WESTERN AUSTRALIAN
TREASURY CORPORATION

FINANCIAL SOLUTIONS FOR THE BENEFIT OF ALL WESTERN AUSTRALIANS

QUARTERLY REPORT

For the quarter ended 31 December 2016

CONTENTS

INTRODUCTION 3
OVERVIEW OF ACTIVITIES 3
BORROWING 3
DOMESTIC BORROWINGS 3
OVERSEAS BORROWINGS 3
BOND ISSUES 3
EURO MEDIUM TERM NOTE ISSUES 3
COMMERCIAL PAPER ISSUES 4
LENDING 4
FUNDS MANAGEMENT 4
FINANCIAL PERFORMANCE 5
KEY PERFORMANCE INDICATORS 5
ESTIMATED INTEREST RATE SAVINGS 5
ADMINISTRATION RATIO 6
RETURN ON CAPITAL 6
FINANCIAL STATEMENTS

INTRODUCTION

In accordance with section 21B of the Western Australian Treasury Corporation Act 1986, following is a report on the activities of the Western Australian Treasury Corporation ("WATC") for the quarter ended 31 December 2016.

OVERVIEW OF ACTIVITIES

Borrowing

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

Following is an overview of WATC's borrowing activities:

Domestic Borrowings

At 31 December 2016, WATC had approximately $44,964 million of domestic securities in circulation. Of this, $34,524 million was raised through WATC's benchmark bonds, $8,843 million in floating rate notes, $1,373 million in short term issues and $224 million through other issues.

Details of WATC's benchmark bonds as at 31 December 2016 are:

Coupon	Maturity	Amount on Issue as at 30 September 2016	Amount on Issue as at 31 December 2016	Change
8.00%	15/07/2017	$5,397 million	$4.978 million	-$419 million
3.75%	23/10/2018	$5,386 million	$5,381 million	-$ 5 million
7.00%	15/10/2019	$4,491 million	$4,516 million	+$ 25 million
2.50%	22/07/2020	$4,399 million	$4,605 million	+$206 million
7.00%	15/07/2021	$3,205 million	$3,846 million	+$641 million
2.75%	20/10/2022	$2,939 million	$3,015 million	+$ 76 million
6.00%	16/10/2023	$3,274 million	$3,118 million	-$156 million
2.50%	23/07/2024	$ 0 million	$ 525 million	+$525 million
5.00%	23/07/2025	$3,405 million	$3,442 million	+$ 37 million
3.00%	21/10/2027	$ 978 million	$1,097 million	+ $119 million

Overseas Borrowings

Bond Issues

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

Euro Medium Term Note Issues

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

Commercial Paper Issues

During the quarter, issues through the Euro Commercial Paper ("ECP") Program totalling USD175 million and NZD228 million were transacted for a weighted term to maturity of 48 days.

At the end of the quarter, there were USD75 million of notes outstanding under the multi-currency ECP Program.

Lending

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

At 31 December 2016, total loans outstanding to WATC's clients amounted to $44,104 million. This resulted from a net increase in debt outstanding by clients of $25.6 million in the December quarter.

Funds Management

WATC manages the investment of surplus funds held by various public sector entities. At 31 December 2016, this included $6,016 million for the Public Bank Account and the Western Australian Future Fund.

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

1. The Overnight Cash Deposit Facility enables clients to invest funds overnight at call. At 31 December 2016, WATC had $221.3 million invested in this facility.

2. WATC has provided a term investment facility for clients by issuing its Short Term Inscribed Stock. At 31 December 2016, WATC had $7.4 million in term investments from clients.

Foreign Exchange

WATC provides a range of tailored foreign exchange ("FX") services designed to support the alignment of broader government FX risk management policy and agency practice.

Treasury Services

WATC provided treasury management services to a number of clients, including transactional, settlement, credit risk management, reporting and accounting services.

FINANCIAL PERFORMANCE

WATC's after tax equivalent net profit for the six month period ended 31 December 2016 was $7.6 million. This is $0.3 million below plan.

WATC continues its efforts to produce quality outcomes for its clients, while managing the cost base in line with the expectations of our owners.

KEY PERFORMANCE INDICATORS

Estimated Interest Rate Savings

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

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

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

	Year to 31/12/2016			
Term to Maturity (Years)	AAA	AA+	AA	AA-
1 to 2	0.30%	0.45%	0.71%	0.66%
2 to 3	0.41%	0.50%	0.75%	0.60%
3 to 4		0.64%	0.74%	0.71%
4 to 5	0.42%	0.45%	0.79%	0.90%
5 to 6	0.45%	0.60%		0.70%
6 to 7	0.35%	0.72%	0.88%	0.61%
7 to 8				
8 to 9	0.33%	0.55%	0.61%	0.74%
9 to 10	0.30%		0.70%	
10 to 11				
11 to 12				

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

Administration Ratio

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

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

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

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

Target: Administration Ratio < 0.06%
Outcome: Administration Ratio = 0.04% (01/07/16 to 31/12/16)

Return on Capital

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

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

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

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 December 2016	2.60%	9.60%	5.20%

FINANCIAL STATEMENTS

WESTERN AUSTRALIAN TREASURY CORPORATION
UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2016

.

	Note	**2017** **31-Dec-16** **$'000**	2016 31-Dec-15 $'000
INCOME			
Revenue			
Interest on Investments		**33,560**	28,842
Interest from Authorities		**715,184**	701,906
Fee Income		**619**	768
Total Revenue		**749,363**	731,516
Gains			
Foreign Exchange Gain	4	**1**	1
Net Market Value Movement	5	**48,615**	76,532
Total Other Income		**48,616**	76,533
Total Income		**797,979**	808,049
EXPENSES			
Interest on Borrowings		**778,380**	785,101
Borrowing Related Expenses		**734**	438
Depreciation		**98**	155
Amortisation of Intangible Assets		**33**	33
Administration Expenses	3	**7,907**	8,118
Total Expenses		**787,152**	793,845
Profit/(Loss) before income tax equivalent expense		**10,827**	14,204
Income Tax Equivalent Expense	6	**3,252**	4,265
Profit/(Loss) for the period		**7,575**	9,939
Other Comprehensive Income		**0**	0
Total Comprehensive Income for the period		**7,575**	9,939

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

WESTERN AUSTRALIAN TREASURY CORPORATION
UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	**2017 31-Dec-16 $'000**	2016 30-Jun-16 $'000	2016 31-Dec-15 $'000
. ASSETS				
- Cash Assets	7	**252,564**	221,663	1,401
- Investments	8	**2,921,551**	4,038,506	2,503,765
- Receivables & other financial assets	9	**733,937**	1,282,297	699,618
- Loans to Authorities	10	**45,168,449**	45,431,970	41,628,539
- Tax Assets	11	**1,074**	1,067	1,039
- Plant and Equipment	12	**459**	552	661
- Intangible Assets	13	**235**	39	59
TOTAL ASSETS		**49,078,269**	50,976,094	44,835,082
. LIABILITIES				
- Payables & other financial liabilities	15	**497,287**	3,548,434	480,304
- Borrowings	16	**48,440,410**	47,297,946	44,216,535
- Tax Liabilities	17	**15,003**	11,744	11,157
- Provisions	18	**3,581**	3,557	3,465
TOTAL LIABILITIES		**48,956,281**	50,861,681	44,711,461
NET ASSETS		**121,988**	114,413	123,621
. EQUITY				
- Retained Profits		**118,988**	111,413	120,621
- Reserves		**3,000**	3,000	3,000
TOTAL EQUITY		**121,988**	114,413	123,621

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

WESTERN AUSTRALIAN TREASURY CORPORATION
UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2016

	Reserves $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 July 2015	3,000	110,682	113,682
Profit for the period	0	9,939	9,939
Other comprehensive income	0	0	0
Total comprehensive income for the period	0	9,939	9,939
Transactions with owners in their capacity as owners:			
Capital appropriations	0	0	0
Distributions to owners	0	0	0
Total	0	0	0
Balance at 31 December 2015	3,000	120,621	123,621
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
Balance at 1 July 2016	**3,000**	**111,413**	**114,413**
Profit for the period	**0**	**7,575**	**7,575**
Other comprehensive income	**0**	**0**	**0**
Total comprehensive income for the period	**0**	**7,575**	**7,575**
Transactions with owners in their capacity as owners:			
Capital appropriations	**0**	**0**	**0**
Distributions to owners	**0**	**0**	**0**
Total	**0**	**0**	**0**
Balance at 31 December 2016	**3,000**	**118,988**	**121,988**

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

WESTERN AUSTRALIAN TREASURY CORPORATION
UNAUDITED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2016

	Note	**2017 31-Dec-16 $'000**	2016 31-Dec-15 $'000
Cash Flows from Operating Activities			
Interest received on Loans to Authorities		**705,234**	658,788
Interest received on Investments		**35,503**	30,271
Proceeds from Sale and Maturity of Investments		**1,504,930**	1,207,408
Payment for Investment Securities		**(2,224,756)**	(732,910)
Loans to Client Authorities		**(7,747,090)**	(8,241,480)
Loans repaid by Client Authorities		**4,372,235**	2,865,864
Other Receipt/(Payment) on behalf of Client Authorities		**75**	74
Proceeds from Issuance of Borrowings		**9,666,111**	9,142,822
Repayment of Borrowings		**(7,162,456)**	(3,966,414)
Fee Income		**769**	838
Interest and other Cost of Finance Paid		**(946,669)**	(871,369)
Administration and Borrowing Related Expenses		**(8,411)**	(9,806)
Payment of Taxation Equivalents		**0**	(6,240)
Net Cash (used in)/provided by Operating Activities	20b	**(1,804,525)**	77,846
Cash Flows from Investing Activities			
Payment for Plant & Equipment		**(6)**	(19)
Payment for Intangible Assets		**(229)**	(6)
Net Cash used in Investing Activities		**(235)**	(25)
Cash Flows from Financing Activities			
Payment of Dividend		**0**	0
Net Cash used in Financing Activities		**0**	0
Net (decrease)/increase in Cash and cash equivalents		**(1,804,760)**	77,821
Cash and cash equivalents at the Beginning of the Financial Year		**3,584,220**	1,954,933
Unrealised foreign exchange gain/(loss)		**1**	1
Cash and cash equivalents at the End of the Financial Year	20a	**1,779,461**	2,032,755
Included in the above are the following			
Cash Flows to State Government			
Payment of Dividend		**0**	0
Payment of Taxation Equivalents		**0**	(6,240)
Net Cash provided to State Government		**0**	(6,240)

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 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 period ended 31 December 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 31 December 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 19.

(c) Revenue

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

Fee Income

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

Interest

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

(d) Plant and Equipment

Items of Plant and Equipment costing $5,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of Plant and Equipment costing less than $5,000 are expensed direct to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

All items of Plant and Equipment are initially recognised at cost. After initial recognition, Plant and Equipment are stated at cost less any accumulated depreciation and any impairment in value. Depreciation is calculated based on their estimated useful lives using the straight line method. The estimated useful lives for each class of depreciable asset are as follows:

	2017	2016
- Computer Equipment	**3-5 years**	3-5 years
- Other Equipment	**5-10 years**	5-10 years

Impairment

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

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

Impairment losses are recognised in the Statement of Comprehensive Income.

(e) Intangible Assets

Computer software is the only Intangible Asset which WATC has in its financial statements. The cost of utilising the assets is expensed (amortised) over their useful life.

Intangible Assets acquired separately are capitalised at cost as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these assets are assessed to be finite. Intangible Assets are amortised over a period of three years.

Intangible assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

(f) Investments

WATC classifies its investments as financial assets at fair value through profit or loss. WATC does not hold any investments that are classified as held to maturity or available for sale.

Investments are initially recognised at fair value on trade date and subsequently measured at fair value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Statement of Comprehensive Income. Fair values are derived using market quoted mid point prices to the extent that investments are held in offsetting risk positions, otherwise bid prices are applied. Commonwealth and State Government investments are held for portfolio management purposes. Whilst these investments generally have maturity dates greater than twelve months, they are used in the ordinary course of business to economically hedge WATC's benchmark bonds and are therefore held in the expectation of being realised within twelve months.

(g) Loans to Authorities

Loans to Authorities are initially recognised at fair value on trade date and subsequently measured at fair value applicable at reporting date and are recorded as assets in the Statement of Financial Position. Unrealised gains or losses arising from this policy are brought to account in the Statement of Comprehensive Income. Fair values are derived using market quoted mid point prices to the extent that loans to authorities are held in offsetting risk positions, otherwise bid prices are applied. In normal circumstances, upon maturity, Loans to Authorities are either rolled over or refinanced.

(h) Borrowings

Borrowings are initially recognised at fair value on trade date and subsequently measured at the fair value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Statement of Comprehensive Income. Fair values are derived using market quoted mid point prices to the extent that borrowings are held in offsetting risk positions, otherwise ask prices are applied. In normal circumstances, maturities of borrowings are either rolled over or refinanced. Borrowing related expenses are charged to the Statement of Comprehensive Income as incurred.

(i) Derivative Financial Instruments

Derivatives are used exclusively to provide an economic hedge of interest rate and foreign currency exposures. All derivatives are recognised in the Statement of Financial Position at fair value on trade date. All derivatives are classified as held for trading. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Unrealised gains or losses arising from this policy are brought to account in the Statement of Comprehensive Income.

(j) Foreign Currency Translation

Foreign currency transactions are brought to account in Australian dollars at trade date at the rate of exchange applying at that date. At the end of the reporting period, all monetary assets and liabilities are translated at the exchange rates existing at 31 December 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 provided and paid in the subsequent financial year.

(n) Income Tax

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

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

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

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

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

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) 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.

	2017 **31-Dec-16** **$'000**	2016 31-Dec-15 $'000

NOTE 3

ADMINISTRATION EXPENSES

The following employee benefit expenses are included in Administration Expenses.

Salaries	**4,491**	4,439
Workers Compensation costs	**31**	44
Superannuation expense	**499**	479
Long Service Leave Provision	**57**	57
	5,078	5,019

NOTE 4

FOREIGN EXCHANGE GAIN/LOSS

WATC maintains balances in its foreign currency bank accounts for the payment of expenses incurred through its overseas borrowings. At 31 December 2016, after taking account of exchange fluctuations, a gain of A$1 thousand (2016, gain of A$1 thousand) had resulted on this balance.

NOTE 5

NET FAIR VALUE MOVEMENT

Fair Value Adjustment - Investments	**(100)**	70
Fair Value Adjustment - Loans to Authorities	**(737,903)**	(54,632)
Fair Value Adjustment - Borrowings	**921,993**	112,746
Fair Value Adjustment - Derivatives	**(135,375)**	18,348
Net Fair Value Movement	**48,615**	76,532
Add Interest Movements		
Interest on Investments	**33,560**	28,842
Interest from Authorities	**715,184**	701,906
Interest on Borrowings	**(778,380)**	(785,101)
	(29,636)	(54,353)
Net gain on financial assets & financial liabilities at fair value through profit and loss	**18,979**	22,179

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

NOTE 6

INCOME TAX EQUIVALENT

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

	2017 31-Dec-16 $'000	2016 30-Jun-16 $'000	2016 31-Dec-15 $'000
Accounting Profit	**10,827**	16,051	14,204
Income tax equivalent expense at 30% (2016, 30%)	**3,248**	4,815	4,261
Tax effect of expenses that are not deductible/assessable in determining taxable profit			
Sundry expenses	**4**	9	4
Income tax equivalent expense	**3,252**	4,824	4,265
Income tax equivalent expense comprises movements in:			
Current income tax equivalent expense	**3,259**	4,871	4,285
Deferred tax income relating to the origination and reversal of temporary differences	**(7)**	(45)	(18)
Deferred tax expense relating to the origination and reversal of temporary differences	**0**	(2)	(2)
Total income tax equivalent expense	**3,252**	4,824	4,265
Deferred Tax Assets:			
Employee Provisions	**1,074**	1,067	1,039
Foreign Currency Revaluation	**0**	0	0
Total (Note 11)	**1,074**	1,067	1,039
Deferred Tax Liabilities:			
Payables	**6**	5	5
Foreign Currency Revaluation	**0**	1	0
Total (Note 17)	**6**	6	5

NOTE 7

CASH ASSETS

Bank Deposits	**252,539**	221,639	1,371
Overseas Bank Accounts	**25**	24	30
	252,564	221,663	1,401

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

NOTE 8	**2017**	2016	2016
	31-Dec-16	30-Jun-16	31-Dec-15
INVESTMENTS - AT FAIR VALUE	**$'000**	$'000	$'000
8a. Investments - non derivative			
Investments comprise the following:			
Short Term Money Market Investments	**2,821,592**	3,639,011	2,503,765
Government Stock	**99,959**	399,495	0
Total	**2,921,551**	4,038,506	2,503,765
Maturity Profile			
At Call	**152,500**	20,600	421,000
Up to 3 Months	**2,193,308**	3,719,719	2,082,765
3 to 12 Months	**575,743**	298,187	0
1 to 5 Years	**0**	0	0
Over 5 Years	**0**	0	0
Total	**2,921,551**	4,038,506	2,503,765
Repricing Profile			
At Call	**152,500**	20,600	421,000
Up to 3 Months	**2,193,308**	3,719,719	2,082,765
3 to 12 Months	**575,743**	298,187	0
1 to 5 Years	**0**	0	0
Over 5 Years	**0**	0	0
Total	**2,921,551**	4,038,506	2,503,765
8b. Investments - derivative	**0**	0	0
Maturity Profile			
At Call	**0**	0	0
Up to 3 Months	**0**	0	0
3 to 12 Months	**0**	0	0
1 to 5 Years	**0**	0	0
Over 5 Years	**0**	0	0
Total derivatives shown as receivables & other financial assets (Note 9)	**0**	0	0
Repricing Profile			
At Call	**0**	0	0
Up to 3 Months	**0**	0	0
3 to 12 Months	**0**	0	0
1 to 5 Years	**0**	0	0
Over 5 Years	**0**	0	0
Total derivatives shown as receivables & other financial assets (Note 9)	**0**	0	0
Credit Exposure			
Rating	**%**	%	%
AAA	**3.15**	9.43	0.00
AA	**72.50**	55.64	56.47
A	**24.35**	34.44	43.53
BBB	**0.00**	0.49	0.00
	100.00	100.00	100.00

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

NOTE 9

RECEIVABLES AND OTHER FINANCIAL ASSETS	**2017 31-Dec-16 $'000**	2016 30-Jun-16 $'000	2016 31-Dec-15 $'000
Accrued Interest Receivable	**279,970**	277,422	275,460
Foreign Currency Receivable	**4,880**	4,547	0
Other Debtors	**0**	312,561	0
	284,850	594,530	275,460
Other Financial Assets (Note 8b, 10b and 16b)	**449,087**	687,767	424,158
	733,937	1,282,297	699,618

Accrued Interest Receivable comprises accruals relating to advances made to clients and investments with financial institutions. Other debtors represent financial instrument transactions undertaken prior to reporting date and due for settlement after reporting date. Other financial assets and foreign currency receivables are discussed in more detail in Note 19.

NOTE 10

LOANS TO AUTHORITIES - AT FAIR VALUE

10a. Loans to Authorities - non derivative	**45,168,449**	45,431,970	41,628,539
Maturity Profile			
Up to 3 Months	**2,361,048**	2,947,091	2,103,514
3 to 12 Months	**6,251,741**	4,307,920	4,757,812
1 to 5 Years	**23,806,279**	24,788,198	23,165,801
Over 5 Years	**12,749,381**	13,388,761	11,601,412
Total	**45,168,449**	45,431,970	41,628,539
Repricing Profile			
Up to 3 Months	**13,236,137**	14,133,216	12,874,138
3 to 12 Months	**7,302,289**	6,805,990	5,323,897
1 to 5 Years	**12,376,956**	12,183,952	12,428,839
Over 5 Years	**12,253,067**	12,308,812	11,001,665
Total	**45,168,449**	45,431,970	41,628,539
10b. Loans to Authorities - derivative	**(3,548)**	29	(1,567)
Maturity Profile			
Up to 3 Months	**176**	234	(224)
3 to 12 Months	**746**	(179)	(410)
1 to 5 Years	**(76)**	(325)	(933)
Over 5 Years	**(4,394)**	299	0
Total derivatives shown as receivables & other financial assets (Note 9)	**(3,548)**	29	(1,567)
Repricing Profile			
Up to 3 Months	**176**	234	(224)
3 to 12 Months	**746**	(179)	(410)
1 to 5 Years	**(76)**	(325)	(933)
Over 5 Years	**(4,394)**	299	0
Total derivatives shown as receivables & other financial assets (Note 9)	**(3,548)**	29	(1,567)

WATC advances funds to State Government and Local Government authorities within Western Australia. In normal circumstances, most advances are either rolled over or refinanced. State Government advances (98.4% of total (2016, 98.3%)) are guaranteed by the State whilst Local Government advances (1.6% of total (2016, 1.7%)) are secured by debenture and are charged in accordance with the provisions of the Local Government Act upon the general funds of the local government. Loans to Authorities are not readily traded on organised markets in standardised form. Further information on valuation methods is shown in Note 19.

NOTE 11

TAX ASSETS	**2017 31-Dec-16 $'000**	2016 30-Jun-16 $'000	2016 31-Dec-15 $'000
Deferred Tax Asset	**1,074**	1,067	1,039

NOTE 12

PLANT AND EQUIPMENT

Equipment (at cost)	**2,723**	2,718	2,817
Less Accumulated Depreciation	**2,264**	2,166	2,156
Total Plant and Equipment	**459**	552	661

Reconciliation
Equipment

Opening balance	**552**	797	797
Additions	**6**	21	19
Disposals/Write-offs	**0**	(101)	0
Depreciation	**(99)**	(266)	(155)
Accumulated depreciation on disposal	**0**	101	0
Closing balance	**459**	552	661

NOTE 13

INTANGIBLE ASSETS

Intangible Assets (at cost)	**8,473**	8,244	8,239
Less Accumulated Amortisation	**8,238**	8,205	8,180
Total Intangible Assets	**235**	39	59

Reconciliation
Intangible Assets

Opening balance	**39**	86	86
Additions	**229**	11	6
Disposals	**0**	0	0
Amortisation	**(33)**	(58)	(33)
Accumulated amortisation on disposal	**0**	0	0
Closing balance	**235**	39	59

NOTE 14

IMPAIRMENT OF ASSETS

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

NOTE 15

PAYABLES AND OTHER FINANCIAL LIABILITIES

Interest Accrued (at amortised cost)	**494,541**	591,875	472,891
Other Creditors (at amortised cost)	**2,746**	2,956,559	2,440
Foreign Currency Payable	**0**	0	4,973
	497,287	3,548,434	480,304
Other Financial Liabilities (at fair value)	**0**	0	0
	497,287	3,548,434	480,304

Payables comprises accrued interest and sundry creditors relating to debt instruments and unpresented cheques. Interest Accrued is owed to financial institutions. Other financial liabilities and foreign currency payables are discussed in more detail in Note 19. There are no foreign currency amounts included which are not effectively economically hedged. Other creditors includes financial instrument transactions undertaken prior to reporting date and due for settlement after reporting date.

NOTE 16	**2017**	2016	2016
	31-Dec-16	30-Jun-16	31-Dec-15
BORROWINGS - AT FAIR VALUE	**$'000**	$'000	$'000
16a. Borrowings - non derivative	**48,440,410**	47,297,946	44,216,535
Maturity Profile			
Up to 3 Months	**3,648,077**	3,426,243	2,200,474
3 to 12 Months	**5,971,749**	2,015,764	3,828,364
1 to 5 Years	**26,620,313**	26,862,886	26,398,979
Over 5 Years	**12,200,271**	14,993,053	11,788,718
Total borrowings at fair value	**48,440,410**	47,297,946	44,216,535
Profile by Repricing			
Up to 3 Months	**10,919,490**	11,692,039	10,992,585
3 to 12 Months	**5,320,877**	262,336	2,892,849
1 to 5 Years	**19,999,772**	20,371,042	18,542,383
Over 5 Years	**12,200,271**	14,972,529	11,788,718
Total borrowings at fair value	**48,440,410**	47,297,946	44,216,535
16b. Borrowings - derivative	**(452,635)**	(687,738)	(425,725)
Maturity Profile			
Up to 3 Months	**316**	6,783	(339)
3 to 12 Months	**(32,212)**	13,765	7,152
1 to 5 Years	**(408,517)**	(552,348)	(331,253)
Over 5 Years	**(12,222)**	(155,938)	(101,285)
Total derivatives shown as receivables & other financial assets (Note 9)	**(452,635)**	(687,738)	(425,725)
Repricing Profile			
Up to 3 Months	**118,459**	132,585	147,479
3 to 12 Months	**(20,956)**	38,128	39,932
1 to 5 Years	**(542,310)**	(672,757)	(480,960)
Over 5 Years	**(7,828)**	(185,694)	(132,176)
Total derivatives shown as receivables & other financial assets (Note 9)	**(452,635)**	(687,738)	(425,725)

WATC raises its funds in the domestic and offshore capital markets. Under Section 13(1) of the Western Australian Treasury Corporation Act, the financial liabilities of WATC are guaranteed by the Treasurer on behalf of the State of Western Australia. WATC's borrowings are well diversified across markets and maturities. Further information on valuation methods is shown in Note 19.

BORROWINGS - AT FACE VALUE

Payable 12 months or less from 31 December and 30 June			
- Domestic	**8,896,831**	4,727,375	5,750,819
- Overseas	**103,453**	718,751	274,075
	9,000,284	5,446,126	6,024,894
Payable more than 12 months from 31 December and 30 June			
- Domestic	**36,288,875**	38,181,443	35,193,701
- Overseas	**0**	0	0
	36,288,875	38,181,443	35,193,701
Balance at face value	**45,289,159**	43,627,569	41,218,595

OVERSEAS BORROWINGS

Includes Australian currency and foreign currency loans. Foreign currency loans have been translated using the exchange rates applicable at 31 December 2016 and are shown below:

	Exchange Rate Translation at 31/12/16	
Foreign Currency Borrowing	**Payable 12 Months or Less from 31/12/16 $A'000**	**Payable More than 12 Months from 31/12/16 $A'000**
USD 74,908,237	103,453	Nil

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

	Exchange Rate Translation at 31/12/15	
Foreign Currency Borrowing	Payable 12 Months or Less from 31/12/15 $A'000	Payable More than 12 Months from 31/12/15 $A'000
USD 199,791,093	274,075	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 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 17

TAX LIABILITIES	**2017 31-Dec-16 $'000**	2016 30-Jun-16 $'000	2016 31-Dec-15 $'000
Current Income Tax Equivalent Liability	**14,997**	11,738	11,152
Deferred Tax Liability	**6**	6	5
	15,003	11,744	11,157

NOTE 18

PROVISIONS

Annual Leave	**1,015**	1,072	1,056
Long Service Leave	**2,059**	2,002	1,839
Superannuation	**507**	483	570
	3,581	3,557	3,465

NOTE 19

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 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.

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, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, actual results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR model, actual outcomes are monitored to test the validity of the assumptions and the parameters used in the VaR calculation.

WATC gives high regard to the minimisation of interest rate risk. As a matter of course, all of WATC's interest rate risk exposures resulting from lending and market support activities are economically hedged. The effectiveness of these hedging arrangements is reviewed on an ongoing basis in order to minimise WATC's VaR and capital requirements.

Market exposures using VaR and other interest rate sensitivity measures are assessed daily. Risk control is further enhanced by the use of stress testing which is performed on a monthly basis or more frequently if required. Stress testing gives an indication of the level of possible losses that can be incurred under extreme market conditions. It also highlights those areas on the curve where WATC is highly sensitive to interest rate movements.

WATC's VaR measure related to market risk is detailed below:

Value at Risk (VaR)	**2017**	2016	2016
	31-Dec-16	30-Jun-16	31-Dec-15
	$'000	$'000	$'000
Average Daily Balance for Year	**1,646**	1,806	1,757
Lowest for Year	**1,127**	1,254	1,426
Highest for Year	**2,438**	2,529	2,396
Closing Balance	**1,666**	2,529	1,480

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 conterparties. 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.

Credit Exposure of Investments by Rating	**2017 31-Dec-16**	2016 30-Jun-16	2016 31-Dec-15
	%	%	%
AAA	**3.15**	9.43	0.00
AA	**72.50**	55.64	56.47
A	**24.35**	34.44	43.53
BBB	**0.00**	0.49	0.00
	100.00	100.00	100.00

Credit Exposure of Derivatives by Rating			
	%	%	%
AAA	**0.00**	0.00	0.00
AA	**98.03**	96.58	95.54
A	**1.97**	3.42	4.46
	100.00	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 a 50-day cash flow forecast on a daily basis and 10-day and 10-week cash flow forecasts on a weekly basis;
- carrying out scenario analysis for adverse market conditions;
- diversifying its funding activity across markets and across the maturity spectrum; and
- having access to an intra day overdraft facility in order to handle its intra day liquidity requirements.

By maintaining a minimum level of liquid assets, WATC ensures that it has sufficient liquidity to meet unforeseen large net cash outflows or temporary market disruptions.

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 period) of its capital requirements. This information is used by the Board to determine the minimum amount of capital that must be retained to ensure sufficient capital is available to cover expected exposures over the projection period.

A review of WATC's capital requirements is carried out at least annually.

In accordance with WATC's Market Risk Management policy, 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 31 December 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 31 December 2016			
Futures	1,922,900	(115)	0
Interest Rate Swaps	13,098,565	448,978	793,737
Forward Rate Agreements	300,000	224	224
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 31 December 2015			
Futures	26,900	115	0
Interest Rate Swaps	11,117,450	423,375	773,292
Forward Rate Agreements	1,100,000	668	668

Interest rate swaps are used from time to time to manage funding risk by issuing fixed rate benchmark bonds and interest rate swaps to generate floating rate exposures. At times, floating to fixed swaps are used to change floating rate borrowings to fixed rate borrowings in order to match WATC's lending to client authorities. With interest rate swaps, WATC agrees with counterparties to exchange at predetermined intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional face value. Interest rate swaps are also used to provide term floating rate funds for client authorities. At 31 December 2016 , WATC had lent funds amounting to $A13,798,042 thousand (2016, $A12,116,747 thousand) on this basis.

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

WATC borrows in foreign currencies when the all in cost after swapping back into Australian dollars is cheaper than the equivalent domestic borrowing. Whereas WATC manages interest rate risk on a portfolio basis, it manages the exchange rate risk on foreign currency borrowings as part of the borrowing transaction. At 31 December, WATC had foreign currency swaps and forwards amounting to $A103,449 thousand (2016, $274,020 thousand) with a fixed future obligation in Australian dollars of $A98,569 thousand (2016,$278,993 thousand). Additionally, WATC has arranged foreign exchange transactions for clients amounting to $118,353 thousand (2016, $A120,462 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 $846 thousand relating to these forward foreign exchange transactions receivable from authorities and payable to third parties is included in Notes 10(b) and 16(b) respectively.

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

	Coupon	**Market Rate 31-Dec-16**	Market Rate 30-Jun-16	Market Rate 31-Dec-15
Overnight	-	**1.50%**	1.75%	**2.00%**
90 days	-	**1.82%**	1.96%	**2.38%**
180 days	-	**2.05%**	2.12%	**2.48%**
15 July 2017	8.00%		1.76%	**2.25%**
15 October 2019	7.00%	**2.19%**	1.92%	**2.49%**
15 July 2021	7.00%	**2.54%**	2.08%	**2.81%**

16 October 2023	6.00%	**2.87%**	2.37%	**3.23%**
21 October 2027	3.00%	**3.43%**	2.76%	

NOTE 20

NOTES TO THE STATEMENT OF CASHFLOWS

20a. Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2017 **31-Dec-16** **$'000**	2016 31-Dec-15 $'000
Bank Deposits (Note 7)	**252,539**	1,371
Short Term Money Market Investments	**1,526,897**	2,031,354
Overseas Bank Accounts (Note 7)	**255**	30
	1,779,691	2,032,755

20b. Reconciliation of Net Cash used in Operating Activities to Profit for the Period

Profit for the period after tax equivalent	**7,575**	9,939
Depreciation	**98**	155
Amortisation of Intangible Assets	**33**	33
(Increase) in Receivables	**(7,074)**	(31,861)
(Decrease)/Increase in Accrued Interest Payables	**8,891**	49,610
Increase/(Decrease) in Other Creditors	**206**	(1,309)
Current income tax equivalent expense	**3,259**	4,285
Other Receipt/(Payment) on behalf of Client Authorities	**75**	74
Deferred tax asset	**(7)**	(18)
Deferred tax liability	**0**	(2)
Tax equivalent payment	**0**	(6,240)
Unrealised Foreign Exchange Gain/Loss	**(1)**	(1)
Increase in Employee Benefits	**24**	59
Premium/Discount Amortisation	**(177,963)**	(145,636)
Market Value Adjustment	**(48,615)**	(76,532)
Cash (increase)/decrease in Investments	**(719,826)**	474,498
Cash (increase) in Lending	**(3,374,855)**	(5,375,616)
Cash increase in Borrowings	**2,503,655**	5,176,408
Net Cash (used in)/provided by Operating Activities	**(1,804,525)**	77,846

20c. Financing/Lending Facilities

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

Western Australian Treasury Corporation

Level 12, St George's Square
225 St George's Terrace
PERTH WA 6000

Telephone: (61) 8 9235 9100

Facsimile: (61) 8 9235 9199

E-mail: watc@watc.wa.gov.au

Web Address: www.watc.wa.gov.au