0	(516,364)	0	(516,364)
Total Liabilities	30,034,301	8,718,076	0	38,752,377

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.

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.

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Notes to the Financial Statements

For the year ended 30 June 2016

2016
\$'000

 2015
 \$'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 (Note 9)	221,639	2,226
Short Term Money Market Investments	3,362,557	1,952,674
Overseas Bank Accounts (Note 9)	24	33
	3,584,220	1,954,933

22b. Reconciliation of Net Cash provided by Operating Activities to Total Comprehensive Income for the period

Total Comprehensive Income for the period	11,227	16,147
Depreciation	266	290
Amortisation of Intangible Assets	58	139
Unrealised Foreign Exchange Gain	(2)	(8)
Increase in Receivables	(30,940)	(9,387)
Increase in Accrued Interest Payable	65,522	41,814
(Decrease)/Increase in Other Creditors	(1,532)	582
Current income tax equivalent expense	4,871	6,867
Other Payment on behalf of Client Authorities	(13)	(628)
(Increase)/Decrease in deferred tax asset	(45)	61
(Decrease)/Increase in deferred tax liability	(2)	3
Tax Equivalent Payment	(6,240)	0
Increase/(Decrease) in Employee Benefits	151	(205)
Premium/discount amortisation	(301,340)	(190,327)
Fair Value Adjustment	(87,878)	(22,523)
Cash Decrease in Investments	274,378	556,399
Cash Increase in Lending	(5,658,779)	(2,752,977)
Cash Increase in Borrowings	7,370,111	3,101,449
Net Cash provided by Operating Activities	1,639,813	747,696

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****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:

\$	2016	2015
0	3	3
30,001 - 40,000	*1	**1
40,001 - 50,000	1	1
410,001 - 420,000	-	1
420,001 - 430,000	-	-
430,001 - 440,000	-	-
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.

** Ms McMath's term as a Director expired on 31 December 2014 and therefore this remuneration represents part year only.

	2016	2015
	\$	\$
The total remuneration of the directors of WATC is:	522,833	484,654
Which comprises:		
Short Term Employment Benefits	463,711	433,142
Other Long Term Employment Benefits	13,231	8,912
Post Employment Benefits	45,891	42,600

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

No directors are members of the Pension Scheme.

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Notes to the Financial Statements

For the year ended 30 June 2016

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:

\$	2016	2015
110,001 - 120,000	-	*1
160,001 - 170,000	-	1
170,001 - 180,000	1	-
220,001 - 230,000	-	2
230,001 - 240,000	-	1
240,001 - 250,000	1	-
250,001 - 260,000	1	-
270,001 - 280,000	-	1
280,001 - 290,000	-	-
290,001 - 300,000	2	-
320,001 - 330,000	-	-
340,001 - 350,000	-	1
350,001 - 360,000	-	-
360,001 - 370,000	-	-
370,001 - 380,000	1	-

* Mr Cinquina replaced Mr Currie during the previous year and therefore this salary represents part year only.

	2016 \$	2015 \$
The total remuneration of other key management personnel is:	1,637,308	1,579,204
Which comprises:		
Short Term Employment Benefits	1,420,585	1,382,700
Other Long Term Employment Benefits	59,828	43,201
Post Employment Benefits	156,895	153,303

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:	2,160,141	2,063,858
Which comprises:		
Short Term Employment Benefits	1,884,296	1,815,842
Other Long Term Employment Benefits	73,059	52,113
Post Employment Benefits	202,786	195,903

NOTE 24

AUDITOR'S REMUNERATION

Amounts paid or due and payable to the Office of the Auditor General for auditing the financial statements and performance indicators.	183,000	179,000
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NOTE 25**RELATED PARTY TRANSACTIONS**

In its role as the State's central borrowing authority, WATC advances funds, which are guaranteed by the State, to various State Government authorities. As at 30 June 2016, 98.0% (2015, 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.

NOTE 26**EXPLANATORY STATEMENT****26a. Actual/Budget Comparison 2015/16**

	Actual \$'000	Budget \$'000	Variance \$'000	Comment
Revenue				
Interest on Investments	70,803	105,625	(34,822)	1
Interest from Authorities	1,430,246	1,462,396	(32,150)	2
Fee Income	2,056	1,509	547	
	<u>1,503,105</u>	<u>1,569,530</u>	<u>(66,425)</u>	
Gains				
Foreign Exchange Gain	2	0	2	
Net Fair Value Movement	87,878	0	87,878	3
Total Income	<u>1,590,985</u>	<u>1,569,530</u>	<u>21,455</u>	
Expenses				
Interest on Borrowings	1,558,017	1,532,724	25,293	4
Borrowing Related Expenses	1,070	4,171	(3,101)	
Depreciation	266	506	(240)	
Amortisation of Intangible Assets	58	675	(617)	
Administration Expenses	15,542	16,311	(769)	
	<u>1,574,953</u>	<u>1,554,387</u>	<u>20,566</u>	
Profit before income tax equivalent	16,032	15,143	889	
Income tax equivalent expense	4,824	4,543	281	
Profit for the period	11,208	10,600	608	
Other Comprehensive Income	19	0	19	
Total Comprehensive Income	11,227	10,600	627	

Comments – reasons for variations from Budgeted Amounts

1. The decrease in Interest on Investments compared to budget was due to lower than anticipated interest rates and a lower 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 increase in Interest on Borrowings compared to budget was due to higher than anticipated debt levels.

CONTINUED

Notes to the Financial Statements

For the year ended 30 June 2016

NOTE 26 (CONTINUED)

26b. Comparison between 2015/16 and the Previous Year

	2016 \$'000	2015 \$'000	Change \$'000	Comment
Revenue				
Interest on Investments	70,803	92,835	(22,032)	1
Interest from Authorities	1,430,246	1,337,833	92,413	2
Fee Income	2,056	1,500	556	
	1,503,105	1,432,168	70,937	
Gains				
Foreign Exchange Gain	2	8	(6)	
Net Fair Value Movement	87,878	22,523	65,355	3
Total Income	1,590,985	1,454,699	136,286	
Expenses				
Interest on Borrowings	1,558,017	1,415,315	142,702	4
Borrowing Related Expenses	1,070	1,251	(181)	
Depreciation	266	290	(24)	
Amortisation of Intangible Assets	58	139	(81)	
Administration Expenses	15,542	14,614	928	
	1,574,953	1,431,609	143,344	
Profit before income tax equivalent	16,032	23,090	(7,058)	
Income tax equivalent expense	4,824	6,931	(2,107)	
Profit for the period	11,208	16,159	(4,951)	
Other Comprehensive Income	19	(12)	31	
Total Comprehensive Income	11,227	16,147	(4,920)	

- Interest on Investments has decreased by \$22.032 million from the previous year mainly due to a decrease in interest rates and a lower balance invested.
- Interest from Authorities has increased by \$92.413 million from the previous year mainly due to increases in client debt levels.
- Net Fair Value Movement has increased by \$65.355 million from the previous year mainly due to changes in interest rates.
- Interest on Borrowings has increased by \$142.702 million from the previous year as a result of increased borrowings during the year.

NOTE 27

COMMITMENTS

There are no expenditure commitments contracted for and payable at 30 June 2016 (2015, nil).

NOTE 28

SUBSEQUENT EVENTS

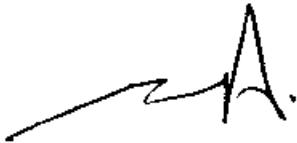
There have been no events subsequent to balance date which would have a material effect on WATC's financial statements at 30 June 2016.

Certification of Financial Statements

For the year ended 30 June 2016

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 2016 and the financial position as at 30 June 2016.

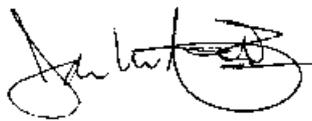
At the date of signing, we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



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

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2016



J M COLLINS
CHIEF EXECUTIVE OFFICER

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2016



M A BARNES
CHAIRPERSON

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2016

Key Performance Indicators

MISSION STATEMENT (2015/2016)

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

KEY OUTCOME

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

GLOSSARY OF TERMS

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

KEY EFFECTIVENESS INDICATOR – ESTIMATED INTEREST RATE SAVINGS

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

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

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

Term to Maturity as at 30/6/16 (Years)	AAA			AA+			AA			AA-		
	15/16 %	14/15 %	13/14 %	15/16 %	14/15 %	13/14 %	15/16 %	14/15 %	13/14 %	15/16 %	14/15 %	13/14 %
1 to 2	0.38	0.59	0.50	0.67	0.13	0.58	0.58			0.84	0.35	0.36
2 to 3	0.26	0.07	0.42	0.49	0.49	0.24	0.72			0.86	0.50	0.45
3 to 4	0.45		0.11	0.42	0.41	0.65	0.73			0.78	0.56	0.59
4 to 5			0.12	0.49	0.34	0.60	0.42	0.89			0.59	
5 to 6	0.31	0.02	0.16	0.58	0.64	0.43	0.77		0.90	0.94		0.65
6 to 7	0.31		0.13	0.55	0.30							
7 to 8	0.21	0.40	0.18		0.41	0.53	0.75					
8 to 9		0.00			0.23	0.84						
9 to 10	0.15		0.25	0.11								
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.

By way of example, the saving of 0.59% identified in the first row of the AAA 14/15 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 helps to reduce the initial interest cost of bond issues by improving the secondary market and hence liquidity of a borrower's bonds.

Cost Estimation Methodology

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

- be rated between AAA and AA-;
- be on issue at 30 June 2015 and have at least one year until maturity at 30 June 2016;
- 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 2011/12 to 2015/16

Year	Net Administration Expense \$m	Average Loan Funds Outstanding \$m	Administration Cost Ratio %
2011/12	14.378	25,755	0.056
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

CONTINUED

Key Performance Indicators

KEY EFFICIENCY COST EFFECTIVENESS INDICATOR – ADMINISTRATION COST RATIO (CONTINUED)

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.

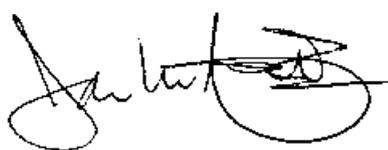
WATC's administration cost ratio will fluctuate from time to time due to changes in aggregate debt levels as well as direct management action. Changes in aggregate debt levels are impacted by government asset sales and debt management policy in general which is beyond the control of WATC.

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 2016.



J M COLLINS
CHIEF EXECUTIVE OFFICER

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2016



M A BARNES
CHAIRPERSON

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2016

Independent Auditor's Report

To the Parliament of Western Australia

WESTERN AUSTRALIAN TREASURY CORPORATION

Report on the Financial Statements

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

The financial statements comprise the Statement of Financial Position as at 30 June 2016, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the financial position of the Western Australian Treasury Corporation at 30 June 2016 and its financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility 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 based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Report on Controls

I have audited the controls exercised by the Western Australian Treasury Corporation during the year ended 30 June 2016.

Controls exercised by the Western Australian Treasury 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.

Opinion

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 2016.

Board's Responsibility for Controls

The Board is responsible for maintaining an adequate system of internal control to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities are in accordance with the Financial Management Act 2006 and the Treasurer's Instructions, and other relevant written law.

Auditor's Responsibility for the Audit of Controls

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

CONTINUED

Independent Auditor's Report

To the Parliament of Western Australia

An audit involves performing procedures to obtain audit evidence about the adequacy of controls to ensure that the Corporation complies with the legislative provisions. The procedures selected depend on the auditor's judgement and include an evaluation of the design and implementation of relevant controls.

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

Report on the Key Performance Indicators

I have audited the key performance indicators of the Western Australian Treasury Corporation for the year ended 30 June 2016.

The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide information on outcome achievement and service provision.

Opinion

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 2016.

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 controls as the Board determines necessary to ensure that the key performance indicators fairly represent indicated performance.

Auditor's Responsibility for the Audit of Key Performance Indicators

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

An audit involves performing procedures to obtain audit evidence about the key performance indicators. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments the auditor considers internal control relevant to the Board's preparation and fair presentation of the key performance indicators in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the relevance and appropriateness of the key performance indicators for measuring the extent of outcome achievement and service provision.

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

Independence

In conducting the above audits, I have complied with the independence requirements of the Auditor General Act 2006 and Australian Auditing and Assurance Standards, and other relevant ethical 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 2016 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
23 August 2016

Client Authorities

Face Value Net Debt Outstanding to WATC at 30 June 2016

Authority Name	Balance at 1 July 2015 \$'000	Net Advances During Year \$'000	Balance at 30 June 2016 \$'000
Albany City Council	17,314	(1,217)	16,097
Animal Resources Authority	0	840	840
Armadale City Council	32,121	(929)	31,191
Ashburton Shire Council	5,900	(676)	5,224
Augusta-Margaret River Shire Council	9,125	(645)	8,480
Bassendean Town Council	1,639	(588)	1,051
Bayswater City Council	88	(51)	37
Belmont City Council	2,205	(476)	1,729
Beverley Shire Council	1,072	83	1,155
Boddington Shire Council	3,134	(327)	2,807
Boyup Brook Shire Council	669	(51)	618
Bridgetown-Greenbushes Shire Council	2,204	327	2,532
Brookton Shire Council	1,845	(115)	1,730
Broome Shire Council	4,560	(887)	3,673
Broomehill-Tambellup Shire Council	254	(50)	204
Bruce Rock Shire Council	337	(64)	273
Bunbury City Council	15,326	(1,451)	13,876
Bunbury Water Corporation	506	(55)	450
Busselton City Council	29,998	(974)	29,024
Busselton Water Corporation	1,894	(246)	1,648
Cambridge Town Council	13,177	553	13,730
Canning City Council	13,103	(2,385)	10,718
Capel Shire Council	6,413	1,491	7,904
Carnamah Shire Council	723	(45)	678
Carnarvon Shire Council	1,125	(475)	650
Chapman Valley Shire Council	193	15	208
Chittering Shire Council	1,089	(53)	1,036
Claremont Town Council	11,330	(2,129)	9,201
Cockburn City Council	2,166	23,577	25,743
Collie Shire Council	1,534	(139)	1,395
Commissioner of Main Roads	5,766	(5,766)	0
Coolgardie Shire Council	1,678	(332)	1,347
Coorow Shire Council	519	(130)	389
Corrigin Shire Council	2,249	(148)	2,101
Cottesloe Town Council	5,147	(54)	5,093
Country High School Hostels Authority	15,842	(958)	14,884
Country Housing Authority	45,409	(3,577)	41,833
Cranbrook Shire Council	616	(80)	537
Cuballing Shire Council	356	(66)	289
Cunderdin Shire Council	1,638	(191)	1,447
Curtin University of Technology	57,246	(1,876)	55,370
Dalwallinu Shire Council	1,199	(108)	1,091
Dandaragan Shire Council	907	(169)	738
Dardanup Shire Council	2,653	(346)	2,307

CONTINUED

Client Authorities

Face Value Net Debt Outstanding to WATC at 30 June 2016

Authority Name	Balance at 1 July 2015 \$'000	Net Advances During Year \$'000	Balance at 30 June 2016 \$'000
Denmark Shire Council	2,084	654	2,738
Derby-West Kimberley Shire Council	2,300	(144)	2,157
Donnybrook-Balingup Shire Council	1,157	(356)	801
Dowerin Shire Council	578	(82)	496
Dumbleyung Shire Council	238	(19)	219
East Pilbara Shire Council	7,453	(1,129)	6,324
Edith Cowan University	99,586	(9,446)	90,140
Electricity Generation and Retail Corporation	181,594	65,339	246,934
Electricity Networks Corporation	7,125,219	163,496	7,288,715
Esperance Shire Council	3,035	(636)	2,399
Exmouth Shire Council	1,335	(111)	1,224
FES Ministerial Body	65,716	(14,890)	50,826
Fremantle City Council	20,288	(973)	19,315
Fremantle Port Authority	221,111	(12,775)	208,336
Gingin Shire Council	2,452	(71)	2,381
Gnowangerup Shire Council	1,514	(203)	1,311
Gosnells City Council	0	18,300	18,300
Government Employees Superannuation Board	284,865	(39,873)	244,991
Greater Geraldton City Council	22,128	5,772	27,900
Halls Creek Shire Council	1,190	(75)	1,114
Harvey Shire Council	2,078	(308)	1,770
Housing Authority	4,818,921	120,000	4,938,921
Independent Market Operator	12,063	(12,063)	0
Irwin Shire Council	3,566	(1,086)	2,479
Jerramungup Shire Council	1,000	(7)	993
Joondalup City Council	14,337	(55)	14,282
Kalamunda Shire Council	6,888	(594)	6,294
Kalgoorlie-Boulder City Council	8,933	3,117	12,050
Karratha City Council	0	476	476
Katanning Shire Council	337	(115)	222
Kellerberrin Shire Council	1,573	(106)	1,468
Kent Shire Council	654	(72)	582
Kimberley Ports Authority	16,077	(886)	15,190
Kojonup Shire Council	426	(53)	372
Kondinin Shire Council	1,730	(22)	1,708
Kulin Shire Council	0	1,500	1,500
Kwinana City Council	22,227	1,030	23,256
Lake Grace Shire Council	2,008	(242)	1,766
Laverton Shire Council	1,132	(122)	1,010
Mandurah City Council	29,255	(212)	29,043
Manjimup Shire Council	3,889	206	4,095
Melville City Council	3,070	(295)	2,776
Merredin Shire Council	1,251	(150)	1,101
Metropolitan Redevelopment Authority	259,227	52,083	311,310

Authority Name	Balance at 1 July 2015 \$'000	Net Advances During Year \$'000	Balance at 30 June 2016 \$'000
Mid West Ports Authority	91,471	(71,889)	19,582
Mingenew Shire Council	1,060	(172)	887
Minister for Education	268,189	27,348	295,537
Minister for Finance (utilising powers under the <i>State Supply Commission Act 1991</i> as amended)	91,316	(16,079)	75,237
Minister for Fisheries	33,435	(3,307)	30,128
Moora Shire Council	1,200	389	1,589
Morawa Shire Council	246	273	519
Mosman Park Town Council	6,532	(196)	6,336
Mount Magnet Shire Council	280	(37)	243
Mount Marshall Shire Council	322	(113)	209
Mukinbudin Shire Council	1,069	(147)	922
Mundaring Shire Council	4,364	8,550	12,914
Murdoch University	7,829	(618)	7,210
Murray Shire Council	3,968	370	4,338
Nannup Shire Council	159	(77)	82
Narembeen Shire Council	1,255	(125)	1,130
Narrogin Shire Council	127	(49)	78
Narrogin Town Council	993	305	1,299
Nedlands City Council	5,877	1,311	7,188
Northam Shire Council	2,512	(210)	2,302
Northampton Shire Council	989	(154)	835
Nungarin Shire Council	357	303	660
Peppermint Grove Shire Council	887	(23)	864
Perenjori Shire Council	1,400	88	1,488
Perth City Council	42,769	(6,442)	36,327
Perth Market Authority	40,516	(40,516)	0
Pilbara Ports Authority	222,336	(22,389)	199,947
Pingelly Shire Council	3,248	(166)	3,083
Plantagenet Shire Council	3,044	(48)	2,996
Port Hedland Town Council	25,718	(1,897)	23,821
Public Transport Authority	1,866,552	240,379	2,106,931
Quairading Shire Council	212	(29)	183
Ravensthorpe Shire Council	1,786	491	2,276
Regional Power Corporation	702,641	10,759	713,400
Rockingham City Council	17,600	(1,934)	15,666
Serpentine-Jarrahdale Shire Council	2,117	(366)	1,751
Shark Bay Shire Council	476	(112)	365
South Perth City Council	9,231	3,850	13,081
Southern Metropolitan Regional Council	28,464	(3,484)	24,980
Southern Ports Authority	49,499	(7,892)	41,607
Subiaco City Council	9,706	(521)	9,185
Swan City Council	40,667	1,419	42,086
Tammin Shire Council	305	95	400

CONTINUED

Client Authorities

Face Value Net Debt Outstanding to WATC at 30 June 2016

Authority Name	Balance at 1 July 2015 \$'000	Net Advances During Year \$'000	Balance at 30 June 2016 \$'000
The State of Western Australia through the Minister for Agriculture and Food under the <i>Loans (Co-operative Companies) Act 2004</i>	8,994	22,475	31,469
The Treasurer on behalf of the State of Western Australia	12,139,096	5,100,000	17,239,096
Three Springs Shire Council	561	(142)	419
Toodyay Shire Council	2,813	(255)	2,557
Trayning Shire Council	418	309	727
University of Western Australia	126,559	25,182	151,741
Upper Gascoyne Shire Council	668	(34)	634
Victoria Park Town Council	13,000	(2,030)	10,970
Victoria Plains Shire Council	168	(28)	140
Vincent City Council	17,357	(760)	16,597
Wagin Shire Council	750	(124)	626
Wandering Shire Council	350	(67)	283
Wanneroo City Council	60,778	0	60,778
Waroonna Shire Council	322	(36)	286
Water Corporation	5,365,000	82,000	5,447,000
West Arthur Shire Council	505	53	558
Western Australian Land Authority	125,522	24,478	150,000
Westonia Shire Council	411	(80)	331
Wickepin Shire Council	187	(50)	137
Williams Shire Council	707	(60)	647
Wiluna Shire Council	1,411	(153)	1,258
Wongan-Ballidu Shire Council	846	(98)	748
Wyalkatchem Shire Council	358	(141)	217
Wyndham-East Kimberley Shire Council	7,118	(954)	6,163
Yalgoo Shire Council	775	(80)	695
York Shire Council	2,298	448	2,747
TOTAL	35,046,446	5,700,650	40,747,096

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 WATC's stockholders.

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

Western Australia

Level 4, Central Park
152 St Georges Terrace
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Victoria

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MELBOURNE VIC 3000

New South Wales

Level 12
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SYDNEY NSW 2000

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BRISBANE QLD 4000

Stockholding Enquiries

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



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