Efic

Finance for Australian Exporters

# Efic 4-YEAR CORPORATE PLAN

# 2016-17 to 2019-20

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# 1. Introduction

As Chairman of the Export Finance and Insurance Corporation (Efic), and on behalf of the Board as the accountable authority, I am pleased to present our 2016-17 Corporate Plan (the Plan). The Plan covers the 4-year period from 2016-17 to 2019-20, as required under paragraph 35(1)(b) of the Public Governance, Performance and Accountability Act 2013 (*the PGPA Act*), and section 49 of the Export Finance and Insurance Corporation Act 1991 (*the Efic Act*).

The Plan sets out how we will deliver on our purpose of supporting commercially-viable Australian exporters over the coming year and beyond. However, as outlined in this Plan, events outside the control of Efic may impact our ability to achieve our planned outcomes.

In particular, we cannot provide financial services or solutions to companies unless we are satisfied that private sector providers are unable or unwilling to do so – what Efic terms the ‘market gap’. In a practical sense, it means we cannot compete with the banks and, as such, apply procedures to ensure that we refer transactions to the banks before proceeding. When we step forward, our intended participation often encourages the participation of other financiers. This catalytic role is consistent with our mandate to ‘crowd in’ the private sector and in many cases may require us to step away from the transaction.

Therefore, when assessing our targets in this Plan, the eventual outcomes are significantly influenced by the risk appetite of the private sector and the degree of market gap. However, if our early involvement means our clients’ needs can now be met by the private sector, then we have been successful. While it is often difficult to quantify the benefit of Efic’s ‘crowding in’ of the private market, we disclose when this does occur.

Typically, the ‘market gap’ occurs for SMEs lacking real estate collateral, and companies of all sizes conducting business in frontier and emerging markets, where banks traditionally have a lesser risk appetite. The Plan assumes this ‘market gap’ will continue, and in particular it builds on our solid performance in 2015-16, notably in our increased support for SMEs. We expect that the number of transactions supporting SMEs will continue to grow in 2016-17, but increase significantly thereafter as our online offering, EficDirect, builds momentum.

Our larger corporate, sovereign and project finance business will grow more modestly. We will continue to provide finance to natural resource projects in emerging markets where there is a need for significant Australian subcontracting, including to Australian SMEs, as well as assisting larger Australian companies to facilitate their export business opportunities in more challenging markets.

In aggregate, we expect to sign over $510 million worth of business next financial year, supporting export contracts worth in excess of $2.1 billion. While annual profitability is important, long-term viability is a critical strategic priority for us. Our pre-tax profit is forecast to be $16.5 million, and post-tax $11.5 million, although there are many factors that can influence our overall profitability. With an expanding SME business and country concentrations due to ‘following our exporters’, it is possible that credit losses in any one year could exceed operating profits in that year and Efic could record a loss. The Plan includes appropriate credit provisions to reduce this likelihood of loss.

We will also continue to work collaboratively with other Government departments and agencies, with our support of the Northern Australia Infrastructure Facility (NAIF) being one example where we can leverage our expertise to create efficiencies for Government.

Our Plan also recognises that our people are our greatest asset and we will continue to promote diversity across the organisation and strive for better representation of women in senior leadership positions. We will also continue to support Australia’s indigenous community by promoting awareness of indigenous culture and supporting reconciliation.

Australia’s exporters are among the best companies in this country and we look forward to helping even more receive the financial support they need to win business, grow internationally and achieve export success.

James M. Millar AM
Chairman
25 August 2016

# 2. Purpose

### Purpose

Our primary purpose is to facilitate and encourage Australian export trade on a commercial basis. We provide financial support to Australian-based companies that are exporting, integral to a global supply chain or seeking to grow internationally. Our primary focus is SMEs or larger transactions that can crowd in SMEs into the supply chain, as this is where the need for our support is greatest.

As Australia's export credit agency, we have performed our role within various statutory frameworks since 1957. Efic was established in its current form on 1 November 1991 under the *Efic Act*, as a statutory corporation wholly owned by the Commonwealth of Australia.

### Functions and responsibilities

Under the *Efic Act*, Efic has four key functions:

- to facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in export trade
- to encourage banks and other financial institutions in Australia to finance or assist in financing exports
- to manage the Development Import Finance Facility, the Australian Government's aid-supported mixed credit program (a facility that has now been discontinued, although loans remain outstanding under it)
- to provide information and advice regarding insurance and financial arrangements to support Australian exports.

In performing its functions, Efic is required to:

- do so in a manner to best assist the development of Australian export trade
- comply with any directions from the Minister for Trade, Tourism and Investment (Minister) given under section 9 of the *Efic Act*
- have regard to improving and extending the range of financial services and products available to people involved in Australian export trade
- provide services and products as efficiently and economically as possible
- have regard to Australia's obligations under international agreements.

### Role

Our role is to support the growth of Australian businesses internationally. We are a specialist financier that delivers simple and creative solutions for Australian companies to enable them to win business, grow internationally and achieve export success.

Quite simply, we are committed to unlocking finance to ensure our clients enjoy export success.

We operate on a commercial basis and partner, but do not compete, with banks to principally provide financial solutions for:

- Small and medium enterprises (SMEs) that are exporters
- Australian companies in the domestic export supply chain
- Australian companies looking to expand their business operations overseas to better service their clients
- Australian companies operating in emerging and frontier markets.

Previous amendments to the *Efic Act* provide us with greater flexibility to lend for the export of all goods and services, not just capital goods. The recent introduction of the Small Business Export Loan (via EficDirect) and the Export Contract Loan will reduce costs, improve convenience, increase approval speed and provide greater flexibility for Australian small businesses seeking finance to support export contracts.

# 3. Environment

Efic's environment is primarily influenced by four key external factors, namely, our 'market gap' mandate, the level of private sector risk appetite, the regulatory environment and our stakeholder engagement (including with Government). Ultimately, these factors influence, directly and indirectly, the level of demand for Efic's products and services, and therefore our overall performance against the targets set out in this Plan.

### 'Market gap' mandate

Efic is a statutory authority operating in accordance with commercial principles. We operate in the financial services sector, although the Minister has expressly limited our activities to a 'market gap' mandate. Our Statement of Expectations (Appendix 5) states: "*Efic should ensure its activities fill the 'market gap' where private sector finance is not forthcoming. I expect Efic to monitor the capacity of the commercial markets and to take this into account*."

The 'market gap' mandate means that we do not compete with the private sector, instead we fill the market gap by only helping those eligible businesses that are unable to receive the finance they need. Indeed, we complement the private sector, notably banks, by working with them or encouraging them to participate in various transactions.

In our experience, SMEs, and even larger companies operating in emerging markets, are consistently unable to access the finance they need to grow their business or fulfil export-related contracts. Our point of difference is that we adopt a capability-focused approach to due diligence when assessing applications for finance, which includes an assessment of the contract terms. In the SME segment, this approach is different to the banks, which generally take a more traditional view. They base their risk assessment on the tangible security, typically real estate, that the SME can provide, even if it has a track record and the technical capacity to generate a profitable business.

This results in a 'market gap' because banks typically prefer to lend to businesses with the best collateral, rather than those with the best export prospects. We will often rank behind an exporter's bank against tangible security, after being satisfied with the exporter's ability to perform the contract. However, this ensures SMEs that lack tangible security still have access to finance to secure export contracts. Our involvement also signals to private financiers that these businesses may represent an acceptable risk.

The introduction of our new Small Business Export Loan (SBEL), delivered via our online portal called EficDirect, has been developed with this market gap in mind. This loan meets the specific needs of smaller SME exporters with a turnover of less than $5 million, by bringing together convenience, accelerated approvals and flexibility.

However, the development of FinTech solutions in global and Australian markets will undoubtedly continue to influence the market gap in coming years. Efic is monitoring the FinTech space to ensure we are not competing with the private market – although to date, Efic's observations are that FinTech finance providers are focused largely on domestic companies requiring less than $100,000 with regular, sometimes even daily, principal repayments. Efic's experience with SMEs that have specific export contracts is that they require larger sums with flexible repayment terms that mirror the terms of their export contract (see section 4.0 Capability – Our Products).

### Private sector risk appetite

Australian companies looking to take advantage of opportunities in emerging markets can also face financing hurdles, due to a limited risk appetite from private financiers. In Efic's experience, the international focus of Australia's banks is more limited than that of many of Australia's exporters, which can result in viable exports going unrealised. Financial inflows into some emerging markets also suffer from short-termism, exposing exporters and investors to abrupt and wholesale credit withdrawals when sentiment changes.

We can also help with 'crowding in' when it comes to providing finance, given some providers feel our participation helps to lower the risk, due to our Government ownership, 'AAA' rating, and our knowledge and focus on emerging markets. A good example of this is our ability to obtain reinsurance from the private market for transactions in emerging markets, where those reinsurers would not normally take the risk without our participation.

Overall, the market outlook over the Plan period suggests that growth in the short-term for larger transactions in emerging markets will be challenging, as loan volumes have steadily declined since 2014. Moreover, the number of large projects eligible for Efic support has been curtailed by the fact that, for resource projects, the project sponsor must demonstrate there is significant Australian content, including from Australian SMEs. In those cases, we look for opportunities where Australian SMEs can be involved in the ‘supply chain’ as sub-contractors in the development of these projects.

Further, the activities of Asian Export Credit Agencies (ECA) have steadily and significantly increased their trade-related support for exporters, with China-EXIM/Sino-Sure, JBIC/NEXI and K-SURE/K-EXIM collectively providing 85 per cent of global ECA finance. The willingness of these agencies to provide large loans to projects in support of their exporters, or to secure import supply, may reduce the need for Efic involvement in future ‘jumbo’ transactions in the Asia Pacific region.

As Efic’s balance sheet is significantly smaller than most other ECAs, our role is typically limited to small niche transactions and therefore we expect to see lower levels of activity over the next few years than in previous years.

## Regulatory environment

Efic is not subject to any specific oversight by a regulator such as APRA or ASIC, however the Board has adopted best practice by setting its own regulatory standards, drawing upon both the standards of APRA and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision.

The key prudential controls established relate to capital management, including managing capital adequacy and large exposures (see Risk Oversight and Management section). The Board is tasked under the *Efic Act* to operate within sound commercial principles and that includes defining risk appetite, setting limits and maximum risk tolerances, monitoring performance and making dividend recommendations to the Government.

In a practical sense, the Board’s risk appetite limits our exposure to individual counterparties and countries. When limits are approaching capacity, we use risk transfer to sell down risk to reinsurers and other ECAs to create additional capacity.

Efic is also unusual in that a significant component of the overall capital required is for concentration risk. The models used in Basel under Pillar 1 do not capture concentration risk, as they are formulaic in nature, facilitating standardisation and implementation by making assumptions.

One of the key assumptions in the formula for regulatory capital calculations is full diversification – i.e. the assumption is that no concentrations are present in the portfolio. Concentration risk in the Basel context is the ‘spread’ of outstanding obligors, or specifically the level of diversity that exists across a bank's loan portfolios. The lower the diversity, the higher the credit concentration risks.

This creates a problem for Efic because concentration risks arise as a natural consequence of operating within the ‘market gap’ mandate. In other words, Efic by default fills financing gaps that the private sector will not or cannot support, and those gaps may be in a particular industry or sector that creates concentration risk for Efic.

Typically a bank would spread its risks and therefore Pillar 2 of Basel requires banks to assess their overall risk profile (in addition to the risks specified under Pillar 1) and to calculate any further capital that should be held against these additional risks, such as concentration risk. Banks and other regulated ECAs only disclose regulatory capital and actual capital available, so it is difficult to benchmark the amount of capital allocated by these institutions under Pillar 2 for concentration risk.

The key point for Efic is that a single measure (i.e. the Capital Adequacy Ratio) is not appropriate to assess whether Efic’s capital is sufficient. Concentration risks from large exposures need to be factored into analysis of Efic’s capital position. Accordingly, Efic ensures that it meets both the minimum Capital Adequacy Ratio set by the Board, as well as ensuring that the actual capital available is greater than the required capital (both regulatory and concentration).

It is possible that Efic could meet the minimum Capital Adequacy Ratio and yet not have sufficient required capital, relative to actual capital available, if concentration risks are high.

## Stakeholder engagement

Efic regularly engages with its key stakeholders – exporters, Government, private sector financiers, industry groups, the media and  Non Government Organisations (NGOs). Effective stakeholder engagement improves Efic's reach within Australia's exporter community, garners support for and understanding of Efic's operations, and assists Efic in gaining a greater understanding of the market in which it operates. Like all effective relationships, Efic is receptive and willing to adapt its forward strategies based on advice from stakeholders.

*Government*

Efic's relationship with Government, and particularly with the Minister, is formally governed by the Minister's Statement of Expectations for Efic (SoE) (Appendix 5) and the Board's corresponding Statement of Intent (SoI) (Appendix 6). Efic maintains less formal engagement with Government through regularly reporting its activities to the Department of Foreign Affairs and Trade (DFAT). DFAT is Efic's primary communication conduit with the Minister's Office and the offices of other Ministers.

Efic is also focused on building effective relationships with business-focused government departments and agencies, at both the Commonwealth and State level. This includes DFAT and its portfolio agencies (notably Austrade and Tourism Australia), the Department of Industry, Innovation and Science, and the Central Agencies (Treasury, Finance and the Department of the Prime Minister and Cabinet). The overarching aim of this engagement is to improve cooperation and collaboration, generate increased client referrals and build understanding about Efic's role within Government.

As a Government agency, we are subject to changes in government policy and priorities. However, over the Plan period, we do not expect any significant changes to Efic's mandate or the way that we do business. However, we do expect that companies will look to take advantage of recently negotiated free trade agreements.

*Banks and FinTech*

Over the Plan period, we expect that banks will continue to play a key role as a source of referral for business origination, as they are traditional supporters of Efic's operations. Maintaining engagement with banks is essential to developing awareness of Efic, alongside Efic's online initiatives to build awareness among its SME target market.

Despite Efic's changing business model – towards direct financing relationships with small exporters – Efic is focused on maintaining strong relationships with banks and the rapidly evolving non-bank financial sector.

As the non-bank financial sector, notably the 'FinTechs', evolve and grow, they will also look to exploit gaps in the market, which may impact Efic's business model. It is difficult to assess the impact that FinTechs will have on Efic over the Plan period, although it is possible that their model could reduce the need for Efic's services in the SME space.

*Industry*

Efic is focused on working with selected industry associations – particularly smaller industry groups and bilateral business chambers that have a clear export focus – to increase their understanding of Efic and to raise awareness of our services with their members. Over the Plan period, we expect industry associations to be another key source of referral, particularly for the SME business.

*Media*

The market need for Efic is strongest among SMEs. However, identifying and accessing these clients can be difficult. In the SME business, Efic faces an ongoing challenge given the highly fragmented nature of the export community (there are more than 40,000 exporting SMEs in Australia). To continue driving brand awareness, we have developed a digital media and marketing strategy and will also use social media platforms to reach our client base over the Plan period.

*Non Government Organisations (NGOs)*

NGOs continue to gain a greater understanding of Efic's policies and procedures through more regular interactions, and through its hosting of annual forums. Our engagement with NGOs over the Plan period will continue as part of our corporate responsibility obligations. We aim to engage in a way that is relevant to the NGOs needs and support transactions in a way that is ethically, environmentally and socially responsible.

## Impact of changes in the environment on business performance

As a self-funding organisation with commercial principles, we support Australian exporters regardless of the market conditions. Even during times when the private sector may withdraw from capital markets, we will continue to support commercially-viable export activity.

Some risks, however, are beyond our control. Growth opportunities for Australian exporters in a globally competitive world, geopolitical tensions impacting emerging markets and ongoing regulatory changes, particularly in the banking environment, all impact on our ability to deliver on expected outcomes. So despite our best intentions, our actual performance relative to our planned performance can be materially different. Indeed, it is possible that adverse circumstances in any one year could result in us recording a financial loss.

Our mandate from Government is to operate in the 'market gap', so our planned outcomes are also influenced by the risk appetite of the private sector. So for example, if the private sector is willing to provide finance, we step away from the transaction; however if the private sector is unwilling or unable to provide finance, we step in.

Similarly, when we take part in a transaction, our involvement often encourages other financiers to participate, which is consistent with our mandate to 'crowd in' the private sector. When we need to step away from a transaction, we may have already performed significant due diligence and incurred costs in order to provide the client with an indicative offer. However, our mandate is met when our client can access funds, even though our involvement is not always reflected in our planned performance.

Over the Plan period, SMEs and transactions of scale in emerging and frontier markets are likely to remain undersupplied for finance. This reflects a number of factors including: the small sums of money required by individual SMEs combined with the specialised and ad hoc nature of the financing required; the strong demand for capital elsewhere; the centralised nature of Australia's financial system; and the relatively narrow business models of the major banks.

Large exposures, concentration risks and potential currency movements also impact on our business. Efic's actual capital available is denominated in AUD. Our actual capital available is denominated in AUD, whereas we have traditionally written larger loans in the currency required by our clients, which is typically USD. This gives rise to a currency mismatch, in that the numerator for capital adequacy purposes is fixed in AUD but the denominator is in a foreign currency, or specifically, the AUD equivalent of that foreign currency. Similarly, large exposures and concentration risks denominated in a foreign currency are measured relative to capital fixed in AUD. Substantial movements in the exchange rate can therefore impact on capital adequacy and large exposure limits, even though the underlying credit exposure in foreign currency is unchanged.

Similarly, substantial movements in the exchange rate can impact our reported profit as approximately 92 per cent of our facilities (and therefore revenues and credit provisions) are denominated in foreign currencies (USD 88%, Euro 3%, other 1%). The Plan assumes a constant exchange rate over the Plan period and therefore any variations will either have a positive or negative impact on reported outcomes. For example, a decline in the AUD/USD exchange rate will result in a higher AUD equivalent of USD fees and risk premiums, however this is offset by higher credit provisions as the AUD equivalent of USD exposures is higher.

And of course, any significant changes arising from changes in government policy or priorities may impact our performance relative to the Plan. Therefore, in assessing how we may perform against our planned outcomes, it is important to note that success for us is not always reflected by an increase in profitability or the number and value of facilities provided. There are many variables that can impact these, as outlined above. Rather, success for us is supporting as many commercially-viable exporters as possible, in an environment characterised by market volatility and uncertainty.

# 4. Capability

The Plan for 2016-17 focuses on four core capabilities to achieve our purpose, namely:

- Our people
- Our platform
- Our processes
- Our products

## Our people

The future of Efic's business is heavily reliant on the quality of our people and their ability to deliver the right outcomes for our clients and stakeholders.

A review of our people practices in early 2016 confirmed there are three critical pillars that require focus if we are to continue to build our culture and capability that will attract and retain the best people. The three pillars are:

- *Culture* – to identify the distinctive attributes that will underpin our employee value proposition. We recognise that an employee value proposition is critical to the attraction, engagement and retention of talented people.
- *Leadership* – effective leadership is fundamental to developing a high performance culture, employee engagement and developing a talent pool and succession for future growth.
- *Diversity and inclusion* – a diverse and inclusive workplace is critical to strengthening Efic's employee brand and reputation, and also contributes significantly to talent attraction and employee engagement.

Our People and Culture plan includes a number of initiatives to further build these pillars and deliver on our aim of a high performance culture.

To date, progress has been made in a number of areas including:

- Setting of gender diversity targets and progressing the achievement of these through recruitment, talent and leadership practices.
- Developing an agile work environment and increased focus on flexible work practices has had a positive impact on employee engagement. The plan ahead will focus on creating the environment and leadership capability to sustain flexible working into the future.
- Offering our people a diverse range of learning and development opportunities, including internal transfers, secondments, mentoring and formal on the job training, to build the necessary skills and capabilities for them to succeed.

The achievement of the People and Culture plan demonstrates our commitment to our people and will further progress Efic towards its goal of retaining its status as an 'employer of choice'.

## Our platform

We continue to invest in our technology platform and a fundamental change during the Plan period will be finalising the roll-out of a new mobility-centric standard platform. This involves employees moving from the use of a fixed desktop device to full mobile computer with complete system access from anywhere.

Supporting this infrastructure is a substantial network upgrade, including both internet and private network. These upgrades will not only improve general performance, but also allow for use of new technologies like desktop video conferencing. The latest Wi-Fi equipment not only provides gigabit speeds in the air (equivalent to our existing fixed wire network) but improves productivity by allowing staff to seamlessly roam and automatically stay connected.

A coordinated and digitised approach to records management will become a key enabler to Efic's agile working arrangements, enabling efficient remote access to business records. An integral component of the program has been the implementation of an electronic data and records management system to assist in this transition.

This involves digitising Efic's business records, together with the formulation of related policies, procedures and employee training. Aligned to this new digital records environment, Efic has also purchased electronic signature software to improve workflows in relation to the execution of electronic documents.

### *EficDirect online portal*

The Small Business Export Loan (see Our products) is Efic's first loan product to be offered online. The EficDirect online portal will be critical to Efic successfully fulfilling its purpose over the Plan period and is driven by the following factors:

- **Online and accessible** - the increasing demand by SME business owners to be able to engage with financial service providers in a digital and online world, at any time and in any location.
- **Accessible** - EficDirect allows Efic to be accessible to all Australian SME business owners be they city, metropolitan or regionally based.
- **Market relevance** - with the global emerging trend of the FinTech operating model, EficDirect provides Efic the opportunity to continue to be relevant to our core target market.
- **Fast and simple** - with many SME business owners being time poor and needing to focus on their business, EficDirect offers a fast and simple loan solution, providing export growth opportunities for the SME exporter.
- **Cost-effective** - EficDirect provides low value loans to small business exporters faster, more easily and more cost-effectively.
- **Market gap** - the 'market gap' in Australian export finance is more pronounced the smaller the business. EficDirect provides greater capacity and ability to offer a viable loan solution direct to an SME exporter, compared to the cost, time and resourcing required where Efic has historically sought to offer a guarantee solution to the SME's bank.

EficDirect provides Efic with the ability to deliver a low cost solution to an anticipated higher volume product. Over the Plan period, we expect EficDirect transactions to increase from 40 to nearly 400 transactions.

## Our processes

Efic has developed a 'continuous improvement program' across the business to drive efficiencies and eliminate redundant processes. The mantra of efficiency, simplicity and creativity permeates throughout the corporation and helps focus management's attention on delivering processes that create a positive customer experience. The customer is at the centre of our continuous improvement program.

We will therefore continue to refine our standard form documentation and accelerated execution process to improve our average turnaround on SME transactions. We have simplified the legal documentation for our two most used products, the export working capital guarantee and performance bond. We have also created new simple form documentation for the export contract loan.

We are also investing further resources into our marketing capability, including our digital online offering, to make it easier for SMEs to engage with us, including through the use of mobile and tablet devices.

We have also invested heavily in our IT platform (see Our platform) to 'web enable' our applications and use cloud-based solutions for easier and faster access. This has also helped lower our cost of delivering services, in addition to providing improved access from a disaster recovery perspective.

The growth of the SME book over the past 12 months continues to highlight a number of opportunities to improve and update our processes. Our pragmatic approach to structuring transactions has also helped to reduce delays.

We have reduced the complexity of documents and standardised a number of key processes, which has enabled us to reduce turnaround times significantly. This has allowed our clients to receive the finance they need far more quickly.

And as noted above, with EficDirect, the turnaround time from submission of an application is just 7 business days plus 2 days to payment, once the offer has been formally accepted.

### Our products

Our financial solutions include:

- Longer-term finance, where we provide a direct loan or a guarantee. Loans and guarantees can help an overseas buyer to finance the purchase of Australian goods or services, either as buyer credit to offshore companies or governments, or as project finance.
- Bonding and security guarantees, which can help Australian companies with their security obligations. We can either issue bonds directly or provide a guarantee to a bank issuing a bond. These can include advance payment, performance, warranty and US surety bonds.
- Various insurance solutions including political risk insurance, bond insurance and export payments insurance, but not short-term credit insurance.

Specifically for SMEs we offer:

- Working capital support, where we provide either direct short-term loans, or a working capital guarantee to allow a bank to approve the funds needed.
- Export Contract Loans for SMEs with annual revenue of over $5 million with a specific export contract. Loan amounts are typically greater than $100,000 and are available in multiple currencies with tailored repayment terms to support an export contract.
- Small Business Export Loans (SBEL) of up to 1 year for SMEs established for at least 2 years with annual revenue between $250,000 and $5 million, and who have exported within the last 12 months. Loan amounts are between $50,000 and $250,000, with fixed monthly principal and interest repayments.

  Key aspects of the SBEL include:

  - Convenient online application process
  - Fast approvals in up to 7 business days
  - Quick access to funds, available within as little as 2 business days after acceptance
  - Ability to track the application in real time through the EficDirect online portal
  - Flexible loan terms to suit the SMEs business cash flow needs
  - Access to an unsecured loan based on the business' ability to service the loan

Through our loans, guarantees, bonds and insurance products, we help Australian exporters and subcontractors take advantage of new contract opportunities that may otherwise have been out of reach.

We also provide financial services to Australian exporters that the Government considers are in the national interest. For all transactions written on the National Interest Account, the Commonwealth receives all net income and must reimburse us for any losses.

## 5. Strategies

In fulfilling our purpose of facilitating and encouraging Australian export trade on a commercial basis, the business activities that will unlock finance for export success and help us to achieve our strategic goals during the Plan period are consistent with those outlined in previous Corporate Plans, namely:

| STRATEGY | ACTIVITY | IMPACT |
|---|---|---|
| Ensuring the right level and expertise of 'on the ground' support for our clients | We have a well-established national origination team to provide effective 'on the ground' support to clients, especially in regional areas where many exporting SMEs and those in global supply chains are based.<br><br>We will also continue to have specialist originators for each industry sector and geographic region to ensure ongoing engagement with larger, globally-competitive Australian companies looking to do business in emerging markets.<br><br>Apart from our Sydney head office, we also have industry experts co-located in Austrade's office in Brisbane (also servicing the Northern Territory), Melbourne (also servicing Tasmania), Perth and Adelaide, which ensures a steady flow of information and referrals between to the two agencies. | Improved engagement with prospects and their advisers.<br><br>Improved business presence by being able to better and more easily engage with local industry, trade and export associations.<br><br>Improved business presence has contributed to origination team meeting with 62% more exporters in FY16 which has resulted in originating 25% more opportunities. This encouraging growth is expected to continue over the Plan period. |
| Making it easier for clients to do business with us | We launched EficDirect, our online portal, in March 2016. This will enable small businesses to apply online for a Small Business Export Loan in as little as 30 minutes and receive an indicative offer immediately. Successful clients can then receive a formal approval within 7 business days, after which funds can be available to draw on within as little as 2 business days.<br><br>We continue to make improvements to our website to ensure it is client-centric, easy to navigate and provides information about our financial solutions based around the needs of our clients.<br><br>We continue to streamline the application, credit assessment, credit decision and documentation elements of the process for small exporters. Standard terms and conditions make it easier for clients to transact with us. | Early results for our online end-to-end loan process indicate a 23 per cent reduction in turnaround time, compared to our offline loan process. While the online process is still in its infancy, we expect this process will drive a reduction in costs over the Plan period.<br><br>Our improved online presence makes it easier for prospective clients to find out about Efic and contact us when support is required, contributing to a positive impact on transaction volume.<br><br>60 per cent more visitors have accessed the Efic website over the last year and we expect this to continue over the Plan period.<br><br>Reduced turnaround times result in a better customer experience, and frees up resources to complete more complex transactions. |

| STRATEGY | ACTIVITY | IMPACT |
|---|---|---|
| Improving brand awareness within the exporter community | We continue to make changes across everything we do – our 'look and feel', our website, how we communicate – to make us more accessible and ensure higher engagement with our clients.<br><br>Awareness and understanding of Efic is a prerequisite to helping exporters when they require our services.<br><br>We will continue to build on our brand through increased marketing efforts around acquisition campaigns, like our national road shows, and like the SME Leaders Lunches.<br><br>As a 'point in time' financier, acquiring new exporters into our database enables ongoing targeted and effective communication and education. It further ensures Efic remains front of mind for exporters when they have a viable export opportunity that requires our support. | Brand changes conducted throughout the year have had a positive impact on brand awareness, resulting in a 6.6% increase in unprompted awareness of Efic among exporters, rising to 32.3%.<br><br>The increased focus on SME exporters has driven a relatively larger uplift (9%) in both prompted and unprompted awareness among SME exporters.<br><br>Unprompted awareness among SME exporters is now 24%, up from 5% in FY09. Brand awareness for our corporate clients remains high at 78.4%.<br><br>Brand building exercises and continuous engagement with exporters has resulted in database acquisition of 15% of Australian exporters this financial year, and is expected to grow further over the Plan period. |
| Developing products that meet our client needs | Within the SME business we had previously reduced our minimum support thresholds from $500,000 to $100,000, which enabled us to support smaller exporters. We will continue to review our thresholds over the Plan period.<br><br>With the introduction of the Export Contract Loan in 2015 and the Small Business Export Loan in 2016, we will continue to review the features of these loan products to ensure their relevance to SMEs.<br><br>Within the corporate business, we will continue to engage with exporters requiring funding (up to $5m) for late stage commercialisation and take the lead to assess, execute and manage these opportunities. | The reduction in minimum support threshold has spurred strong growth in our support for smaller exporters. Growth for deals with value between $100-$500K was 59%.<br><br>We anticipate the ongoing product development and refinement to help smaller exporters will result in continued growth for this segment over the Plan period. |
| Expanding and deepening key alliance partner relationships | We will continue to work alongside the Department of Foreign Affairs and Trade, Austrade and other Government departments and agencies to help us support exporters efficiently and effectively. | Improved cooperation and collaboration with Austrade has enabled increased numbers of client referrals and builds broader support for Efic.<br><br>Our strategic alliances continue to deliver client leads and indirect referrals through key event participation. |

| STRATEGY | ACTIVITY | IMPACT |
|---|---|---|
| | We will look to establish more risk sharing and partnership agreements with banks and other financiers that will give SME exporters more options and assistance in different overseas markets.<br><br>We will broaden our distribution channels by using our relationships with industry groups to generate referrals and boost awareness of our services among their members. | |
| Developing and engaging our employees | We will continue to build a culture of diversity and inclusion, and develop people-related initiatives that are consistent with being an 'employer of choice'.<br><br>We will continue to run internal surveys to confirm that we are rated in the top quartile of companies in the financial services industry and will continue to offer a flexible and agile work environment. | We will attract and retain high quality employees.<br><br>Our employees will be highly engaged and agile to meet the demands of our mandate. |
| Practising appropriate corporate responsibility | We continue to introduce efficiencies to reduce our corporate footprint, such as electronic documentation and electronic signatures applied to legal documentation.<br><br>We are committed to examining the impacts that our day-to-day operations have on the environment and identifying ways to reduce these impacts. | Reduce our environmental footprint.<br><br>Save costs from eliminating redundant processes e.g. using electronic signatures rather than 'wet ink' signatures. |
| Crowding in the private sector | We regularly liaise with the banks to provide them an opportunity to participate in any transaction we are considering. All SME transactions are formally referred to the banks before we offer our financial support to the transaction. | When we step forward, our intended participation often encourages the participation of other financiers. In many cases this may require Efic to step away from the transaction. |
| Ensuring the long-term sustainability of Efic | This remains the overarching theme of the Plan – whatever Efic does is designed for the benefit of Australian exporters, but it must be done in a way that is sustainable. | Generating a profit over the business cycle and paying a return to the Government by way of tax and dividends. |

The above strategies are primarily directed towards activities on our Commercial Account. We also operate a National Interest Account where the Minister can direct us to enter into a facility (see Appendix 3).

# 6. Business performance

This is what we are aiming to achieve over the next 4 years on the Commercial Account:

| Year Ended 30 June | | 2015/16 Actual | 2016/17 Plan | 2017/18 Plan | 2018/19 Plan | 2019/20 Plan |
|---|---|---|---|---|---|---|
| No. of transactions: | No. | | | | | |
| - SME | | 191 | 200 - 250 | 270 - 320 | 425 - 475 | 575 - 625 |
| - Corporate, sovereign & project finance | | 3 | 5 - 15 | 5 - 15 | 5 - 15 | 5 - 15 |
| - Total | | 194 | 205 - 265 | 275 - 335 | 430 - 490 | 580 - 640 |
| No. of facilities: | No. | | | | | |
| - SME | | 119 | 155 - 205 | 225 - 275 | 375 - 425 | 520 - 570 |
| - Corporate, sovereign & project finance | | 3 | 5 - 15 | 5 - 15 | 5 - 15 | 5 - 15 |
| - Total | | 122 | 160 - 220 | 230 - 290 | 380 - 440 | 525 - 585 |
| Value of facilities signed: | $m | | | | | |
| - SME | | 155 | 180 - 200 | 195 - 215 | 230 - 250 | 255 - 275 |
| - Corporate, sovereign & project finance | | 235 | 330 - 360 | 245 - 275 | 245 - 275 | 245 - 275 |
| - Total | | 390 | 510 - 560 | 440 - 490 | 475 - 525 | 500 - 550 |
| Export contracts supported | $m | | | | | |
| - SME | | 660 | 840 - 890 | 880 - 930 | 990 - 1040 | 1060 - 1110 |
| - Corporate, sovereign & project finance | | 817 | 1300 - 1400 | 1000 - 1100 | 1000 - 1100 | 1000 - 1100 |
| - Total | | 1,477 | 2140 - 2290 | 1880 - 2030 | 1990 - 2140 | 2060 - 2210 |
| | | | | | | |
| Commercial account profit (pre tax) | $m | 16.5 | 16.5 | 21.2 | 25.7 | 32.2 |
| Commercial account profit (post tax) | $m | 11.5 | 11.5 | 14.8 | 18.0 | 22.5 |
| Cost-to-income ratio | % | 68.1% | 67.9% | 62.7% | 58.5% | 53.4% |
| Cost-to-income ratio (exc reallocations) | % | 71.0% | 75.7% | 69.9% | 65.2% | 59.5% |
| Return on equity | % | 2.6% | 2.6% | 3.2% | 3.8% | 4.7% |
| No. of headcount (FTE) | No. | 105 | 105 | 105 | 105 | 105 |
| | | | | | | |
| Total Capital | $m | 660 | 667 | 679 | 689 | 704 |
| Risk weighted assets | $m | 2,528 | 2,951 | 3,333 | 3,314 | 3,575 |
| Capital adequacy ratio | % | 26.1% | 22.6% | 20.4% | 20.8% | 19.7% |

The 'market gap' mandate makes it is difficult to predict the levels of business activity that we undertake in any particular year. The 'market gap' is a dynamic concept and largely outside the control of Efic, as it is dependent on the amount of private sector finance available for viable export opportunities at any one time.

For that reason, our planned business activity relating to the volume and value of transactions, facilities and exports supported are in a range and the planned outcomes in the latter years of the Plan are dependent on achieving planned outcomes in the prior years. The planned profitability and financial outcomes are based on the midpoint of these ranges and similarly, if business activity is significantly different to the Plan, the financial outcomes will be impacted.

It should also be noted that we incur costs implementing our mandate that cannot be recovered from the exporters we support. These costs are referred to as Community Service Obligations (CSO's) and include costs associated with operating as a commercial entity but with a narrow market gap mandate (see section 7.0 Risk oversight and management – Community Service Obligation). Typically this results in a higher cost-to-income ratio and a lower return on equity than other financial institutions of comparative size and scale. We are currently investigating ways to measure the impact of the CSO on our financial outcomes.

**Our planned 2016-17 outcomes:**

- between 200 and 250 new SME transactions on the Commercial Account, valued between \$180 - \$200 million, supporting export contracts of over \$840 million.
- between 5 and 15 new corporate, sovereign and project finance facilities on the Commercial Account, valued at between \$330 - \$360 million, supporting export contracts of over \$1.3 billion.
- pre-tax profit on the Commercial Account of \$16.5 million and post-tax profit of \$11.5 million.
- risk-weighted assets growing from \$2.5 billion to \$3.0 billion.
- capital available growing from \$660 million to \$668 million, assuming a 50 per cent dividend payout ratio, giving a capital adequacy ratio of 15.8 per cent and 22.6 percent (including callable capital).
- one new facility written on the National Interest Account.

**We expect beyond 2016-17 that:**

- SME transactions on the Commercial Account will grow to around 600 annually, valued at over \$260 million after 4 years, supporting export contracts of over \$1.0 billion. Of the 600 transactions, over 370 will be generated through EficDirect in the \$50,000 to \$250,000 facility range, supporting around \$50 million of export contracts. As a consequence, the average size of facilities signed will decline, which is consistent with the Government's Statement of Expectations for Efic to focus on SMEs.
- corporate, sovereign and project finance facilities on the Commercial Account to be broadly steady over the Plan period, with around 10 facilities per annum valued at between \$245 - \$275 million, supporting exports of over \$1.0 billion.
- profit on the Commercial Account rising to \$32.2 million pre-tax and \$22.5 million post-tax in Year 4, after taking into account a conservative write-off for credit losses in the SME portfolio.
- risk-weighted assets growing to \$3.6 billion, with cash capital growing through retained earnings from \$445 million to \$483 million.
- capital available growing to \$704 million after 4 years, giving a capital adequacy ratio of 14.1 per cent and 19.7 per cent (including callable capital) and capital required (economic capital) growing to \$417 million after 4 years, giving a capital required to risk weighted asset ratio of 11.7 per cent.
- no further facilities will be written on the National Interest Account

## Facilities signed

We expect significant growth in the number and value of facilities for SMEs over the Plan period, with most of the growth being in short-dated facilities (less than 12 months). Importantly, we are forecasting strong growth in the number of new SME exporters supported, growing from around 70 in 2015-16 to over 350 by year 4 of the Plan.

We also forecast that facilities for corporate, sovereign and project finance will remain relatively flat over the Plan period. The nature of these larger facilities means we could experience a material permanent shortfall in growth if one or more falls away.

## Competitive neutrality

A 'Debt Neutrality' charge of 10 basis points and a 'Tax Equivalent' charge of 30 per cent on accounting profit, in addition to an equivalent 'state tax' that covers payroll and land tax, will continue under competitive neutrality arrangements.

We expect to pay $7.6 million in Debt Neutrality charges and $5.6 million in state equivalent taxes over the Plan period, which are considered part of our normal operating costs. In addition over the same period, we expect to pay $28.8 million as a tax equivalent charge.

### Pre-tax profit

We are planning for a pre-tax profit on the Commercial Account of $16.5 million in 2016-17, which may vary up to $3.0 million to be in the range of $13.5 million - $19.5 million, depending on the value of business signed, credit provisioning and movement in foreign exchange rates.

The planned profit after tax of $11.5 million is the same as for 2015-16, but grows each year by around $3 million as business activity increases, reaching $22.5 million by year 4 of the Plan.

### Revenue

We expect premium and fee income from our SME and corporate, sovereign and structured trade business, net of reinsurance and allowances for funding, liquidity and credit risk, to be $34.1 million in 2016-17, compared to $33.7 million in 2015-16. Of the $34.1 million, a significant proportion is annuity income from the existing portfolio, with a smaller proportion from new business expected to be signed in 2016-17.

Treasury income from funding and investing (other than capital and reserves) is expected to decline, as the impact of the debt neutrality charge increases. This is because existing debt (debt issued before 1 July 2015) is not impacted by the charge but once that debt matures, the charge applies to any new debt issued. Once the full impact of the debt neutrality charge is realised, revenue from funding and investing will be negligible.

Due to low domestic interest rates, revenue from the investment of our capital and reserves is budgeted to fall from $13.1 million to $11.9 million in 2016-17, based on an average yield of around 2.75 per cent. However, investment income is expected to rise gradually over the remainder of the Plan as retained earnings grow and credit spreads widen.

### Operating costs

Overall total costs will rise by 6.0% to $38.9 million in year 1 of the Plan and thereafter at around 2% for the remainder of the Plan. However on the Commercial Account, we expect operating costs to decrease from $35.2 million in 2015-16 to $34.9 million in 2016-17. The decrease in costs on the Commercial Account is due to efficiency savings within Efic, which has enabled employee and other costs to be reallocated to support the Northern Australia Infrastructure Facility (NAIF).

We expect NAIF to contribute on average $3.0 million of expense savings a year over the Plan period from leveraging existing infrastructure and systems. Similarly, and consistent with previous years, we expect to recover around $1.1 million for administering the National Interest Account on behalf of the Government.

Details are shown in the table below:

| | Actual 2015-16 | Budget 2016-17 |
|---|---|---|
| **Commercial Account** | $35.2m | $34.9m |
| **National Interest Account** | $1.2m | $1.1m |
| **Northern Australia Infrastructure Facility** | $0.3m | $2.9m |
| **TOTAL** | $36.7m | $38.9m |

### Dividend

We provide our Board with a detailed analysis of our current and forecast capital requirements each year to support any proposed dividend. The budget assumes 50 per cent for 2016-17 and beyond.

# 7. Risk oversight and management

Our Risk Management Framework sets out core principles and the types of risks that Efic face, forming the basis of our Risk Appetite Statement and the Risk Control Matrix. The Risk Management Framework is a high level public document and is available on Efic's website.

Our Risk Appetite Statement is not a public document, as it describes in detail the manner in which our risk appetite and tolerances, and qualitative and quantitative limits, are established and subsequently controlled. Our approach to risk management and capital management is based around assessing the level of, and appetite for, risk and ensuring that the level and quality of capital is appropriate to that risk profile.

Similarly, the Risk Control Matrix (RCM) is not a public document, as it sets out each of the individual risks that the business faces, as well as the mitigants in place and the people responsible for managing the risks. It also includes our ratings regarding the likelihood and consequences of each risk. By assigning practical responsibilities to individuals and management, the RCM engenders a culture of risk awareness. Risks are classified depending on their nature – strategic, reputation, credit/country, market and operational/financial. Various probability factors are allocated to each risk event, as well as the likelihood of the risk event occurring given existing controls. In this regard, the RCM attempts to capture all of the risks that we are managing.

Reflecting this, the RCM is reviewed on a regular basis to capture new risks or identify changes to existing risks from changes in strategic direction identified in the Corporate Plan. This interaction with strategy is central to a consistent approach to risk and strategic management across Efic.

In order to ensure effective monitoring and governance, our risk appetite incorporates a balanced mix of both quantitative and qualitative measures. These are monitored within well-established risk policies, risk tolerances and operational limits set by the Board, the *PGPA Act*, and the *Efic Act* and Regulations.

The development of the Risk Management Framework and regular discussions with the Board and Audit Committee underlines Efic's commitment to continuously improve its risk management practices, with particular emphasis on planning to identify new risks.

The assessment and underwriting of risk is central to Efic's financial management framework. All transactions underwritten by Efic are reviewed by the Board or by management in accordance with delegated authorities from the Board.

Country risk is assessed by a team of economists specialising in the assessment of country-related economic and political risks.

### Contingent liability and loan ceilings

Efic operates within a strong regulatory environment. The controls imposed on Efic include:

- regulations under sections 68 and 69 of the *Efic Act*, which limit the total amount of Commercial Account loans Efic can make and the maximum contingent liability Efic can carry under Commercial Account insurance contracts and guarantees given. The total amount of loans permitted under Efic's Commercial Account is currently set at $1.8 billion.
- approvals from the Finance Minister under section 59 of the *Efic Act*, which limit the type and amount of funding that Efic can obtain under various borrowing programmes.
- a direction from the Minister (in accordance with section 9(2) of the *Efic Act*).

### Treasury operations

Efic's treasury functions are carried out within a control framework approved by the Board and compliance with the *Efic Act*, the *PGPA Act* and associated approvals required by the Australian Government.

Within this framework, we aim to prudently minimise the cost of funding our loan assets on both the Commercial Account and National Interest Account, and to prudently maximise the return on our investments, including funds representing our equity, cash reserves and working capital. In transacting on wholesale markets, our Treasury unit manages credit risk prudently within Board and management approved limits and does not trade speculatively.

The framework for our funding activities is set out within section 61 of the *Efic Act*, which states that 'Efic must not borrow or raise money except under section 58 or 59'. Section 58 allows the Finance Minister to lend money to Efic, out of money appropriated by the Federal Parliament, and section 59 allows Efic to borrow or raise money, subject to written approval of the Finance Minister. To date, we have funded our activities under section 59 approvals.

We borrow in the global debt-capital markets to fund our lending operations. The core function of our treasury is to prudently raise funding at competitive rates and to manage the investment of capital and reserves, and the surplus liquidity portfolio. We use derivative products to minimise currency and interest rate risks arising from our core businesses, and treasury's funding and investing operations. Our power to enter into derivative transactions derives from our general powers in section 11 of the *Efic Act*.

We do not take currency exposures on our assets and liabilities. We effectively eliminate this exposure by borrowing in the same currency as the assets or, typically, by borrowing in another currency and using cross-currency swaps and other foreign exchange instruments to remove the foreign exchange exposure. Similarly, we use interest rate swaps and futures to match the interest rate profiles of our liabilities with those of our loans.

However, foreign exchange rates do affect our fair-value calculations, including allowance for credit risk on the Commercial Account, as future income and expenses expected to be received and paid in foreign currencies are not hedged. Income and expenses are converted to Australian dollars when they are received.

## Capital adequacy guidelines

Under section 56 of the *Efic Act*, the Board is required 'to ensure, according to sound commercial principles, that capital and reserves of Efic at any time are sufficient' in order to (a) meet the likely liabilities of Efic and (b) make adequate provision of defaults in loan payments. This requirement only relates to our Commercial Account activities. The Board fulfils this obligation by setting its own regulatory standards, drawing upon both the standards of APRA and those set by the Bank of International Settlements through the Basel Committee on Banking Supervision.

The Board treats Efic's capital as equivalent to the regulatory capital under Basel and APRA guidelines, and uses this as the basis for setting risk tolerances with regard to large exposures and capital adequacy.

The Board is required to include as capital the $200 million of callable capital that is available from the Commonwealth in accordance with the provisions of section 54 of the *Efic Act*. The Minister has power under Section 55A(2) to direct Efic to pay specified dividends within a specific period.

Efic's lending business is essentially similar to a banking business, although the risk profile is different from that of a typical bank. Efic has a more concentrated portfolio of generally longer-dated and higher-risk exposures, consistent with our role of working beyond the limits of the commercial market. We have therefore based our assessment of capital adequacy on the prudential standards and calculations used for regulating banks.

The Board has endorsed a model that takes into account the APRA guidelines and the Basel Committee framework. The model covers credit risk, operational risk, market risk and credit concentration risk.

Efic holds no capital against the National Interest Account business on the basis that the risks of business written on the National Interest Account are borne by the Commonwealth.

## Large exposures

We use actual capital available (cash and callable) as the basis for setting risk tolerances for counterparty and country exposure limits. The Board has endorsed a limit of 25 per cent of eligible capital to apply to exposures graded with an Efic Risk Score (ERS) 1 (AAA/AA– or Aaa/Aa3) or ERS 2 (A+/A– or A1/A3), and adopted a more conservative target of 15 per cent for risks graded ERS 3 (BBB+/BBB– or Baa1/Baa3) or above within the general limit of 25 per cent. For country exposures, the limit is 25% for ERS grades 3 and above, with exceptions subject to Board approval. Our Board allows a small tolerance above these limits for foreign exchange movements, given the majority of our large exposures are in foreign currency against an AUD capital base.

## Concentration risk

We also need substantial capital to manage concentration risk, which is created as a natural consequence of filling those financing gaps that the private sector will not, or cannot, support. These gaps may also be in a particular industry or sector, so in order to ensure an appropriate level of diversity across our portfolio, we look beyond traditional capital adequacy ratios to determine the amount of capital required to manage our business prudently.

## Currency risk

We must manage currency risk closely as, while our actual capital available is in Australian dollars, over 90 per cent of our exposure is in foreign currency. This ‘currency mismatch’ means that large movements in exchange rates can influence our large exposure and country limits, and our capital adequacy, even though our underlying foreign currency exposure hasn’t changed.

## Credit policy

Consistent with the principles set out by the Basel Committee on Banking Supervision, the Board periodically reviews and confirms the credit risk strategy and significant credit risk policies of Efic.

Management bears responsibility for implementing the credit risk strategy approved by the Board and for developing detailed policies and procedures for identifying, measuring, monitoring and controlling credit risk.

Our significant credit policies are contained in our credit guidelines that were first approved by the Board in March 2000 and have been confirmed annually since then.

## Corporate responsibility

We are committed to supporting the growth of Australian businesses internationally, in a way that is ethically, environmentally and socially responsible. We are committed to our stakeholders – our clients, the Government, our employees and the wider community.

Our corporate responsibility strategy outlines the ways in which we fulfil these responsibilities. The key components of our corporate responsibility strategy are:

- environmental and social responsibility – we practise responsible lending in the transactions that we support.
- minimising the environmental footprint of our operations.
- stakeholder engagement – we interact with our stakeholders in all that we do.
- business ethics – we conduct our operations fairly, transparently and with integrity.

In particular, our corporate values include a commitment to uphold best-practice environmental and social standards in the transactions that we support.

Our Policy for environmental and social review of transactions adopts the International Finance Corporation’s (IFC) Performance Standards as its general benchmark for environmental and social review.

The policy and procedure define how Efic integrates the principles of ecologically sustainable development into transaction considerations. Efic incorporates two globally recognised approaches in its environmental and social assessment of transactions. We are bound by the Organisation for Economic Co-operation and Development (OECD) Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the Common Approaches). We also voluntarily apply the Equator Principles, a globally recognised benchmark used by many financial institutions to manage environmental and social risk in projects.

These global standards were developed by the OECD and the Equator Principles Financial Institutions respectively for their roles. As a result, they apply to only some of the transactions that we could be asked to consider. Efic chooses to extend the principles they embody to all transactions it considers.

We screen and, where relevant, classify all transactions to identify the type and degree of environmental and social risk evaluation necessary.

The process considers:

- an exporter or investor's role in a transaction, which can determine their responsibility and authority to manage environmental and/or social impacts
- the potential environmental and social issues associated with a transaction
- Australia's obligations under international agreements and
- the above global standards.

When our screening and classification process identifies potential environmental or social impacts, it benchmarks the project associated with the transaction, typically against relevant Performance Standards of the International Finance Corporation (IFC), a member of the World Bank Group.

The IFC Performance Standards were selected as Efic's usual benchmark as they are a widely used and understood global standard. Where a higher benchmarking standard is applicable to a particular transaction, we apply that higher standard. For a limited range of transactions, including those not directly related to a project, we may use other internationally recognised standards as the benchmark. Where a transaction supports a project located within Australia and relevant Australian government approvals have been obtained, we consider that the environmental and social benchmark has been met.

We publicly discloses our potential involvement in each transaction which:

- is associated with a project that has potential for significant adverse environmental and/or social impacts (known as a Category A project)
- has a repayment term or policy length of two years or more and
- has a value of SDR10 million or more. The monetary limit does not apply to projects in sensitive areas.

In accordance with the Common Approaches, where a transaction involves us reinsuring another OECD export credit agency (ECA), we may rely on the disclosure undertaken by that ECA.

We maintain on our website a register of transactions associated with Category A projects.

### Community Service Obligation (CSO)

We operate as a commercial entity, but with a narrow mandate from Government to ensure we only focus on areas that are in most in need of our support. For example, in addition to the market gap mandate, the Government through the SOE has also mandated that Efic must "focus on support for small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets".

The SOE also restricts what business Efic can do, for example, ..."EFIC shall cease to support onshore resource projects (and related infrastructure) given that the private finance sector is active in this part of the market". The SOE also limits the number of facilities that can be provided to an exporter ..."I therefore expect EFIC to limit the number of Commercial Account facilities provided to the same company to three facilities within a three year period".

These are just a few examples of the types of restrictions placed on us relative to the private financiers. To ensure we accurately measure our effectiveness and efficiency, we are therefore investigating ways to measure the costs as well as the benefits of government ownership, including the impact of CSOs, on our financial outcomes.

### Statutory environment

The *Efic Act* and *PGPA Act* provide the legislative framework for the governance, reporting and accountability of Efic. The *PGPA Act* also confers on directors various responsibilities and powers to promote high standards of accountability and performance, responsibility for the financial management of Efic and compliance with reporting requirements. The directors' duties are broadly consistent with the duties of directors under the Corporations Act 2001 (Cth).

We are also subject to a series of other specific statutory and regulatory requirements that influence our operations such as Freedom of Information, Work Health and Safety, Anti-Money Laundering, Fair Work, Privacy, Competition and Consumer Protection, and Financial Services Licensing.

# Appendix 1 – Commercial Account (Profit and Loss)

| COMMERCIAL ACCOUNT PERFORMANCE | | | | | |
|---|---|---|---|---|---|
| | **Actual** | **Budget** | **Budget** | **Budget** | **Budget** |
| **Financial performance** | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| **Corporate, sovereign & project finance** | **30.1** | **28.7** | **29.4** | **29.7** | **35.2** |
| **SME** | **3.6** | **5.4** | **9.3** | **12.7** | **14.2** |
| **Total export finance** | **33.7** | **34.1** | **38.4** | **41.5** | **49.2** |
| Interest margin | 4.2 | 4.5 | 4.4 | 4.3 | 4.2 |
| Debt neutrality charge | (0.9) | (1.3) | (1.7) | (2.1) | (2.5) |
| Allowance for derivative risk | 1.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Total treasury** | **4.7** | **3.4** | **2.9** | **2.4** | **1.9** |
| Investment income | 13.1 | 11.9 | 12.5 | 14.0 | 14.5 |
| Option premium amortisation | (1.0) | (1.0) | (0.4) | 0.0 | 0.0 |
| Unrealised foreign exchange | (1.5) | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total capital, reserves and foreign exchange** | **10.6** | **10.9** | **12.1** | **14.0** | **14.5** |
| **Other income** | **2.7** | **3.0** | **3.1** | **3.2** | **3.3** |
| **Total income** | **51.7** | **51.4** | **56.5** | **61.1** | **68.9** |
| Normal operating costs | (34.0) | (33.5) | (34.2) | (34.9) | (35.5) |
| Payroll tax equivalent (CN charge) | (1.0) | (1.1) | (1.1) | (1.1) | (1.1) |
| Land tax equivalent (CN Charge) | (0.2) | (0.3) | (0.3) | (0.3) | (0.3) |
| **Total operating costs** | **(35.2)** | **(34.9)** | **(35.6)** | **(36.3)** | **(36.9)** |
| **Total Commercial Account profit before tax** | **16.5** | **16.5** | **20.9** | **24.8** | **32.0** |
| **Tax neutrality charge** | (5.0) | (5.0) | (6.4) | (7.7) | (9.7) |
| **Total Commercial Account profit before tax** | **11.5** | **11.5** | **14.5** | **17.1** | **22.3** |
| **Allocation of operating expenses** | | | | | |
| Commercial export finance | 35.2 | 34.9 | 35.6 | 36.3 | 36.9 |
| National Interest | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 |
| Northern Australia Infrastructure Facility | 0.3 | 2.9 | 3.0 | 3.0 | 3.1 |
| **Total operating expenses** | **36.7** | **38.9** | **39.7** | **40.4** | **41.1** |

# Appendix 2 – Commercial Account (Capital and Risk Weighted Assets)

| COMMERCIAL ACCOUNT PERFORMANCE | | | | | |
|---|---|---|---|---|---|
| | Actual | Budget | Budget | Budget | Budget |
| **Capital available** | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| | | | | | |
| Equity at start of period | 436.8 | 444.8 | 449.8 | 458.6 | 469.2 |
| Profit | 11.5 | 11.5 | 14.8 | 18.0 | 22.5 |
| Revaluation | 12.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow hedge | (0.4) | (0.2) | (0.2) | 0.0 | 0.0 |
| Available-for-sale investments* | (1.8) | (0.6) | 0.0 | 0.0 | 0.0 |
| Dividend paid/payable | (13.6) | (5.8) | (5.8) | (7.4) | (9.0) |
| Equity at end of period | **444.8** | **449.8** | **458.6** | **469.2** | **482.7** |
| Eligible allowance for credit risk in capital | 15.2 | 17.7 | 20.0 | 19.9 | 21.4 |
| **Efic capital** | **460.0** | **467.5** | **478.6** | **489.1** | **504.1** |
| Callable capital | 200.0 | 200.0 | 200.0 | 200.0 | 200.0 |
| **Capital available (including callable capital)** | **660.0** | **667.5** | **678.6** | **689.1** | **704.1** |
| | | | | | |
| **Capital required** | | | | | |
| Export finance | 141.3 | 173.2 | 202.0 | 200.5 | 220.3 |
| Treasury | 35.0 | 35.0 | 35.0 | 35.0 | 35.0 |
| Other assets | 5.6 | 5.6 | 5.6 | 5.6 | 5.6 |
| Operational capital | 9.8 | 9.8 | 9.8 | 9.8 | 9.8 |
| **Capital before concentration capital** | **191.7** | **223.6** | **252.4** | **250.9** | **270.7** |
| Concentration capital | 172.1 | 164.6 | 153.7 | 130.9 | 146.2 |
| **Total capital required** | **363.8** | **388.2** | **406.1** | **381.8** | **416.9** |
| | | | | | |
| **Capital ratios** | | | | | |
| Risk weighted assets | 2,528.5 | 2,951.2 | 3,332.8 | 3,313.5 | 3,574.8 |
| Ratio excluding callable capital (8% min) | 18.2% | 15.8% | 14.4% | 14.8% | 14.1% |
| Ratio including callable capital (16% min) | 26.1% | 22.6% | 20.4% | 20.8% | 19.7% |
| Capital required to RWA | 14.4% | 13.2% | 12.2% | 11.5% | 11.7% |

# Appendix 3 – National Interest Account

The Minister can direct us to enter into a facility, or give approval for us to enter into a facility, if the Minister believes it is in the 'national interest' to do so.

Transactions on the National Interest Account (NIA) tend to involve:

- financial commitments that are too large for our balance sheet
- risks that we consider are too high for us to accept on our Commercial Account
- transactions that would be commercially acceptable if we did not already have significant exposures to a country or entity related to the transaction.

For transactions written on the NIA, the Commonwealth receives all net income and must reimburse Efic for any losses.

The NIA Plan includes a new loan facility to OneSteel Manufacturing Pty Ltd (Administrators Appointed), a member of the Arrium group of companies. The loan will support the purchase of new equipment enabling an upgrade to the existing iron ore mines in Whyalla, South Australia.

### Financial performance

The NIA Plan shows that the interest margin will decrease significantly in 2016-17 as the rescheduled Egyptian debts matured on the 1st July 2016. Going forward, the interest margin will comprises the default interest in respect of the rescheduled soft loans to Indonesia plus a portion of the borrowing margin on NIA funding.

In 2016-17, premium and fee income of $14.2 million is slightly down from $14.4 million this year and includes the fees being received in respect of the Papua New Guinea Liquefied Natural Gas (PNGLNG) facility paying semi-annual in arrears, as well as the amortisation of fees received in the past on facilities that are still being repaid. Premium and fee income continues to decline over the Plan period as principal repayments received every six month reduce the balance that the income is being received on.

Credit insurance recoveries in 2016-17 of $19.6 million are slightly increased from the $19.4 million received this year from Iraq under the bilateral agreement. These recoveries are offset by the $7.6 million debt forgiveness to Indonesia, which is a significant reduction from the $19.7 million this year. This reduction is due to the cap of $75 million in total forgiveness being reached under this arrangement.

NIA profit over the Plan period is expected to be subject to some volatility given the amount of revenue in foreign currencies. We have not budgeted for any currency gains or losses, as we have used constant exchange rates over the Plan period for the NIA.

### Rescheduled debt

The Australian Government's rescheduled debt with Egypt and Iraq relates to credit insurance claims for exports of wheat, cheese and split peas, among others. Rescheduled debt with Indonesia primarily relates to export finance transactions under the discontinued Development Import Finance Facility (DIFF).

A new rescheduling arrangement has been entered with Cuba relating to an outstanding loan that was to support the sale of sugar cultivation and harvesting equipment. Efic executed a bilateral agreement with Cuba in late May 2016 that requires the debt to be repaid over 18 years.

### Debt 2 Health Forgiveness – Indonesia

Efic entered into a bilateral deed with the Indonesian Ministry of Finance, which implemented the debt cancellation terms set out in the Tripartite Arrangement between the Australian Government, the Indonesian Government and The Global Fund to Fight AIDS, Tuberculosis and Malaria. The $75 million under this arrangement will be fully utilised by December 2016.

# Appendix 4 – National Interest Account (Profit and Loss)

| National Interest Account | Actual 2015/16 | Budget 2016/17 | Budget 2017/18 | Budget 2018/19 | Budget 2019/20 |
|---|---|---|---|---|---|
| Interest income | 20.3 | 16.5 | 13.7 | 10.8 | 8.8 |
| Benchmark funding | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 |
| Interest expense | (19.2) | (16.0) | (13.2) | (10.5) | (8.5) |
| Interest margin | **1.4** | **0.7** | **0.7** | **0.5** | **0.4** |
| | | | | | |
| Premium and fees | 14.4 | 14.2 | 13.2 | 11.0 | 9.8 |
| Premium and fees reinsured | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign exchange | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total income** | **15.7** | **14.9** | **13.9** | **11.5** | **10.2** |
| | | | | | |
| **Allocated operating costs** | **(1.2)** | **(1.1)** | **(1.1)** | **(1.1)** | **(1.1)** |
| | | | | | |
| **Profit before provisions** | **14.5** | **13.8** | **12.8** | **10.4** | **9.1** |
| Specific provision for writeback/(losses) | 0.0 | 0.2 | 0.2 | 0.2 | 0.3 |
| | | | | | |
| **Profit after provisions** | **14.5** | **14.0** | **13.0** | **10.6** | **9.4** |
| | | | | | |
| Credit insurance recoveries (Iraq) | 19.4 | 19.6 | 19.6 | 19.5 | 19.4 |
| Debt for health swap (Indonesia) | (19.7) | (7.6) | 0.0 | 0.0 | 0.0 |
| **National Interest Account profit** | **14.2** | **26.0** | **32.6** | **30.1** | **28.8** |

# Appendix 5 – Statement of Expectations

THE HON ANDREW ROBB AO MP

MINISTER FOR TRADE AND INVESTMENT

13 NOV 2014

Mr Andrew Mohl
Chairperson
Export Finance and Insurance Corporation
Level 10, Export House
22 Pitt Street
SYDNEY NSW 2000

Dear Mr ~~Mohl~~ Andrew

I am writing to outline the Australian Government's statement of expectations for the Export Finance and Insurance Corporation (EFIC). This statement outlines the Australian Government's key priorities and objectives for EFIC consistent with section 34 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and replaces the statement of expectations sent to you on 19 July 2011.

**Mandate and scope of operations**

The Government considers that EFIC plays an important role in facilitating exports. As outlined in the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act), EFIC will continue to:

- facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in such trade;
- encourage banks and other financial institutions carrying on business in Australia to finance, or assist in financing, export contracts or eligible export transactions;
- administer payments and related matters under export contracts in respect to overseas aid projects for which money was made available by the Commonwealth; and
- provide information and advice about finance and insurance arrangements to support Australian export trade.

However, EFIC must not provide financial services or products on its Commercial Account (CA) unless EFIC is satisfied that private sector providers are unable or unwilling to support financially viable business activities. EFIC should ensure its activities fill the 'market gap' where private sector finance is not forthcoming. I expect EFIC to monitor the capacity of the commercial markets and to take this into account

Telephone (02) 6277 7420 | Parliament House, Canberra ACT 2600 | Facsimile (02) 6273 4128 when determining the scope of its activities.

The Government has decided to get the best out of EFIC by having it focus on support for small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets. I welcome EFIC's recent improvements to make it easier for SMEs to access its services and I expect EFIC to continue to improve and simplify its services to ensure SMEs have every opportunity to access markets and expand their businesses overseas.

While prioritising EFIC support on SMEs facing challenges accessing finance, the Government recognises that large projects or firms can help SMEs access markets through supply-chain participation. To achieve a balance in the level of support for large transactions, I am introducing some stipulations around the support EFIC can provide to large projects or firms.

EFIC shall cease to support onshore resource projects (and related infrastructure) given that the private finance sector is active in this part of the market. EFIC may, however, continue to provide support to SME suppliers of domestic resource projects (and related infrastructure) where the SME good or service is integral to the performance of a resource-export project (and related infrastructure).

EFIC may continue to provide support for large overseas resource projects, but only where the EFIC Board is satisfied that EFIC is not crowding out the private sector, the transaction does not come at the expense of SME transactions, and the project has significant Australian content including through SME supply chain participation.

Where EFIC approves transactions involving SME suppliers to domestic resource projects (and related infrastructure) or large overseas resource projects, I expect EFIC to provide the Department of Foreign Affairs and Trade with an assessment of the transactions' compliance with the relevant criteria above and to report this publicly (subject to any confidentiality considerations).

EFIC is to maintain its demonstration role to private finance providers. In most circumstances, after one or two transactions with the same company, EFIC will have demonstrated to the private sector that commercial returns are possible. I therefore expect EFIC to limit the number of CA facilities provided to the same company to three facilities within a three year period. Further facilities with the same firm must be approved by the EFIC Board on the basis that the transaction is to an emerging market or where the Board assesses that the transaction will not crowd out the private sector.

The costs and time associated with seeking finance can be a burden on exporters, particularly SMEs. The Government intends to amend the EFIC Act and enhance EFIC's demonstration role by allowing EFIC to provide loans in a broader range of circumstances. This enhanced range of products and services that EFIC can provide will be available following receipt of royal assent of the EFIC (Direct Lending and Other Measures) Bill 2014 (the 'Bill').

For repeat transactions (companies with more than three transactions with EFIC in a three year period) EFIC will report to DFAT the basis for the support, in line with my expectations above.

EFIC should continue to publish its *Policy and Procedures for environmental and social review* and regularly review the policy to ensure it is consistent with best-practice environmental and social standards, including the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises, the Equator Principles and the OECD Common Approaches. EFIC should continue to publicly disclose its prospective involvement in transactions associated with projects that have potentially significant adverse environmental or social impacts (Category A projects).

**Other matters**

In addition to the requirements above, and your responsibilities under the EFIC Act and the PGPA Act to provide me and the Minister for Finance with a range of information and services, EFIC is also to:

- provide products and services having regard to the Australian Government's World Trade Organization (WTO) and other international commitments, including the United Nations Convention against Corruption;
- comply with the OECD Arrangement for Officially Supported Export Credits;
- where appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits, and the WTO;
- provide DFAT and any other relevant agencies with any non-legally privileged information they request to support them in preparing advice on policy related aspects of export credits and EFIC's operations;
- comply with Government and Parliamentary requirements in relation to the provision of information, noting exceptions available under the *Freedom of Information Act 1982* and the possible availability of public interest immunity;
- inform me and DFAT of any approaches, whether bilaterally or multilaterally, to restructure or relieve outstanding Development Import Finance Facility loans;
- comply with Ministerial Directions, including those relating to the Democratic People's Republic of Korea, Iran, Zimbabwe and the exploitation of uranium as well as with Australian laws implementing United Nations Security Council and Australian autonomous sanctions.

I expect EFIC and DFAT to have a Service Level Agreement in place in relation to the management and administration of the NIA.

**Pricing arrangements**

I expect EFIC's CA operations to be conducted on a commercial basis. As such, the pricing of EFIC's products and services should not undercut the private sector where private sector support is present, nor undercut pricing for comparable risks when private sector support is absent. This enhancement of EFIC's demonstration role is central to EFIC meeting its policy objective of helping commercially viable exporters overcome financial barriers while also encouraging private sector participation.

To help ensure this the Government has decided that competitive neutrality policies should be applied to EFIC's operations. In line with this, the Government is currently seeking amendments to the EFIC Act that will require EFIC to pay a tax equivalent charge and provide for the option of the imposition a debt neutrality fee. Subject to the current expectation of the Bill receiving royal assent, competitive neutrality charges will commence in the financial year 2015/16.

It is my expectation that the National Interest Account (NIA) should also normally be conducted on a commercial basis. Any risk on the CA is not to be transferred to the Commonwealth without specific authorisation from me, as Trade and Investment Minister.

**Governance and reporting**

As a corporate Commonwealth entity, as defined in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), EFIC is subject to the accountability, management, performance and reporting requirements specified in that Act. I expect EFIC's Board and Senior Management to manage EFIC's financial matters with care and diligence in accordance with the applicable obligations of the PGPA Act and the EFIC Act. Together you should strive to maintain a culture of professionalism and continuous improvement throughout the organisation.

EFIC should continue to maintain systems to manage its risks. While EFIC is not an Authorised Deposit-taking Institution (ADI), it should continue to be guided by the Australian Prudential Regulation Authority (APRA) in managing financial risk. EFIC will also provide regular reporting to DFAT, the Treasury and the Department of Finance on its cumulative exposures per industry and per country.

EFIC should continue to provide regular reports on the risk the Commonwealth is bearing directly through the NIA. Commonwealth exposures will continue to be reported through the statement of risks in the Budget papers.

I expect EFIC to publish through its on-line register information on all transactions within eight weeks of signature, including the name of the client, the sector, the goods/services involved, the country, the type of facility and the value of the facility. In addition to the enhanced pricing disclosure arrangements and within appropriate confidentiality and legal parameters, I expect EFIC to share the pricing and terms of its transactions with relevant financiers operating in the domestic market. This will help demonstrate that commercial returns are possible and encourage private sector financiers to take on EFIC clients.

I expect EFIC to work closely together with Austrade, Tourism Australia, the Department of Industry and DFAT in delivering their services to Australian businesses. This will involve a coordinated approach at all levels between the organisations.

I look forward to receiving a response from you on EFIC's plans to meet these expectations. I anticipate that EFIC will make these intentions and expectations publicly available.

Yours sincerely,

Andrew Robb

# Appendix 6 – Statement of Intent

Australian Government

Efic Finance for Australian Exporters

26 February 2015

The Hon Andrew Robb AO, MP
Minister for Trade and Investment
Parliament House
CANBERRA ACT 2600

Dear Minister Robb

**STATEMENT OF INTENT**

Thank you for your letter dated 13 November 2014 detailing the Government's expectations concerning the operations and performance of the Export Finance and Insurance Corporation (Efic). I am pleased to respond with a Statement of Intent, which outlines how Efic will direct its operations to meet your expectations. I further note that this Statement of Intent replaces the previous Statement of Intent dated 18 August 2011.

**Mandate and scope of operations**

I acknowledge Efic's obligation to abide by the *Export Finance and Insurance Corporation Act 1991 (Efic Act*). I also acknowledge that Efic is to provide financial services or products on its Commercial Account (CA) only when there is a 'market gap'. That is, when we are satisfied that private sector providers are unable or unwilling to support financially viable business activities. Efic will continue to monitor the capacity of the commercial markets and take this into account when determining the scope of its activities.

In line with your expectations, Efic is focused on supporting small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets. Efic will also continue to improve and simplify its services to ensure that SMEs have every opportunity to expand their international business activity by accessing the necessary finance. The proposed amendments to the Efic Act will improve Efic's lending flexibility and will greatly assist in this regard.

Efic support for new large domestic resource projects (and related infrastructure) will cease. However, Efic will continue to provide support for SMEs participating in the supply chain of domestic resource projects (and related infrastructure) where the good or service is deemed integral to the performance of the export project (and related infrastructure).

Efic will continue to provide support for large overseas resource projects where the Board is satisfied that Efic is not crowding out the private sector, the transaction does not come at the expense of SME transactions, and the project has significant Australian content including through SME supply chain participation. We will determine the required level of SME supply chain participation on a case-by-case basis, relative to Efic's overall participation in the project.

Level 10 Export House, 22 Pitt St. Sydney NSW 2000 Australia
PO Box R65 Royal Exchange NSW 1225 • ABN 96 874 024 697
Phone +61 2 8273 5333 • Fax +61 2 9251 3851 • efic.gov.au

Efic will continue to publish our Policy and Procedure for environmental and social review of transactions and regularly review the policy to ensure it is consistent with best-practice environmental and social standards, including the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises, the Equator Principles and the OECD Common Approaches. Efic will continue to publicly disclose its prospective involvement in Category A projects.

**Other matters**

Efic will continue to:

- Provide its products and services having regard to the Government's World Trade Organisation (WTO) and other international commitments, including the United Nations Convention Against Corruption;
- Comply with the OECD Arrangement for Officially Supported Export Credits;
- Where appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits and the WTO;
- Provide DFAT and any other relevant agencies with any non-legally privileged information they request to support them in preparing advice on policy related aspects of export credits and Efic's operations;
- Comply with Government and Parliamentary requirements in relation to the provision of information, noting exceptions available under the *Freedom of Information Act 1982* and the possible availability of public interest immunity;
- Inform you and your department of any approaches, whether bilaterally or multilaterally, to restructure or relieve outstanding Development Import Finance Facility loans;
- Comply with Ministerial Directions, including those relating to the Democratic People's Republic of Korea, Iran, Zimbabwe and the exploitation of uranium as well as with Australian laws implementing United Nations Security Council and Australian autonomous sanctions.

Efic has a Service Level Agreement with DFAT regarding the management and administration of the NIA. Efic will also continue to work closely with DFAT, Austrade, Tourism Australia, the Department of Industry and other relevant agencies and departments, to ensure that respective services are delivered efficiently to business. This will involve a coordinated approach at all levels between the organisations.

Yours sincerely,

James M Millar AM
Chairman