WESTERN AUSTRALIAN

TREASURY CORPORATION

QUARTERLY REPORT

For the quarter ended 31 December 2005

CONTENTS

Introduction

In accordance with section 21B of the Western Australian Treasury Corporation Act 1986, following is a report on the activities of the Western Australian Treasury Corporation (the "Corporation") for the quarter ended 31 December 2005.

Overview of Activities

Borrowing

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

Following is an overview of the Corporation's borrowing activities:

Domestic Borrowings

As at 31 December 2005, the Corporation had approximately $11,613 million of domestic inscribed stock in circulation. Of this, $7,262 million was raised through the Corporation's benchmark bonds known as "hot stocks", $3,156 million in short term issues and $1,195 million through other issues.

Details of the Corporation's "hot stocks" as at 31 December 2005 are:

Coupon	Maturity	Amount on Issue as at 30 September 2005	Amount on Issue as at 31 December 2005	Change
5.50%	16/10/2006	$1,694 million	$1,637 million	-$ 57 million
8.00%	15/10/2007	$1,538 million	$1,288 million	-$250 million
5.50%	15/10/2008	$0	$ 779 million	+$779 million
7.50%	15/10/2009	$1,516 million	$1,399 million	-$117 million
7.00%	15/04/2011	$ 886 million	$ 906 million	+$ 20 million
8.00%	15/06/2013	$1,100 million	$1,252 million	+$152 million

Overseas Borrowings

Bond Issues

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

Euro Medium Term Note Issues

No new issues were undertaken by the Corporation through its Euro Medium Term Note Program during the quarter.

The total face amount of Notes outstanding under the Euro Medium Term Note Program as at quarter end was AUD 266.0 million of Australian Dollar debt and NZD 64 million of New Zealand Dollar denominated debt.

Commercial Paper Issues

During the quarter, Euro Commercial Paper (“ECP”) Program issues totalling USD125 million were transacted which produced Australian dollar funding with maturities ranging from 32 to 94 days.

As at the end of the quarter, there was USD125 million of notes outstanding under the multi-currency ECP Program.

Lending

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

As at 31 December 2005, total loans outstanding to the Corporation’s clients totalled $9,623.9 million. In the quarter ending 31 December 2005, net lending by the Corporation to its clients increased by $269.3 million.

Funds Management

As at 31 December 2005, the Corporation had Public Bank Account funds of $1,713 million under management. These funds are invested in accordance with the Financial Administration and Audit Act.

FINANCIAL PERFORMANCE

The Corporation’s net profit for the period ended 31 December 2005 was $5.3 million. As a comparison, the budgeted net profit for this period was $2.7 million.

KEY PERFORMANCE INDICATORS

Estimated Interest Rate Savings

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

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

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

	Year to 31/12/2005			
Term to Maturity (Years)	AAA	AA+	AA	AA-
1 to 2	0.18%	0.17%	0.34%	0.24%
2 to 3	0.26%	0.42%	0.32%	0.28%
3 to 4	0.27%	0.29%	0.36%	0.33%
4 to 5	0.22%		0.34%	0.35%
5 to 6	0.28%			
7 to 8	0.19%			
8 to 9	0.25%		0.68%	
13 to 14	0.35%			

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

Administration Ratio

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

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

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

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

Target: Administration Ratio < 0.12%
Outcome: Administration Ratio = 0.09% (01/07/05 to 31/12/05)

Capital Ratio

In view of the Corporation's activities as a participant in financial markets, it is essential that it have sufficient capital to efficiently manage its portfolio within prescribed risk parameters. Hence, the Corporation's capital ratio is monitored on a daily basis.

$$\text{Capital Ratio (\%)} = \frac{\text{Available Capital}}{\text{Regulatory Capital}} * \frac{100}{1}$$

Target: Capital Ratio ≥ 100% on a daily basis.

Outcome: The capital ratio exceeded the target of 100% on each day of the reporting period as shown in the following table.

	Lowest Capital Ratio for Period	Highest Capital Ratio for Period	Average Capital Ratio for Period
6 Months to 31 Dec 2005	179%	212%	193%

Return on Capital

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

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

Adjusted Average Monthly Capital for the Period is calculated as:
$(AMC_{Jul} + AMC_{Aug} \ldots\ldots + AMC_{Jun}) / 12$

Where:
AMC = Adjusted Monthly Capital
AMC_{Jul} = (Starting Capital)$_{July}$
$AMC_{Aug} = AMC_{Jul}$ +/- Dividend to the Government during the previous month
:
$AMC_{Jun} = AMC_{May}$ +/- Dividend to the Government during the previous month

	Year to Date Target	Year to Date Return	Annual Target
6 Months to 31 Dec 2005	3.82%	13.64%	7.64%

FINANCIAL STATEMENTS

WESTERN AUSTRALIAN TREASURY CORPORATION
UNAUDITED INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2005

	Note	**2006** **31-Dec-05** **$'000**	2005 31-Dec-04 $'000
<u>INCOME</u>			
Revenue			
Interest on Investments		**74,394**	76,851
Interest from Authorities		**287,413**	278,660
Fee Income		**72**	72
Net Market Value Movement	2	**(5,887)**	57,104
Total Revenue		**355,992**	412,687
Gains			
Gains from Sale of Plant & Equipment	4	**1**	7
Total Gains		**1**	7
Total Income		**355,993**	412,694
<u>EXPENSES</u>			
Expenses			
Interest on Borrowings		**343,853**	401,531
Depreciation		**83**	73
Amortisation of Intangible Assets		**257**	290
Administration Expenses		**3,707**	3,887
Loan Raising Expenses		**506**	692
Foreign Exchange Loss	3	**3**	27
Total Expenses		**348,409**	406,500
Profit before income tax equivalent		**7,584**	6,194
Income Tax Equivalent Expense	5	**2,252**	1,860
Profit for the period		**5,332**	4,334

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

WESTERN AUSTRALIAN TREASURY CORPORATION
UNAUDITED BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	**2006** **31-Dec-05** **$'000**	2005 30-Jun-05 $'000	2005 31-Dec-04 $'000
. ASSETS				
- Cash Assets	6	**2,588**	2,892	1,803
- Investments	7	**2,833,842**	2,801,506	2,899,813
- Receivables	8	**119,148**	151,257	144,425
- Loans to Authorities	9	**9,790,180**	10,040,909	9,414,822
- Tax Assets	10	**188**	274	222
- Plant and Equipment	11	**455**	436	423
- Intangible Assets	12	**449**	609	767
TOTAL ASSETS		**12,746,850**	12,997,883	12,462,275
. LIABILITIES				
- Payables	13	**114,998**	178,130	184,620
- Borrowings	14	**12,567,800**	12,760,831	12,218,101
- Tax Liabilities	15	**907**	771	1,857
- Provisions	16	**2,212**	2,550	2,388
TOTAL LIABILITIES		**12,685,917**	12,942,282	12,406,966
NET ASSETS		**60,933**	55,601	55,309
. EQUITY				
- Retained Profits		**60,933**	55,601	55,309
TOTAL EQUITY		**60,933**	55,601	55,309

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

WESTERN AUSTRALIAN TREASURY CORPORATION
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2005

	Note	**2006 31-Dec-05 $'000**	2005 30-Jun-05 $'000	2005 31-Dec-04 $'000
Net Income recognised directly in equity		**-**	-	-
Profit for the period		**5,332**	8,123	4,334
Total recognised income and expense for the period		**5,332**	8,123	4,334
Movements in Equity				
Retained Profits				
Balance at start of period		**55,601**	50,975	50,975
Profit for the period		**5,332**	8,123	4,334
Total for the period		**60,933**	59,098	55,309
Dividend		**-**	(3,497)	**-**
Balance at end of period		**60,933**	55,601	55,309

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

WESTERN AUSTRALIAN TREASURY CORPORATION
UNAUDITED STATEMENT OF CASH FLOWS
For the period ended 31 December 2005

	Note	**2006** **31-Dec-05** **$'000**	2005 31-Dec-04 $'000
Cash Flows from Operating Activities			
Interest received on Loans to Authorities		**291,495**	282,657
Interest received on Investments		**82,809**	71,324
Fee Income		**72**	72
Interest and other Cost of Finance Paid		**(326,599)**	(419,773)
Administration and Loan Raising Expenses		**(4,870)**	(5,263)
Net Cash provided by Operating Activities	18b	**42,907**	(70,983)
Cash Flows from Investing Activities			
Proceeds from Sale and Maturity of Investments		**82,731**	545,173
Payment for Investment Securities		**(111,642)**	(395,919)
Loans to Client Authorities		**(1,426,147)**	(3,222,549)
Loans repaid by Client Authorities		**1,646,032**	3,342,441
Payment for Plant & Equipment		**(119)**	(280)
Payment for Intangible Assets		**(97)**	(11)
Proceeds from Sale of Plant & Equipment		**1**	7
Net Cash provided by Investing Activities		**190,759**	268,862
Cash Flows from Financing Activities			
Proceeds from Issuance of Borrowings		**6,208,156**	10,361,996
Repayment of Borrowings		**(6,458,521)**	(10,245,340)
Payment on behalf of Client Authorities		**578**	(43,124)
Net Cash used in Financing Activities		**(249,787)**	73,532
Cash Flows to Government			
Payment of Dividend		**-**	-
Payment of Tax Equivalents		**(2,031)**	(972)
Net Cash provided to Government		**(2,031)**	(972)
Net Increase/(Decrease) in Cash Held		**(18,152)**	270,439
Cash at the Beginning of the Financial Year		**2,759,992**	2,587,172
Exchange Rate Adjustments to Opening Cash		**(3)**	(27)
Cash at the End of the Period	18a	**2,741,837**	2,857,584

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

WESTERN AUSTRALIAN TREASURY CORPORATION

UNAUDITED NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2005

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been adopted in the preparation of the financial statements.

(a) General Statement

(i) The financial statements constitute a general purpose financial report which has been prepared in accordance with Australian Accounting Standards as applied by the Treasurer's Instructions which may modify or clarify their application, disclosure, format and wording to provide certainty and to ensure consistency and appropriate reporting across the public sector.

The Financial Administration and Audit Act and the Treasurer’s Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, UIG Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

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

(ii) All amounts in these financial statements are rounded to the nearest thousand dollars.

(b) Market Value Accounting

The Corporation maintains investments, loans to authorities and borrowings for trading and accordingly, values these at market value. All other assets, including receivables and prepayments, and other liabilities, including creditors, accruals and provisions are stated at cost. Plant and equipment is also stated at cost. The Corporation manages its business daily on a market value basis as it believes it provides a better basis for making decisions and evaluating its portfolios. The external reporting of these market values was seen as a natural extension of providing more meaningful information. This basis of measurement has also been common practice amongst state central borrowing authorities in Australia.

(c) Fee Income

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

(d) Interest

Interest revenue and expense is recognised as it accrues and includes items of a similar nature realised in managing the relevant portfolios.

(e) Plant and Equipment

Plant and Equipment, which are stated at cost less any accumulated depreciation and any impairment in value are depreciated over their estimated useful lives using the straight line method. The depreciation rates used for each class of asset are as follows:

	2006	2005
- Computer Equipment	**33.3%**	33.3%
- Other Equipment	**10 - 17%**	10 - 17%

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 value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement.

(f) Intangible Assets

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 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.

(g) Investments

Investments are valued at the market value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Income Statement. 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 provide liquidity for the Corporation's "hot stocks" and are therefore held in the expectation of being realised within twelve months.

(h) Loans to Authorities

Loans to Authorities are valued at the market value applicable at reporting date and are recorded as assets in the Balance Sheet. Unrealised gains or losses arising from this policy are brought to account in the Income Statement. In normal circumstances, maturities of loans to authorities are either rolled over or refinanced.

(i) Borrowings

Borrowings are valued at the market value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Income Statement. In normal circumstances, maturities of borrowings are either rolled over or refinanced.

(j) Derivative Financial Instruments

Derivatives are used exclusively to hedge interest rate and foreign currency exposures. Accordingly, the contracts are accounted for in a manner consistent with the accounting treatment of the underlying physical exposures, which are marked to market daily. Changes in net fair value during the year are recognised as revenues or expenses in the Income Statement.

(k) Foreign Currency Translation

Foreign currency transactions are brought to account in Australian dollars at settlement date at the rate of exchange applying at that date. At reporting date, foreign currency transactions are translated at the exchange rates existing at 31 December 2005. Exchange gains or losses are brought to account in the Income Statement.

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

(l) Employee Benefits

(i) Sick Leave
No provision is made for sick leave entitlements as they are non-vesting and the sick leave taken in a financial year is not expected to exceed the entitlement accruing in a year.

(ii) Annual Leave
This benefit is recognised at the reporting date in respect of employees' services up to that date and is measured at the nominal amounts expected to be paid when the liabilities are settled. Employee on-costs are separately disclosed in Note 16.

(iii) Long Service Leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provisions 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 from the reporting date is recognised in the provisions 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 including relevant on-costs, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. Employee on-costs are separately disclosed in Note 16.

(iv) Superannuation

Staff may contribute to the Gold State Superannuation Scheme, a defined benefit lump sum scheme now closed to new members. All staff who do not contribute to this scheme become non-contributory members of the West State Superannuation Scheme, an accumulation scheme. The Corporation contributes to this accumulation scheme in compliance with the Commonwealth Government's Superannuation Guarantee (Administration) Act 1992.

The Gold State Superannuation Scheme and the West State Superannuation Scheme, where the current service superannuation charge is paid by the Corporation to the Government Employees Superannuation Board, are defined contribution schemes. The liabilities for current service superannuation charges under these schemes are extinguished by the concurrent payment of employer contributions to the Government Employees Superannuation Board. The Corporation also has a superannuation liability as a result of prior service of current staff who were previously within the public service. The benefit for these employees is a defined benefit scheme. The benefits are wholly unfunded and the liabilities for future payments are provided for at balance date. The liability under this scheme has been calculated annually by actuaries for the Government Employees Superannuation Board and is recorded as a liability in the Balance Sheet.

(v) Employee Benefit On-Costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and expenses when the employee benefits to which they relate are recognised as liabilities and expenses.

(m) Dividend Policy

The Corporation's dividend policy has been formulated to ensure that the Corporation pays an appropriate dividend to the State which is consistent with sound commercial practice and has regard to the financial health of the Corporation. The Corporation's policy provides for dividends to be paid to the Consolidated Fund at a level of 60% of the Corporation's after tax equivalent profit subject to adjustments which are agreed with the Treasurer. Dividends for the current financial year will be declared by the Board and provided and paid in the subsequent financial year.

(n) Income Tax-Effect Accounting

The Corporation operates within a tax equivalent regime ("TER") whereby an equivalent amount in respect of income tax is payable to the State Department of Treasury and Finance. 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, the Corporation is required to comply with Australian Accounting Standard AASB 112 "Income Taxes".

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences and carry forward of unused tax assets, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets can be utilised.

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

(o) Segments

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

(p) Recoverable Amount

At each reporting date the Corporation assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Corporation 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 value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash flows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

(q) Receivables

Receivables are recognised at cost.

(r) Payables

Payables are recognised as amounts to be paid in the future for goods and services received, whether or not billed.

(s) Cash and cash equivalents

Cash assets in the balance sheet comprise cash at bank and in hand.

NOTE 2

NET MARKET VALUE MOVEMENT

	2006 31-Dec-05 $'000	2005 31-Dec-04 $'000
Market Value Adjustment - Investments	**196**	1,815
Market Value Adjustment - Loans to Authorities	**(33,490)**	73,265
Market Value Adjustment - Borrowings	**27,407**	(17,976)
	(5,887)	57,104

The Corporation manages its operations on a portfolio basis to achieve its long term objective. Realised gains and losses are reflected in interest revenue and expense. The net market value movement represents unrealised market value adjustments to be realised over the term of the underlying securities.

NOTE 3

FOREIGN EXCHANGE GAIN/LOSS

The Corporation maintains balances in its foreign currency bank accounts for the payment of expenses incurred through its overseas borrowings. At 31 December 2005, after taking account of exchange fluctuations, a loss of A$3 thousand (2005, loss of A$27 thousand) had resulted on this balance.

NOTE 4

GAINS FROM SALE OF PLANT & EQUIPMENT

Computer Hardware		
Gross proceeds of disposed hardware	**1**	7
Book value of disposed hardware	**-**	-
Gain on disposal of hardware	**1**	7

NOTE 5

INCOME TAX EQUIVALENT

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

	2006 31-Dec-05 $'000	2005 30-Jun-05 $'000	2005 31-Dec-04 $'000
Accounting Profit	**7,584**	11,607	6,193
Income tax equivalent expense at 30%	**2,275**	3,482	1,858
Tax effect of expenses that are not deductible/assessable in determining taxable profit			
Sundry expenses	**2**	2	2
Deduct Pre ITER provision	**(25)**	-	(0)
Income tax equivalent expense	**2,252**	3,484	1,860
Income tax equivalent expense comprises movements in:			
Current income tax equivalent expense	**2,166**	3,527	1,851
Deferred tax income relating to the origination and reversal of temporary differences	**86**	(37)	15
Deferred tax expense relating to the origination and reversal of temporary differences	**0**	(6)	(6)
Total income tax equivalent expense	**2,252**	3,484	1,860

NOTE 6

CASH ASSETS

	2006	2005	2005
	31-Dec-05	30-Jun-05	31-Dec-04
	$'000	$'000	$'000
Bank Deposits	**2,255**	2,338	1,278
Overseas Bank Accounts	**333**	554	525
	2,588	2,892	1,803

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

NOTE 7

INVESTMENTS

Investments comprise the following:

Short Term Money Market Investments	**2,760,125**	2,756,718	2,855,348
Government Stock	**73,717**	44,788	44,465
Total	**2,833,842**	2,801,506	2,899,813

Maturity Profile

At Call	**193,800**	214,800	219,700
Up to 3 Months	**2,058,572**	2,133,835	2,297,044
3 to 12 Months	**280,049**	221,123	338,604
1 to 5 Years	**241,681**	186,849	-
Over 5 Years	**59,740**	44,899	44,465
Total	**2,833,842**	2,801,506	2,899,813

Repricing Profile

At Call	**193,800**	214,800	219,700
Up to 3 Months	**2,058,572**	2,320,684	2,362,421
3 to 12 Months	**280,049**	221,123	273,227
1 to 5 Years	**241,681**	-	-
Over 5 Years	**59,740**	44,899	44,465
Total	**2,833,842**	2,801,506	2,899,813

Credit Exposure

Rating	**%**	%	%
AAA	**22.68**	26.72	22.13
AA	**56.45**	61.34	57.74
A	**20.87**	11.94	20.13
	100.00	100.00	100.00

The Corporation invests its surplus funds in accordance with the Western Australian Treasury Corporation Act. Further information on valuation methods is shown in Note 17.

NOTE 8

RECEIVABLES

	2006 31-Dec-05 $'000	2005 30-Jun-05 $'000	2005 31-Dec-04 $'000
Accrued Interest Receivable	**116,501**	151,257	144,425
Foreign Currency Receivable	**2,647**	-	-
	119,148	151,257	144,425

Accrued Interest Receivable comprises accruals relating to advances made to clients and investment sundry debtors due from financial institutions. Foreign currency receivables are discussed in more detail in Note 17. There are no foreign currency amounts included which are not effectively hedged.

NOTE 9

LOANS TO AUTHORITIES

Loans to Authorities	**9,790,180**	10,040,909	9,414,822
Maturity Profile			
Up to 3 Months	**1,193,744**	1,733,844	1,349,572
3 to 12 Months	**1,709,326**	1,308,830	1,725,803
1 to 5 Years	**3,916,381**	4,103,381	3,524,968
Over 5 Years	**2,970,729**	2,894,854	2,814,479
Total	**9,790,180**	10,040,909	9,414,822
Repricing Profile			
Up to 3 Months	**2,708,603**	2,872,660	2,354,209
3 to 12 Months	**1,394,801**	1,379,341	1,425,118
1 to 5 Years	**2,816,184**	2,994,438	2,821,016
Over 5 Years	**2,870,592**	2,794,470	2,814,479
Total	**9,790,180**	10,040,909	9,414,822

The Corporation advances funds to State Government and Local Government authorities within Western Australia. In normal circumstances, these advances are either rolled over or refinanced. State Government advances (97.1% of total (2005, 96.8%)) are guaranteed by the State whilst Local Government advances (2.9% of total (2005, 3.2%)) are secured by debenture and are charged in accordance with the provisions of the Local Government Act upon the general funds of the local government. Loans to Authorities are not readily traded on organised markets in standardised form. Further information on valuation methods is shown in Note 17.

NOTE 10

TAX ASSETS	**2006** **31-Dec-05** **$'000**	2005 30-Jun-05 $'000	2005 31-Dec-04 $'000
Deferred Tax Asset	**188**	274	222

NOTE 11

PLANT AND EQUIPMENT

Equipment (at cost)	**1,372**	1,392	1,295
Less Accumulated Depreciation	**917**	956	871
	455	436	424

Reconciliation
Equipment

Opening balance	**436**	217	217
Additions	**102**	377	280
Disposals	**(123)**	(194)	(194)
Depreciation	**(83)**	(158)	(73)
Accumulated depreciation on disposal	**123**	194	194
Closing balance	**455**	436	424

NOTE 12

INTANGIBLE ASSETS

Computer Software (at cost)	**5,714**	5,618	5,526
Less Accumulated Amortisation	**5,265**	5,009	4,760
	449	609	766

Reconciliation
Intangible Assets

Opening balance	**609**	1,045	1,045
Additions	**97**	103	11
Disposals	**(1)**	-	-
Amortisation	**(257)**	(539)	(290)
Accumulated amortisation on disposal	**1**	-	-
Closing balance	**449**	609	766

NOTE 13

PAYABLES	**2006 31-Dec-05 $'000**	2005 30-Jun-05 $'000	2005 31-Dec-04 $'000
Interest Accrued	**107,603**	167,489	174,219
Interest Prepayments by Lenders	**3,117**	6,592	5,125
Foreign Currency Payable	**-**	-	2,229
Other Creditors	**4,278**	4,049	3,047
	114,998	178,130	184,620

Payables comprises accrued interest and sundry creditors relating to debt instruments and unpresented cheques. Interest Accrued and Interest Prepayments by Lenders are owing to financial institutions. Foreign currency payables are discussed in more detail in Note 17. There are no foreign currency amounts included which are not effectively hedged.

NOTE 14

BORROWINGS

ANALYSIS OF DEBT OUTSTANDING

Payable 12 months or less from 31 December and 30 June			
- Domestic	**5,082,683**	4,198,688	4,896,025
- Overseas	**225,137**	160,000	323,157
	5,307,820	4,358,688	5,219,182
Payable more than 12 months from 31 December and 30 June			
- Domestic	**6,530,766**	7,627,613	6,275,384
- Overseas	**269,788**	266,000	266,000
	6,800,554	7,893,613	6,541,384
Balance at face value	**12,108,374**	12,252,301	11,760,566
Balance at market value	**12,567,800**	12,760,831	12,218,101

Maturity Profile			
Up to 3 Months	**2,968,740**	3,329,692	2,926,759
3 to 12 Months	**2,337,282**	923,255	2,191,595
1 to 5 Years	**3,951,893**	5,376,287	4,228,095
Over 5 Years	**3,309,885**	3,131,597	2,871,652
Total	**12,567,800**	12,760,831	12,218,101

Profile by Repricing			
Up to 3 Months	**3,123,363**	3,489,201	3,094,130
3 to 12 Months	**2,192,049**	931,584	2,194,485
1 to 5 Years	**3,942,503**	5,208,449	4,057,834
Over 5 Years	**3,309,885**	3,131,597	2,871,652
Total	**12,567,800**	12,760,831	12,218,101

The Corporation raises its funds in the domestic and offshore capital markets. Under Section 13(1) of the Western Australian Treasury Corporation Act, the financial liabilities of the Corporation are guaranteed by the Treasurer on behalf of the State of Western Australia. The Corporation's borrowings are well diversified across markets, instruments and maturities. Further information on valuation methods is shown in Note 17.

OVERSEAS BORROWINGS

Includes Australian currency and foreign currency loans. Foreign currency loans have been translated using the exchange rates applicable at 31 December 2005 and are shown below:

	Exchange Rate Translation at 31/12/05	
Foreign Currency Borrowing	**Payable 12 Months or Less from 31/12/05 $A'000**	**Payable More than 12 Months from 31/12/05 $A'000**
USD 124,185,090	169,137	Nil
NZD 64,000,000	Nil	59,788

	Exchange Rate Translation at 30/06/05	
Foreign Currency Borrowing	Payable 12 Months or Less from 30/06/05 $A'000	Payable More than 12 Months from 30/06/05 $A'000
Nil	Nil	Nil

	Exchange Rate Translation at 31/12/04	
Foreign Currency Borrowing	Payable 12 Months or Less from 31/12/04 $A'000	Payable More than 12 Months from 31/12/04 $A'000
USD 64,825,504	83,157	Nil

At balance date, all foreign currency loans have either been hedged, swapped or covered forward specifically, invested in the foreign currency or the foreign currency proceeds lent to authorities participating in the central borrowing arrangements on a back to back basis. 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.

NOTE 15

TAX LIABILITIES	**2006 31-Dec-05 $'000**	2005 30-Jun-05 $'000	2005 31-Dec-04 $'000
Current Income Tax Equivalent Expense	**900**	765	1,851
Deferred Tax Liability	**7**	6	6
	907	771	1,857

NOTE 16

PROVISIONS

Annual Leave	**482**	490	457
Long Service Leave	**801**	864	769
Superannuation	**724**	980	965
Employee On-costs	**205**	216	197
	2,212	2,550	2,388

The charge to the operating profit for the movement in the provision for employee entitlements during the period was -$338 thousand (2005, -$75 thousand).

NOTE 17

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In carrying out its mission, the Corporation is a borrower from the capital markets. This necessarily involves the management of market risk because as a borrower, the Corporation's objective is the opposite to that of investors. In order to obtain funds at the lowest cost, it seeks to satisfy the needs of investors and therefore must, for example, accept maturities which are unlikely to match the terms of the Corporation's lending portfolio. Derivative instruments, including swaps, forward rate agreements and futures, are used to hedge, or minimise, the risks incurred.

The amounts to be exchanged on these contracts are calculated with reference to the notional amount and other terms of the derivatives. Credit exposure represents the Corporation's estimate of its exposure at reporting date in the event of non-performance by counterparties. The Corporation has adopted the Australian Prudential Regulation Authority's "Current Exposure Method" to determine the credit exposure arising from its derivative transactions. At 31 December 2005, the Corporation 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 together with the credit rating quality of these exposures.

As at 31 December 2005	**Notional Amount $'000**	**Net Fair Value $'000**	**Credit Exposure $'000**
Futures	12,800	-	-
Interest Rate Swaps	3,309,361	91,501	139,574

Credit Exposure by Rating	%
AAA	0.00
AA	100.00
A	0.00
	100.00

As at 30 June 2005	Notional Amount $'000	Net Fair Value $'000	Credit Exposure $'000
Futures	6,500	3	-
Interest Rate Swaps	4,795,300	102,388	145,478

Credit Exposure by Rating	%
AAA	0.00
AA	100.00
A	0.00
	100.00

As at 31 December 2004	Notional Amount $'000	Net Fair Value $'000	Credit Exposure $'000
Futures	(4,000)	(17)	-
Interest Rate Swaps	3,709,300	55,721	101,782

Credit Exposure by Rating	%
AAA	0.00
AA	100.00
A	0.00
	100.00

Interest rate swaps allow the Corporation to swap long term fixed rate borrowings into floating rate borrowings with lower rates than if the Corporation had made the floating rate borrowings directly. At times, floating to fixed swaps are used to change floating rate borrowings to fixed rate borrowings in order to match the Corporation's lending to client authorities. With interest rate swaps, the Corporation 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.

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

The interest rate risk for investments, loans to authorities and borrowings at balance date have been disclosed at Note 7, 9 and 14 respectively. For receivables and payables, no interest rate risk exists at balance date.

Liquidity risk involves the Corporation's ability to meet all financial commitments as they fall due. The Corporation maintains a minimum prudent level of highly liquid quality assets at all times to ensure that it will always meet its commitments. The risk to the Corporation of not being able to fund itself is minimised through the diversification of its funding activity across domestic and offshore markets and across the maturity spectrum.

With regard to foreign exchange risk, the policy is not to take any foreign exchange risk apart from the minor exposure created by the need to maintain small balances in foreign currency bank accounts. The Corporation borrows in foreign currencies when the all in cost after swapping back into Australian dollars is cheaper than the equivalent domestic borrowing. Whereas the Corporation manages interest rate risk on a portfolio basis, it manages the exchange rate risk on foreign currency borrowings as part of the borrowing transaction. In instances where the Corporation advances funds to clients in a currency other than Australian dollars, the exchange rate risk is borne by the individual client authority. Foreign currency swaps and forwards amounting to $A228,913 thousand (2005, $A83,157 thousand) at 31 December 2005 have a fixed future obligation in Australian dollars of $A225,033 thousand (2005, $A85,387 thousand). Additionally, the Corporation has arranged forward foreign exchange transactions on behalf of clients amounting to $A182,367 thousand (2005, $A48,524 thousand). These transactions are arranged with clients on a back to back basis and therefore the Corporation does not have any exposure.

The Corporation regards the minimisation of these risks as a high priority. Accordingly, the Corporation has in place policies and management structures to monitor and manage these risks. A Liability Management Committee comprising the Chief Executive Officer and other senior management provides policy advice to the Board in respect of the Corporation's financial risk management activities and a comprehensive report on the Corporation's activities is prepared monthly for the Board.

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

	Coupon	**Market Rate 31-Dec-05**	Market Rate 30-Jun-05	Market Rate 31-Dec-04
Overnight	-	**5.50%**	5.50%	5.25%
90 days	-	**5.65%**	5.67%	5.43%
180 days	-	**5.69%**	5.70%	5.46%
15 October 2007	8.00%	**5.46%**	5.35%	5.35%
15 October 2009	7.50%	**5.44%**	5.35%	5.45%
15 April 2011	7.00%	**5.45%**	5.37%	5.51%
15 June 2013	8.00%	**5.46%**	5.39%	5.56%
15 July 2017	8.00%	**5.48%**		5.64%

NOTE 18

NOTES TO THE STATEMENT OF CASH FLOWS

18a. 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:

	2006	2005
	31-Dec-05	31-Dec-04
	$'000	$'000
Bank Deposits (Note 6)	**2,255**	1,278
Short Term Money Market Investments	**2,739,249**	2,855,781
Overseas Bank Accounts (Note 6)	**333**	525
	2,741,837	2,857,584

18b. Reconciliation of Net Cash used in Operating Activities to Net Profit

Net Profit	**5,332**	4,334
Depreciation	**340**	363
Decrease in Receivables	**3,218**	(1,530)
Decrease in Accrued Interest Payables	**(36,797)**	(18,243)
Decrease in Other Creditors	**(319)**	(608)
Current income tax equivalent expense	**2,166**	1,851
Deferred tax asset	**86**	15
Deferred tax liability	**0**	(6)
Unrealised Foreign Exchange Gain/Loss	**3**	27
Profit From Sale of Equipment	**(1)**	(7)
Increase/(Decrease) in Employee Benefits	**(338)**	(75)
Premium/Discount Amortisation	**65,533**	-
Market Value Adjustment	**3,684**	(57,104)
Net Cash used in Operating Activities	**42,907**	(70,983)

18c. Financing/Lending Facilities

The Corporation 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.

The Corporation also provides a committed lending facility of $US93.2 million (nil drawn down as at 31 December 2005) (2005, $US99.0 million (nil drawn down as at 31 December 2004)) to Public Transport Authority, a state government authority. The facility is to meet contingent obligations under a lease agreement that may eventuate during the life of the lease.

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