EFIC Annual Report 2009

Overcoming financial barriers for exporters

Australian Government

EFIC
Export Finance & Insurance Corporation

EFIC Annual Report 2009

CONTENTS

REPORT OF OPERATIONS

MISSION

PURPOSE

To support the growth of Australian businesses internationally.

MISSION

Overcoming financial barriers for exporters.

By providing financial solutions, risk management options and professional advice when the private market lacks capacity or willingness, we create opportunities for Australian exporters and offshore investors to grow their international business.

VALUES

RESULTS

EFIC exists to make viable export transactions and offshore investments happen. We invest time to fully understand our customers' needs and build effective working relationships. We deliver practical solutions in the timeframes required.

ENTERPRISE

EFIC operates on a commercial basis. We manage our business prudently to ensure its long-term viability. Being commercial also means having an enterprising approach to finding effective solutions for our customers. We challenge convention and encourage innovation.

RESPONSIBILITY

EFIC practises responsible lending in both financial and ethical contexts. We uphold best practice environmental and social standards in the transactions we support and in managing our business.

PERFORMANCE AGAINST

Support Australian exports and overseas investments

OBJECTIVE	2008-09	
	TARGET	OUTCOME
Value of facilities signed	$560 million	$576.5 million
Value of exports and overseas investments supported	Over $2.1 billion	Over $1.3 billion
Number of facilities provided (other than EFIC Headway)	25	26
Number of new EFIC Headway facilities and renewals provided	24 new facilities 19 renewals	14 new facilities 11 renewals

'Over the year, EFIC provided facilities totalling $576.5 million and supported export contracts and overseas investments of over $1.3 billion.'

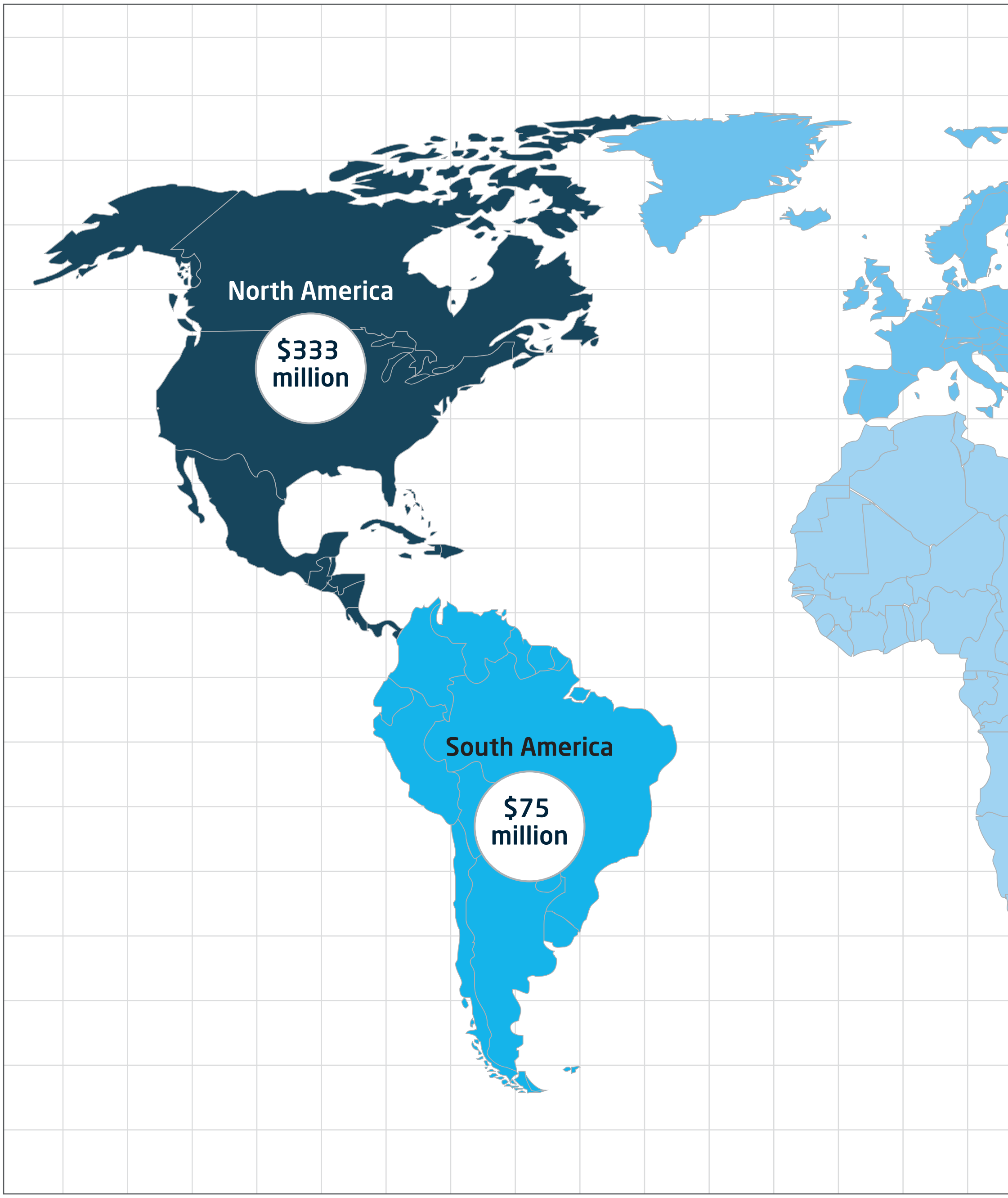
PRINCIPAL OBJECTIVES

Generate sustainable profit within the market gap and prevailing policy and pricing constraints

OBJECTIVE	2008-09	
	TARGET	OUTCOME
Profit on the Commercial Account	$21.2 million	$33.6 million
Capital adequacy ratio	Above 16 per cent of risk weighted assets including callable capital, and 8 per cent on a cash capital basis	31.2 per cent of risk weighted assets including callable capital, and 20.6 per cent on a cash capital basis
Transactions (by dollar value) in which EFIC shares risk with other financial institutions	50 per cent	Over 50 per cent
Manage EFIC's overall portfolio risk within the market gap	Weighted average risk grade between 4 and 4.5, where 4 is equivalent to a rating of BB/Ba and 5 is equivalent to B/B	Weighted average risk grade between 4.4 and 4.8 (4.4 at June 2009)

EXPOSURES BY REGION

At 30 June 2009, EFIC managed maximum exposures



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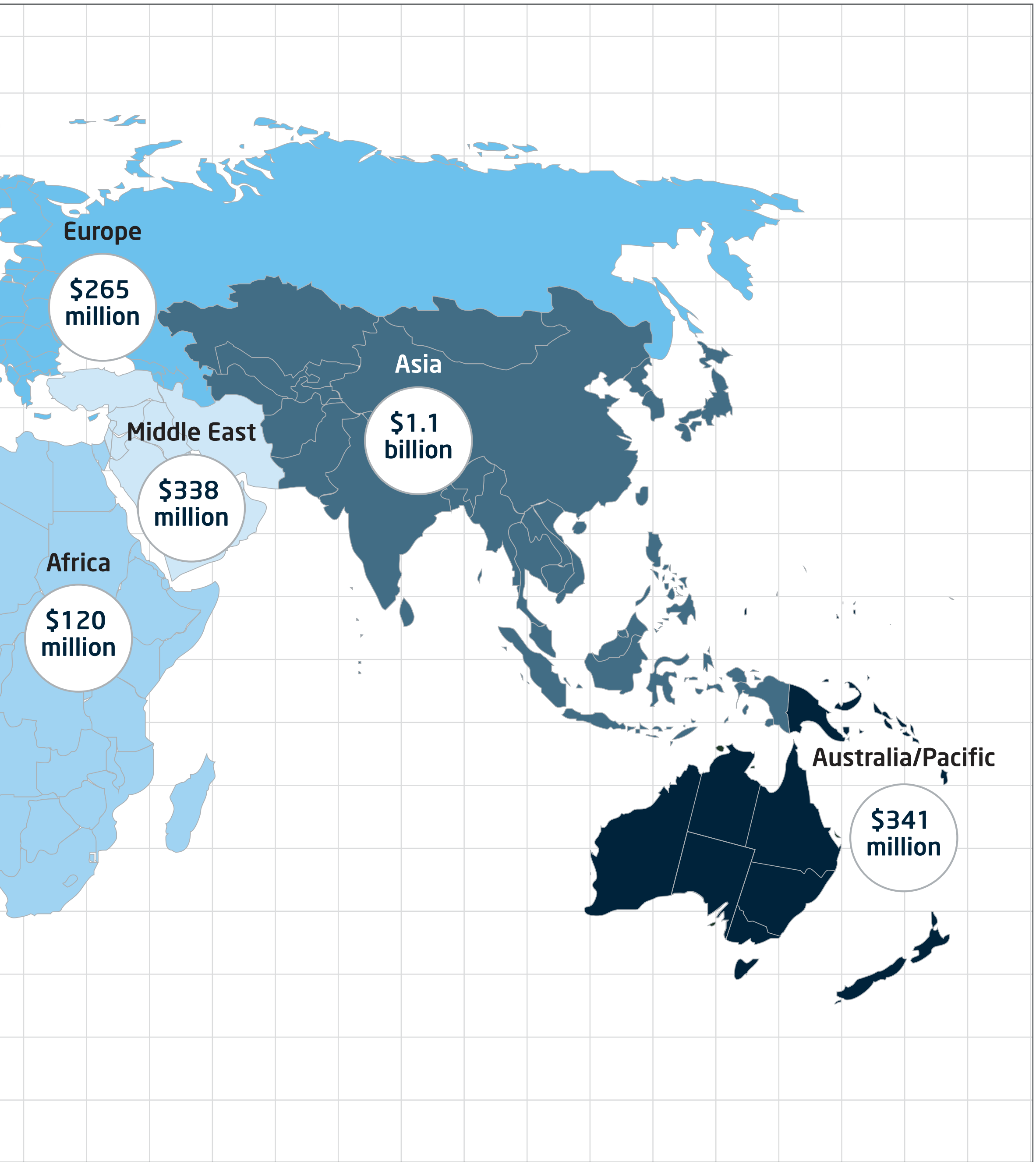
of $2.6 billion across 28 countries.



STATEMENT & SUMMARY

Despite the global financial crisis, EFIC performed strongly in the financial year to 30 June 2009.

Over the year, EFIC provided facilities totalling $576.5 million (2007–08: $369 million) and supported export contracts of over $1.3 billion (2007–08: $2.2 billion). EFIC recorded a profit on the Commercial Account of $33.6 million (2007–08: $19.7 million).

EFIC's capital position remains strong. We ended the year with a capital adequacy ratio, including $200 million of callable capital, of 31.2 per cent. By comparison, bank supervisors around the world, including the Australian Prudential Regulatory Authority (APRA), generally require a minimum ratio of around eight per cent.

The global financial crisis has led the Board to review how we can better fulfil EFIC's mission of helping exporters overcome financial barriers. As a result of this review, the Board has endorsed a number of initiatives to meet the increased demands of exporters during and beyond the financial crisis (see 'EFIC's response to the global financial crisis' on page 17). The initiatives balance the need to support the Australian Government's response to the global financial crisis with the obligation to keep our core business sound.

During the year, Peter Young, AM, Howard Davies and Ian Knop, AM completed their terms on the EFIC Board. Peter served with distinction as Chairman for six years, while Howard was a Board member for almost four years, Deputy Chairman for three years and a member of the Board Audit Committee. Ian served as a Board member for over four years and as Deputy Chairman for nearly three years. David Spencer also concluded his role as alternate Government member after more than two years.

In December 2008, Andrew Mohl joined the EFIC Board as Chairman and David Evans was appointed a Board member. In June 2009, Ric Wells was appointed an alternate Government member.

The Board is confident that at this time of heightened credit risk, EFIC has appropriate controls in place and that we are poised to respond responsibly to the needs of Australian companies exporting and investing overseas. The assessment and underwriting of risk is central to our financial management, as is maintaining appropriate capital and reserves to support the level of risk that we accept.

The Board of EFIC is responsible for the preparation and content of this Report of Operations and the Financial Statements under Section 9 of the *Commonwealth Authorities and Companies Act 1997* (the CAC Act) and has prepared the two reports in accordance with the relevant Finance Minister's Orders.

Signed for and on behalf of members of the Board in accordance with a resolution of the Board:

Andrew Mohl
CHAIRMAN

Angus Armour
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

28 AUGUST 2009

BY THE BOARD

The EFIC Board as at 30 June 2009 (left to right):

David Evans, Angus Armour, Sally Pitkin, Andrew Mohl (Chairman), Anthony Sherlock, David Crombie, Ric Wells and Michael Carapiet (Deputy Chairman).

THE YEAR IN REVIEW

During a year of severe contraction in world trade and investment, EFIC performed well in helping Australian exporters and offshore investors navigate the turbulence on world financial markets. The continuing credit squeeze and lower risk appetite among private lenders and insurers generated increased interest in EFIC's trade finance solutions. We supported over $1.3 billion of exports and overseas investments through facility signings worth $576.5 million (an increase in signings of 56 per cent by value over the last financial year). In addition, we recorded a profit of $33.6 million.

As Australia's export credit agency, EFIC has been in a unique position to support the Australian Government's initiatives to mitigate the effects on exporters of the economic downturn. We are increasing our capabilities within our existing mandate so we can support a wider range of transactions – by revising our current services and exploring new ones. EFIC has also been working in international forums, particularly the Berne Union and Asian Exim Banks Forum, to find ways to support world trade.

A number of potential transactions requiring EFIC's support were delayed as a result of the slump in world trade and investment. Nevertheless, as shown by our strong results, EFIC continued to give substantial support to Australia's manufacturing, mining, shipbuilding and construction sectors. In the manufacturing sector, we provided GM Holden Limited with a working capital line of credit to support its export programs. This facility was provided on the National Interest Account (see page 18). On our Commercial Account, we supported Leighton Holdings Limited, one of Australia's leading mining operators, in new contracts in Indonesia, and Austal Limited in a second transaction financing the supply of vessels to the Government of the Republic of Trinidad and Tobago. Across our range of financial solutions, we facilitated exports and investments in Asia, the Middle East, the Americas and Europe.

In addition to facilities for larger companies, EFIC continued to help SME (small and medium enterprise) customers expand their exports in a challenging business climate. We provided bonds and finance guarantees, including EFIC Headway facilities, to SME exporters in a wide range of industries, mainly in the manufacturing sector. We also added a new Executive position, with Andrea Govaert joining to oversee EFIC's SME business activities. This reflects our renewed strategy to expand our services to SME exporters during the global financial crisis and beyond.

Other key staff changes this year included the departure of Claudia Bels from the Executive team and EFIC. Claudia, who was General Counsel and Board Secretary, was a valued colleague during her 14 years with EFIC.

We will continue to support the Government's response to the global recession in the year ahead. Even with signs of a modest recovery in the world economy and an easing of the financial crisis, markets are still uncertain and credit will remain tight. As a result, we anticipate increased opportunities for EFIC to support Australian companies in 2009–10 and beyond.

Angus Armour
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

28 AUGUST 2009

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THE ECONOMIC ENVIRONMENT

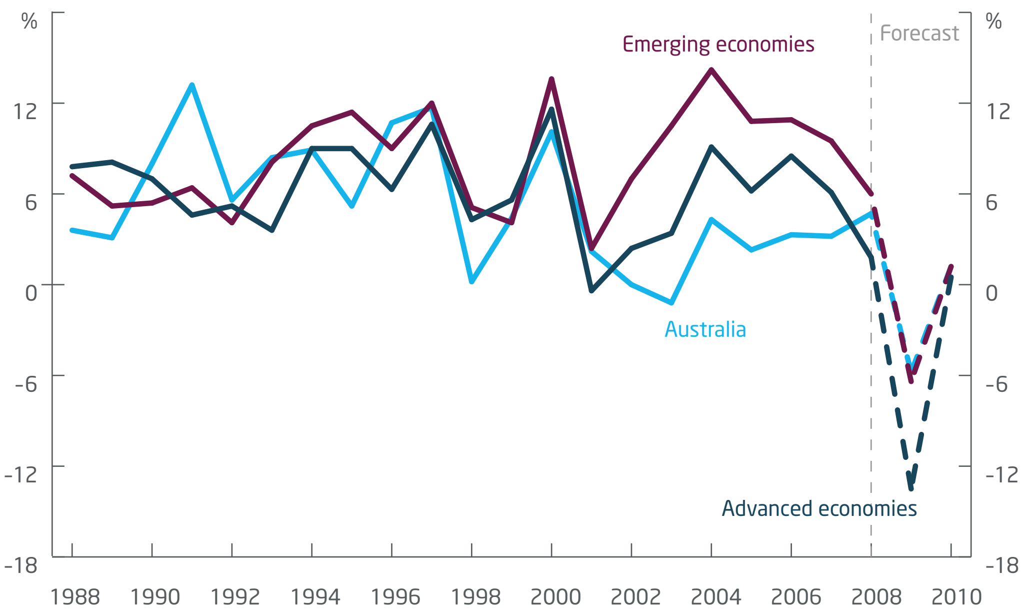
In the 2008-09 financial year, the world economy experienced a period more difficult than any time since the 1930s.

The collapse of investment bank Lehman Brothers in September 2008 was a tipping point. Prior to that, the world economy was slowing, but still expanding, and emerging economies were significantly outgrowing advanced economies. After that time, advanced and emerging economies alike entered a slump, with the result that the world economy began to contract for two quarters (December 2008 and March 2009) at an annualised rate of around 7 per cent. Over the 2008-09 financial year as a whole, world gross domestic product (GDP) contracted by around 3 per cent. In the 2009 calendar year, the International Monetary Fund (IMF) forecasts that world GDP will fall by 2.6 per cent.

With global activity contracting sharply and banks tightening lending standards to preserve capital, businesses rapidly wound back their investment plans and reduced debt levels. In the United States, Japan and the euro area, business investment declined by over 15 per cent during the financial year. Investment in China also slowed at the end of 2008, before reaccelerating as the authorities implemented substantial fiscal and lending initiatives.

The slump has affected world trade severely. The value of world merchandise exports declined by a third from its June 2008 peak. Manufactured exports were affected most, and the impact on Australia's major trading partners, many of whom are export-oriented manufacturers, was particularly strong. The IMF expects trade volumes to contract by 12.2 per cent in the 2009 calendar year, the largest contraction since World War II (Figure 1).

Figure 1: World trade volumes (annual percentage change)



Sources: Australian Bureau of Statistics; International Monetary Fund; Treasury.

THE ECONOMIC ENVIRONMENT (CONTINUED)

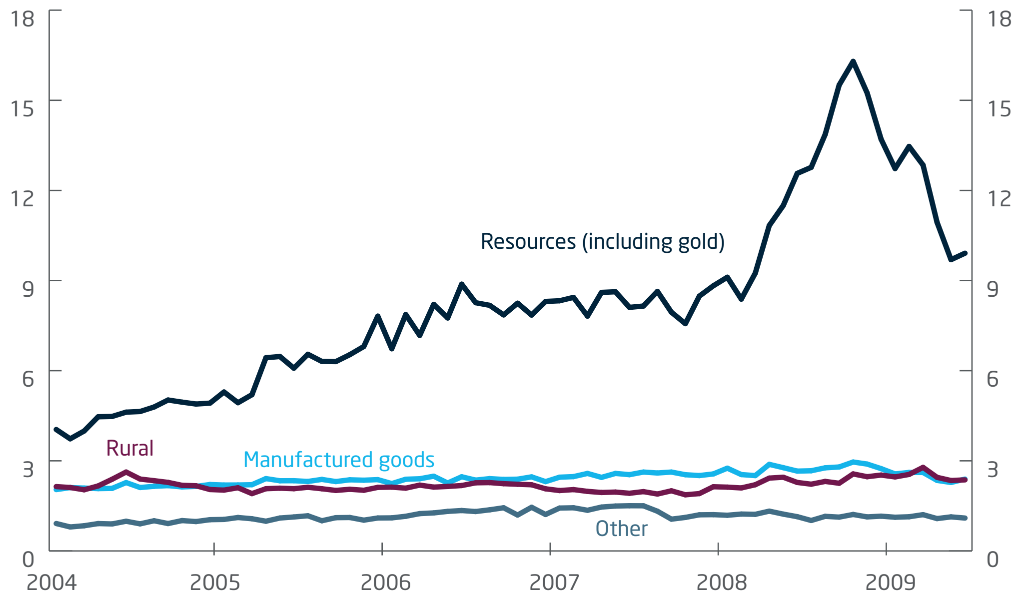
Australia did not escape the decline in world trade, with the value of its exports falling by 26 per cent from October 2008 to June 2009. The drop in exports reflected lower goods exports: while there was an increase in services exports, it was not large enough to offset the fall in goods exports.

Among goods exports, resources led the fall, dropping 40 per cent from October 2008 (Figure 2). This reflected price reductions rather than lower volumes, particularly for Australia's major exports, coal and iron ore. As in other countries, manufactured exports also slumped and were down by around 20 per cent from October 2008. Automotive exports declined almost 60 per cent over the 12 months to June 2009.

However, despite their slump since October 2008, at the end of the financial year export levels were higher than in early 2008. This was due to commodity prices, particularly for coal and iron ore, remaining well above their long-run average, and the small proportion of manufactured goods in total exports (only 10–15 per cent). Resource exports account for more than 50 per cent of total exports and services for 20 per cent.

The financial crisis, which triggered the slump, is easing: risk spreads have fallen sharply and credit flows are reviving, partly due to unprecedented public interventions. Emerging market bond and equity markets are coming to life, outperforming developed market indices, which are also rebounding strongly.

Figure 2: Australian exports by sector (nominal, $million)



Sources: Australian Bureau of Statistics; EFIC.

AN OVERVIEW OF EFIC'S ROLE

ACCOUNTABILITY

EFIC'S SOLUTIONS FOR AUSTRALIAN EXPORTERS

EFIC'S ROLE IN THE FINANCIAL MARKETS

EFIC'S RESPONSE TO THE GLOBAL FINANCIAL CRISIS

COMMERCIAL ACCOUNT AND NATIONAL INTEREST ACCOUNT

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BUSINESS OVERVIEW

AN OVERVIEW OF EFIC'S ROLE

EFIC is Australia's export credit agency (ECA) and has carried out its role within various statutory frameworks since 1957. EFIC was established in its current form on 1 November 1991 under the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act) as a statutory corporation wholly owned by the Commonwealth of Australia.

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 Australian Government's aid-supported mixed credit program (a facility that has now been discontinued, although loans are still outstanding under it)
- to provide information and advice regarding insurance and financial arrangements to support Australian exports.

EFIC is a self-funding organisation operating in accordance with commercial principles. We operate primarily in that part of the market that is not served by the private market – the 'market gap'. Our role is to complement, not compete with, private financiers and insurers.

ACCOUNTABILITY

During 2008-09, The Hon. Simon Crean MP, Minister for Trade, was responsible for EFIC, which is part of the Foreign Affairs and Trade portfolio.

The Minister for Trade has a number of powers in relation to EFIC, as set out in the EFIC Act. The Minister has power to give written directions to EFIC in respect of the performance of its functions or the exercise of its powers if he is satisfied that it is in the public interest that directions be given. The Minister may also approve, or direct, entry into transactions on the Australian Government's National Interest Account (see page 18). In relation to the Commercial Account, the Minister cannot require EFIC to obtain his approval for a particular transaction, or direct EFIC to enter into a particular transaction.

EFIC's Annual Report is tabled in the Federal Parliament.

Any budgetary appropriation in respect of EFIC which relates to the National Interest Account is effected through the Department of Foreign Affairs and Trade (DFAT).

EFIC'S SOLUTIONS FOR AUSTRALIAN EXPORTERS

EFIC provides financial and insurance solutions to help Australian exporters overcome the financial barriers they face when growing their business overseas. We help businesses to compete for and win export contracts, finance their export activities and protect their contract payments and overseas investments. Several of EFIC's solutions can meet more than one of these business needs, depending on the type of financial obstacle an exporter encounters.

We work directly with exporters or with their banks to provide our solutions, many of which can be tailored to meet the needs of both large and small exporters.

HELPING EXPORTERS COMPETE FOR AND WIN EXPORT CONTRACTS

When an exporter is competing to win export contracts, finance can be as important as the quality of their product or service.

EFIC helps Australian exporters with the finance they need in order to win international business. We understand the issues exporters face in competing for overseas contracts:

- when buyer finance is key to winning a deal, we can support the exporter's bid with a competitive finance package
- if a performance or warranty bond is a condition of a contract or tender, EFIC may be able to help when the exporter's bank can't
- if the exporter needs funds from their buyer in order to start work on their contract, an advance payment bond from EFIC can give their buyer the confidence to make an upfront payment
- when doing business in the United States, we can arrange the local surety bonds an Australian exporter may require to compete for contracts in that market.

Our solutions to help exporters compete for and win export contracts include:

- buyer finance: direct loans and export finance guarantees (EFGs)
- advance payment bonds, performance bonds and warranty bonds
- a US bonding line.

HELPING EXPORTERS FINANCE THEIR EXPORT ACTIVITIES

Finance for export activities

It takes more than a competitive product or service and a keen buyer to succeed as an exporter. Turning business prospects into sales or investments often depends on securing finance.

Financial issues are common concerns for fast-growing export businesses. A shortage of working capital, for example, can prevent an exporter not just from filling current orders, but from pursuing new export opportunities and expanding their export business.

EFIC can assist in overcoming these financial barriers. Our finance solutions for individual export transactions and broader export activities can help to free up an exporter's working capital and to finance their production. Our solutions to help exporters finance their export activities include:

- EFIC Headway working capital guarantees
- buyer finance: direct loans and EFGs
- documentary credit guarantees
- advance payment bonds and performance bonds.

Project finance

Assembling the finance for a large-scale overseas investment or project can often be challenging, particularly if the project is in an emerging country that commercial banks consider too risky.

EFIC's extensive experience of financing complex cross-border transactions in emerging and developed markets can help get an investor's project underway. Our experts can structure a financial package to meet the particular needs of an investor's overseas project and its participants.

HELPING EXPORTERS PROTECT THEIR CONTRACT PAYMENTS AND OVERSEAS INVESTMENTS

Exporting or investing internationally involves risks. While some of these are within an exporter's control, many are not.

EFIC helps protect Australian businesses engaged in overseas trade or investment against a wide range of risks that are beyond their control, such as a buyer failing to pay or political events disrupting an overseas investment.

Our solutions help exporters and overseas investors minimise their risk of non-payment while meeting a buyer's need for finance or a long-term payment schedule. We can also provide insurance against the risk that a buyer may wrongfully demand payment on a contract bond.

If an investor is involved in a project in a country where the uncertain political environment could impact their investment, our political risk insurance can protect them against financial loss caused by political events.

Our solutions to help protect Australian companies' export contract payments and overseas investments include:

- export payments insurance
- bond insurance
- political risk insurance
- documentary credit guarantees.

EFIC'S ROLE IN THE FINANCIAL MARKETS

The Australian Government has mandated EFIC to provide services on a self-sustaining basis. As an ECA, EFIC operates beyond the limits of the commercial market. It provides the support required when financial, country or industry risks exceed the appetite for risk in financial markets.

EFIC does not compete with the commercial market, but provides complementary capacity to enhance the competitiveness of Australian companies. Our export finance and medium-term insurance are consistent with the Arrangement on Officially Supported Export Credits agreed between members of the Organisation for Economic Co-operation and Development (OECD) for the operation of government-supported medium- to long-term export credit programs or agencies. The OECD Arrangement is aimed at preserving a level playing field in officially supported export products and sets certain parameters in relation to direct loans, EFGs and medium-term export credit insurance: for example, minimum interest rates and premiums, and maximum payment terms. Investment insurance and bonding facilities are not covered by the OECD Arrangement.

One of EFIC's functions is to encourage banks, other financiers and insurers to support exports and overseas investments. Our participation in a larger transaction can often encourage private financiers to share the risks involved. The EFG facility, which provides explicitly for bank risk participation, supports this objective. In the recent difficult credit conditions, we have adapted this product by providing funding to our partner banks to assist their participation in particular transactions. We also use risk transfer activities, primarily facultative reinsurance contracts with private insurers, on a transaction-by-transaction basis. This approach encourages increased private sector support for exports and overseas investments, reduces our risk concentrations and preserves the availability of our capital for further EFIC support.

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EFIC'S RESPONSE TO THE GLOBAL FINANCIAL CRISIS

During 2008-09, EFIC supported the Australian Government's coordinated efforts to mitigate the impact of the global financial crisis on Australian exporters and offshore investors.

We have been responsive in modifying our existing products to reflect the private sector's reduced risk appetite and the constraints on exporter credit. For example, we will now consider providing documentary credit guarantees on letters of credit for export contracts with a payment term of 180 days or more – previously we required a payment term of at least two years.

In a climate of tight credit markets and reduced business confidence, private insurers have generally become more wary of taking on export-related risks. The declining credit insurance capacity in the private market is likely to compound the effects of tighter access to bank credit, particularly for smaller exporters. EFIC has been working with Government agencies to monitor developments in the credit insurance market and to consider policy responses.

We maintain a dialogue with the Commonwealth Treasury, Reserve Bank of Australia and APRA concerning credit issues in the Australian economy more broadly. At the end of the review year, proposed legislation envisaged an administrative services role for EFIC in support of the Australian Government's Australian Business Investment Partnership for the commercial property development sector. On 16 June 2009, the Senate did not pass this legislation.

EFIC also supported the Australian Government's initiatives at the international level to improve the availability of trade finance and limit the impact of the global financial crisis on trade. We supported Australia's participation in the Group of Twenty (G20) Expert Group on Trade Finance, ahead of the April 2009 G20 Leaders' meeting, which made available at least US$250 billion to support global trade finance. In addition, we provided assistance to the Government in the lead-up to the July 2009 Asia-Pacific Economic Cooperation Meeting of Ministers Responsible for Trade. This meeting encouraged closer cooperation between regional ECAs in promoting regional trade finance flows.

EFIC has actively pursued reinsurance relationships, particularly with other Asian ECAs, in the Berne Union, the leading international association for the export credit and investment insurance industry. The combined efforts of the regional ECAs are expected to create a reinsurance network covering the Asia-Pacific. The Berne Union's 49 member organisations, which include both ECAs and private insurers, provided insurance cover for about 10 per cent of the world's total export trade in 2008.

With eight other members of the Asian Exim Banks Forum, EFIC is working on a framework to facilitate and streamline risk sharing between members in order to support global trade and investment.

COMMERCIAL ACCOUNT AND NATIONAL INTEREST ACCOUNT

EFIC writes transactions on its Commercial Account, where the EFIC Board and management take decisions to accept eligible business and where the risks and financial results are allocated to this account. The EFIC Act also provides for us to enter into transactions on the Government's National Interest Account. The Minister for Trade takes the decisions regarding business in the national interest. EFIC manages the day-to-day operation of National Interest Account business.

Transactions are usually referred to the Minister for consideration on the National Interest Account where the size or risk exceeds our commercial parameters. They are subject to the Minister's consideration as to whether undertaking them would be in the national interest. The Australian Government is responsible for the financial consequences of National Interest Account transactions. EFIC remits to the Government the revenue from the portfolio and the Government reimburses EFIC for the costs of servicing the portfolio and for any losses arising from it.

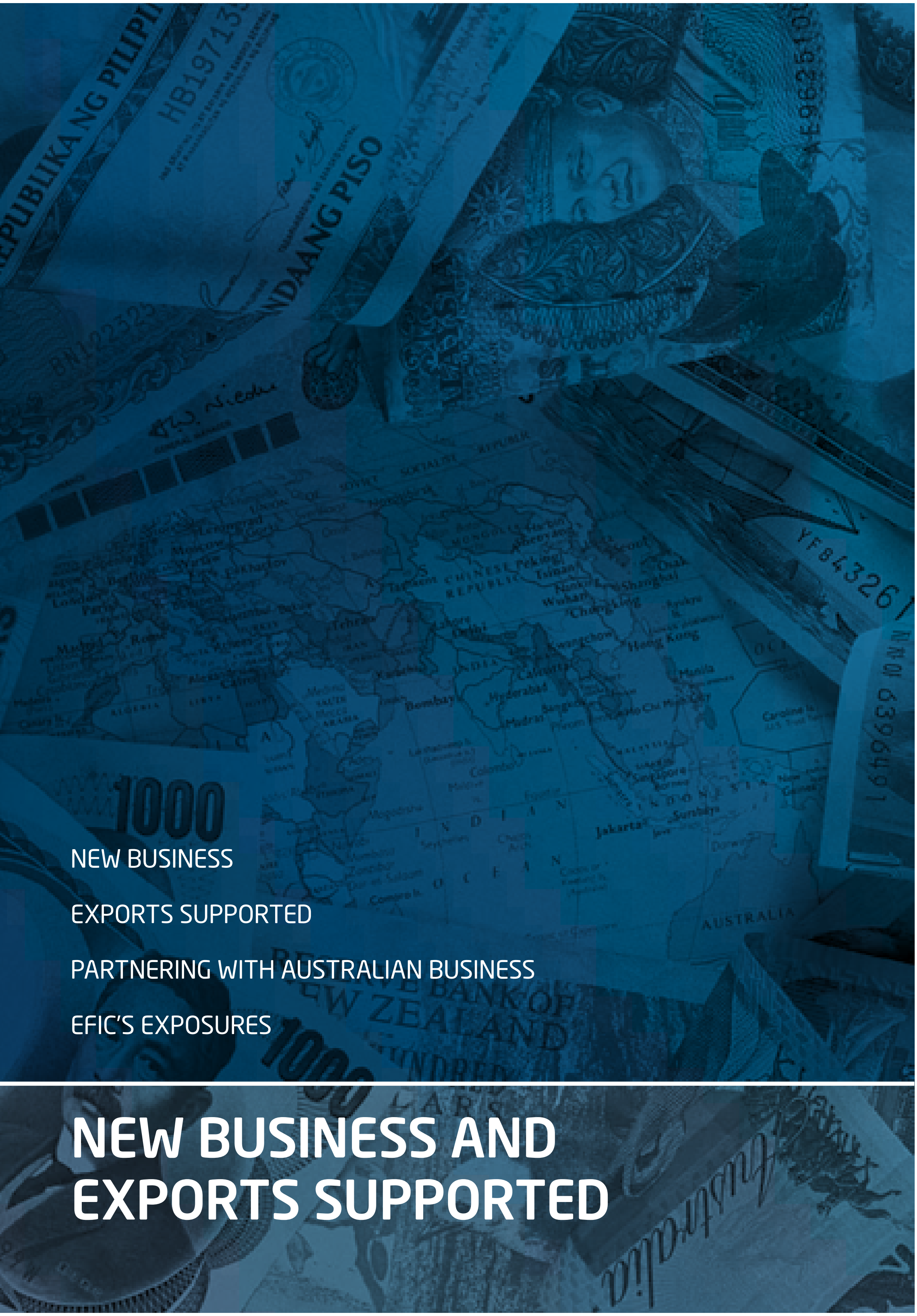
The results of the Commercial Account and the National Interest Account are identified separately in EFIC's Financial Statements. Because the Australian Government is responsible for the National Interest Account, EFIC's net operating profit and retained profit reflect only Commercial Account activities. The National Interest Account profit is directly attributable to the Commonwealth and is not reflected in EFIC's equity.

EFIC'S FINANCIAL OPERATIONS

EFIC operates on a commercial basis, charging our customers fees and premiums, and earning interest on our loans and investments, including the investment of our capital, reserves and working capital.

At 30 June 2009, EFIC's equity, including retained profits, totalled $376.7 million. In addition, the EFIC Act provides that $200 million of callable capital is available to EFIC from the Commonwealth, which helps underpin our activities in supporting exports and overseas investments.

The Commonwealth also guarantees to EFIC's creditors the payment of all monies payable by us. This guarantee has never been called. Regulations under the EFIC Act set upper limits on EFIC's aggregate liabilities under facilities, guarantees and insurance contracts which we may enter on our Commercial Account, and we operate within these limits.



NEW BUSINESS

EXPORTS SUPPORTED

PARTNERING WITH AUSTRALIAN BUSINESS

EFIC'S EXPOSURES

NEW BUSINESS AND EXPORTS SUPPORTED

NEW BUSINESS

Credit conditions have deteriorated at an unprecedented rate in the past 12 months, and both business confidence and investment spending have also deteriorated considerably. As a result, a number of potential transactions requiring EFIC's support have not progressed as anticipated. Nevertheless, EFIC has been able to support exporters with facilities totalling $576.5 million on the Commercial Account and National Interest Account – an increase of 56 per cent in signings by value over the previous year.

We do not expect to see a return to normal credit conditions in 2009–10 and, as a consequence, we are likely to be called on to provide support to exporters which would normally be satisfied by the private market. Reflecting this, the pipeline of new business opportunities for 2009–10 is promising.

The sharp decline in commodity prices in the second half of 2008 caused sponsors of a number of projects to suspend work on the development of those projects which had not commenced in earnest. However, Australian companies remain heavily involved in resource development, both as sponsors and as providers of specialised equipment, engineering services and know-how. We anticipate that, with some stability in commodity prices and an improving outlook for demand, the development of projects that were suspended will recommence in 2009–10, resulting in re-engagement with EFIC and other ECAs, as private sector capacity remains weak.

The largest Commercial Account transaction completed this year supported one of Australia's leading contract mining operators, Leighton Holdings Limited, providing finance for earthmoving equipment to perform new contracts in Indonesia. EFIC is engaging with other ECAs to share the risk in this transaction, to free capacity to provide further support in the future. Risk sharing in the ECA community, where equipment or services are sourced from multiple jurisdictions, is of growing importance as we seek to maximise our ability to provide the necessary support for Australian businesses winning new export business.

We also completed a transaction with Austal Limited, financing the supply of passenger ferries for the Government of the Republic of Trinidad and Tobago. These vessels will be supplied over a period of 12 months, under a contract which reflects the ongoing success of Australia's specialised shipbuilding industry.

On the National Interest Account, we provided a working capital line of credit to GM Holden Limited. This will provide support for its export of vehicles, parts and engineering services as the Australian manufacturer establishes stronger market links under the newly created General Motors Company.

As in previous years, bonding facilities were prominent in this year's signings by number of transactions, with SME exporters representing the bulk of our customers. These growing companies are performing contracts across a range of industries in Asia, the Middle East and Eastern Europe. We have also continued to provide support to some of Australia's largest engineering contractors for projects awarded in recognition of their specific areas of expertise in an increasingly competitive environment.

The numbers of new signings and renewals for EFIC Headway working capital guarantees were lower than expected in 2008–09. The 2009 EFIC Global Readiness index indicated that Australian SME exporters continue to rely on retained earnings to fund their overseas investments and that finance remains a major barrier for Australian exporters. With this in mind, and using feedback from the banks that provide EFIC Headway, we are revising this product to improve its market uptake.

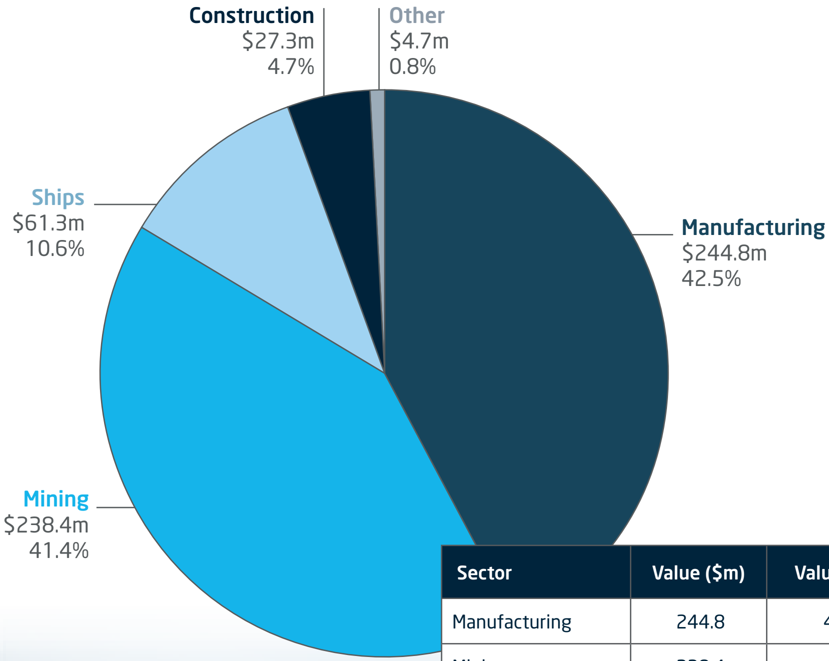
As financial markets remain uncertain and credit remains constrained, we anticipate an increased focus on funded transactions in 2009–10, representing a material shift from providing guarantee and bonding facilities. EFIC is working closely with banks and borrowers who would not normally require ECA financing support to ensure that Australian businesses can pursue export opportunities with confidence.

EXPORTS SUPPORTED

During 2008-09, EFIC's facilities on the Commercial Account and National Interest Account underpinned exports and overseas contracts for Australian companies of more than $1.3 billion. We provided 25 EFIC Headway facilities (new facilities and renewals) and 26 facilities for other transactions.

As Figure 3 shows, manufacturing was the main sector for signings in terms of dollar value, accounting for 43 per cent of total signings. This was followed closely by mining (41 per cent). Manufacturing was also the main sector for signings in terms of number of transactions, accounting for 65 per cent of total signings.

Figure 3: Signings by sector supported



Sector	Value ($m)	Value (%)	Number
Manufacturing	244.8	42.5	33
Mining	238.4	41.4	2
Ships	61.3	10.6	1
Construction	27.3	4.7	6
Other	4.7	0.8	9
	576.5	**100.0**	**51**

EXPORTS SUPPORTED (CONTINUED)

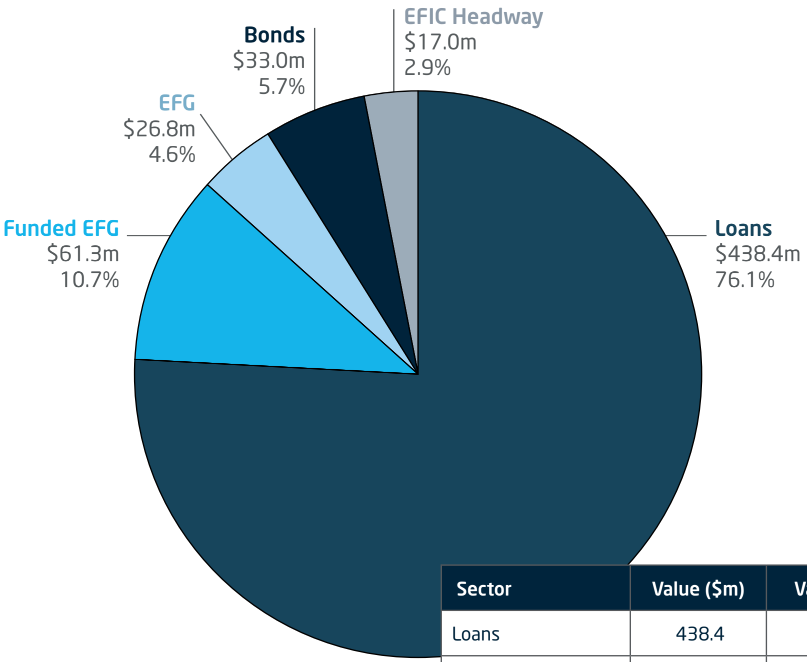
Loans and lines of credit accounted for 76 per cent of the total value of signings by facility type, while EFIC Headway facilities were 49 per cent of the total number of signings, followed by bonds at 31 per cent (see Figure 4).

The 2008–09 Commercial Account profit of $33.6 million was above budget of $21.2 million and well above the 2007–08 profit of $19.7 million. Most of the increase was due to additional risk premium income on a higher proportion of loan drawdowns than expected, although this was partly offset by the increased allowance for credit risk and specific provisions for losses. Improved short-term sub-LIBOR funding margins and higher returns in the capital and reserves portfolio also contributed to the result.

The National Interest Account recorded a loss of $0.2 million in 2008–09, compared with a profit in 2007–08 of $4.8 million. The result was affected by movements in exchange rates, although this is consistent with Government policy, which adopts a whole-of-government approach to managing foreign exchange risk. The profit or loss from activities on the National Interest Account is transferred to the Australian Government and does not form part of EFIC's net profit or loss.

As outlined under 'EFIC's exposures' on page 28, the loan portfolio on the National Interest Account comprises loans supported by aid grants made under the now discontinued Development Import Finance Facility (DIFF) of AusAID (the Australian Government's overseas aid agency) and rescheduled credit insurance debts.

Figure 4: Signings by facility type



Sector	Value ($m)	Value (%)	Number
Loans	438.4	76.1	3
Funded EFG	61.3	10.7	1
EFG	26.8	4.6	6
Bonds	33.0	5.7	16
EFIC Headway	17.0	2.9	25
	576.5	**100.0**	**51**

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AUSTAL SHIPS

EXPORT FINANCE GUARANTEE

EXPORT DESTINATION: REPUBLIC OF TRINIDAD AND TOBAGO

EFIC SUPPORT: $61.3 MILLION

Australian company Austal Limited, a world leader in the design and manufacture of high-performance aluminium vessels, has won a $74.7 million contract to provide four high-speed passenger catamaran ferries to the Republic of Trinidad and Tobago.

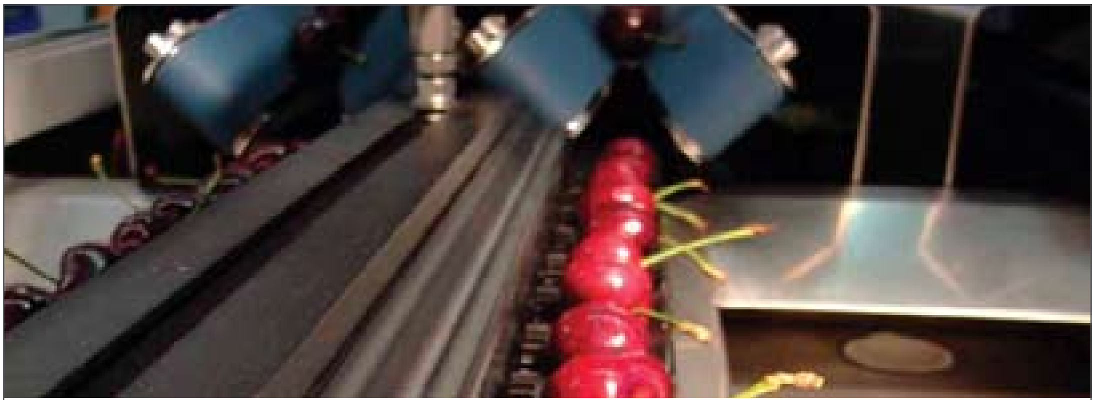
Key to Austal's success in the international tender was EFIC's support in helping to structure a finance package for the buyer.

The buyer in the Caribean is Trinidad and Tobago's National Infrastructure Development Company Limited (NIDCO), a government entity. ANZ, Austal's Australian bank for the transaction, has provided a loan facility to NIDCO to fund the purchase of the ferries. EFIC has provided ANZ with an export finance guarantee for $61.3 million to guarantee repayment of the loan.

EFIC's export finance guarantee is a form of buyer finance: it is guarantee from EFIC to a bank to encourage the bank to lend to overseas buyers of Australian exports and share in that risk.

Austal's Managing Director, Bob Browning, said 'Given the size of the order, being able to offer NIDCO a finance package which included EFIC's guarantee was a crucial part of our bid.'

The high-speed ferries will be used to establish a water taxi service between San Fernando, in south-western Trinidad, and the capital, Port of Spain, and are intended to reduce travel time between north and south Trinidad by almost two-thirds. Each 41 metre vessel is designed to carry 405 passengers.



GP GRADERS

DOCUMENTARY CREDIT GUARANTEE
EXPORT DESTINATION: TURKEY
EFIC SUPPORT: $673,000

GP Graders, a Melbourne-based manufacturer of fruit-grading and packing machinery, has developed a reputation in the cherry industry for its world-leading equipment. When negotiating to sell equipment to a buyer in Turkey, GP Graders turned to EFIC to help structure a competitive finance package.

Under the deal, GP Graders will receive payments for the equipment by means of a documentary credit (also called a letter of credit), issued by a Turkish bank, for approximately €360,000 ($673,000). EFIC is providing a documentary credit guarantee to Westpac, GP Graders' bank, which guarantees the payments due from the Turkish bank under the documentary credit.

Under the documentary credit, the buyer will pay the Turkish bank for the equipment over a five-year period, while Westpac will pay GP Graders once the company presents specific documents to Westpac verifying that it has provided the equipment.

A documentary credit guarantee from EFIC can be a cost-effective way for eligible SME exporters to assist their overseas buyers to source financing and to protect contract payments.

According to GP Graders' director Stuart Payne, EFIC's involvement in the Turkish deal made possible the buyer's five-year payment term – a 'deal winner' for the Australian exporter.

'With the cost of machines in the vicinity of $1 million, it's important to be able to put together financing packages that help us gain a competitive advantage in these major deals,' said Mr Payne.

EFIC has worked with Westpac to support other GP Graders transactions by providing documentary credit guarantees in respect of documentary credits issued by Turkish banks.

'In 2001, only 5 per cent of our business was export,' said Mr Payne. 'Now it's 75 per cent, to countries such as Turkey, Greece, Chile and Italy.'

LEIGHTON HOLDINGS

DIRECT LOAN
EXPORT DESTINATION: INDONESIA
EFIC SUPPORT: US$150 MILLION

EFIC is supporting Leighton Holdings Limited (Leighton) with financing to assist Australia's largest construction and contract mining group in delivering a number of mining services contracts in Indonesia.

EFIC has entered into a direct loan agreement with ANZ to provide up to US$150 million to finance 85 per cent of a leasing facility for Leighton's Indonesian subsidiaries, PT Leighton Contractors Indonesia and PT Thiess Contractors Indonesia. The facility supports the leasing of mobile mining fleet and equipment for use in their contract mining operations. ANZ will fund the remaining 15 per cent. The loan is supported by a comprehensive Leighton indemnity and a guarantee from certain group entities.

Growth in its Indonesian operations meant the Leighton Group needed to expand its existing mining fleet and equipment. Leighton has strong business fundamentals, but approached EFIC for assistance as it had reached its approved offshore leasing limits with its banks.

'EFIC's financial support will ensure the Leighton Group is in a position to continue to expand its mining services business in Indonesia and consistently deliver on existing mining contracts,' said Scott Charlton, Chief Financial Officer of Leighton Holdings.

In this transaction, EFIC is engaging with other ECAs to share risk and free up EFIC's capacity to support more business.

PLANET LIGHTING

ADVANCE PAYMENT BONDS

EXPORT DESTINATION: UNITED ARAB EMIRATES

EFIC SUPPORT: $900,000

With EFIC's support, Australian exporter Planet Lighting has secured three contracts, worth approximately US$5 million in total, to supply feature lighting fixtures to the Dubai Metro project in the United Arab Emirates.

Based in Bellingen on the NSW north coast, Planet Lighting is no stranger to international markets, but the Dubai Metro is the company's first project on such a large scale.

EFIC is providing guarantees to the company's bank to enable three advance payment bonds to be issued in favour of the buyer. The bonds secure upfront payments made by the buyer to enable Planet Lighting to finance work on the contracts.

'EFIC's ability to support us with the advance payment bonds made all the difference in winning the new business in Dubai,' said Planet Lighting's Chief Executive Officer, Brett Iggulden. 'It ensured that we had the cash flow for an immediate start on the contracts.'

'We've done some work in Dubai in the past, but this project is the beginning of a great deal of large-scale work in the region,' said Mr Iggulden. 'With EFIC's help, we're ready to enter this new stage of export growth.'

Planet Lighting will design, manufacture, supply and install the lighting fixtures in the Dubai Metro, the first railway system of its kind in the region.

A family-owned company founded 95 years ago, Planet Lighting is now a world-leading maker of architecturally designed lighting fixtures and glassware. Today, Planet Lighting generates around 45 per cent of its revenue through exports and is targeting 60 per cent within five years.

TESCORP HYDRAULICS

EFIC HEADWAY WORKING CAPITAL GUARANTEE

EFIC SUPPORT: $950,000

Cairns-based manufacturer Tescorp Hydraulics has developed a reputation for delivering innovative engineering solutions to its customers in a range of industries, both in Australia and overseas.

When Tescorp won its largest-ever export contract to the value of $1.5 million, for a UK electricity sector project, the company needed additional working capital to deliver the contract. EFIC provided an EFIC Headway working capital guarantee to Tescorp's bank, the Commonwealth Bank, to help the company fulfil its contract.

EFIC Headway is a guarantee which enables eligible SME exporters to access additional working capital from their bank, without requiring further security.

'Having provided similar machines for projects in Auckland and Sydney, we were confident we could meet our UK customer's requirements,' said Tescorp's General Manager, Andrew Sands. 'However, financing the initial production for a project of this size presented a new challenge.'

'We were impressed with EFIC's ability to work with our bank and put together a financing package with only a few days' notice,' said Mr Sands.

Tescorp is supplying a purpose-built system to install new electricity cables in National Grid's Woodhead Tunnel, in order to ensure a continued secure electricity supply to Greater Manchester.

The UK's Electricity Alliance – a partnership between National Grid and 15 construction companies – is managing the infrastructure project, which began in February 2008 and will take approximately two years to complete.

Tescorp has designed and manufactured the Hydraulic Lifting and Sagging Machine, which pulls more than a kilometre of cable into place at a time on hundreds of small trolleys.

EFIC'S EXPOSURES

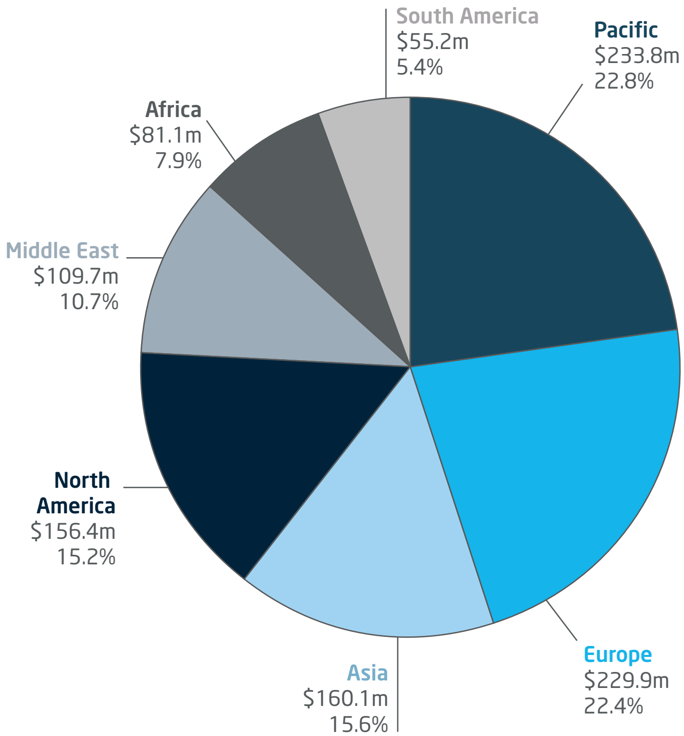
COMMERCIAL ACCOUNT

EFIC's Commercial Account exposures of over $1,026 million from its structured trade and project finance facilities are loans, guarantees, political risk insurance, bonds, medium-term export payments insurance and other insurance. The facilities vary in maturity up to 15 years, but typical loan and guarantee facilities are for 10 years on an amortising basis. The average remaining maturity of facilities outstanding at 30 June 2009 was 2.9 years; however, it was 5.9 years on a weighted average basis.

The exposures are mainly risks on the overseas purchasers of Australian capital goods exports, the majority of which are in the private sector. While exposures remain predominantly to private sector companies, both customers and reinsurers, we continue to accept risks on governments and public sector entities in developing countries. At 30 June 2009, EFIC had roughly equal levels of exposure to the shipping, mining and construction industries. However, as this year's signings translate to exposure in later years, our risk profile will continue to change.

The distribution of exposures by geographical region, industry sector and facility type at 30 June 2009 is shown in Figures 5 to 7.

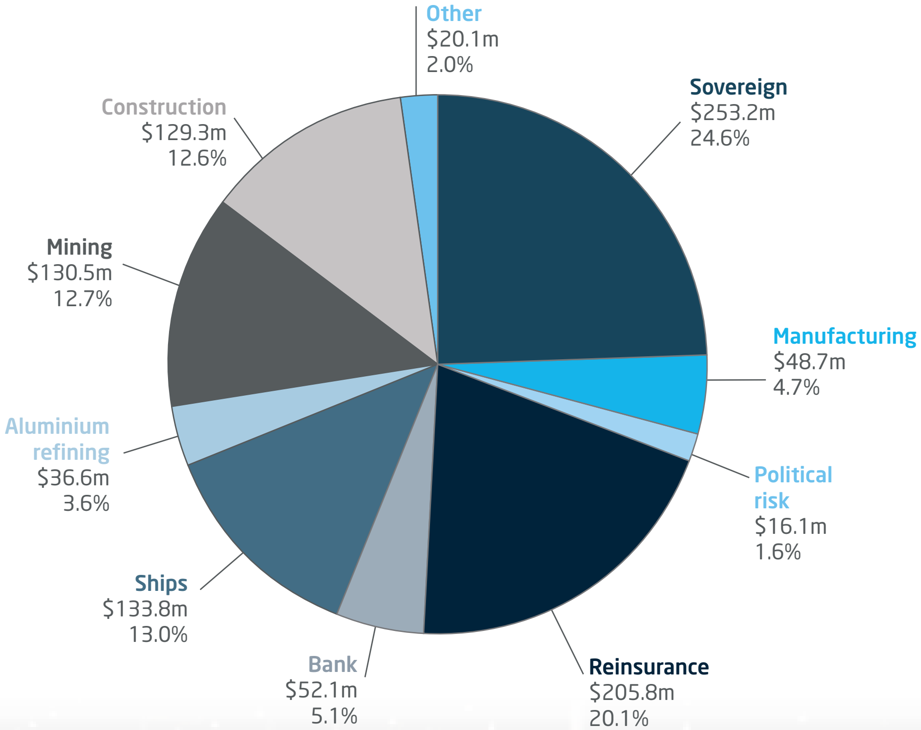
Figure 5: Commercial Account at 30 June 2009: exposures by region*

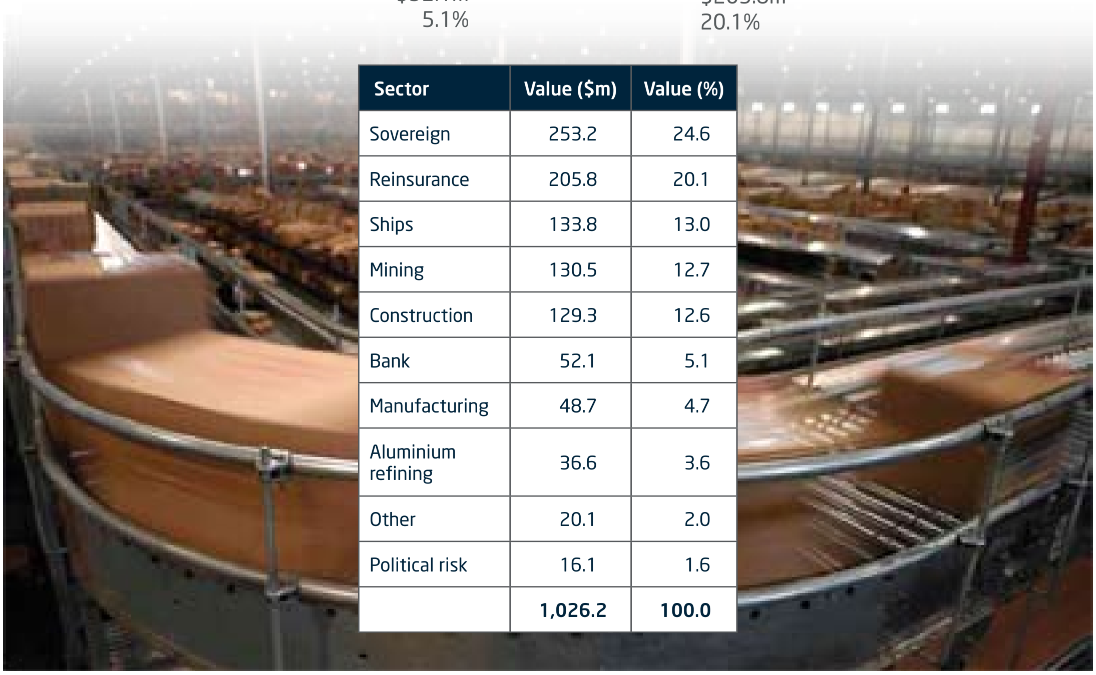


Sector	Value ($m)	Value (%)
Pacific	233.8	22.8
Europe	229.9	22.4
Asia	160.1	15.6
North America	156.4	15.2
Middle East	109.7	10.7
Africa	81.1	7.9
South America	55.2	5.4
	1,026.2	**100.0**

*Includes exposures that have been reinsured.

Figure 6: Commercial Account at 30 June 2009: exposures by industry sector

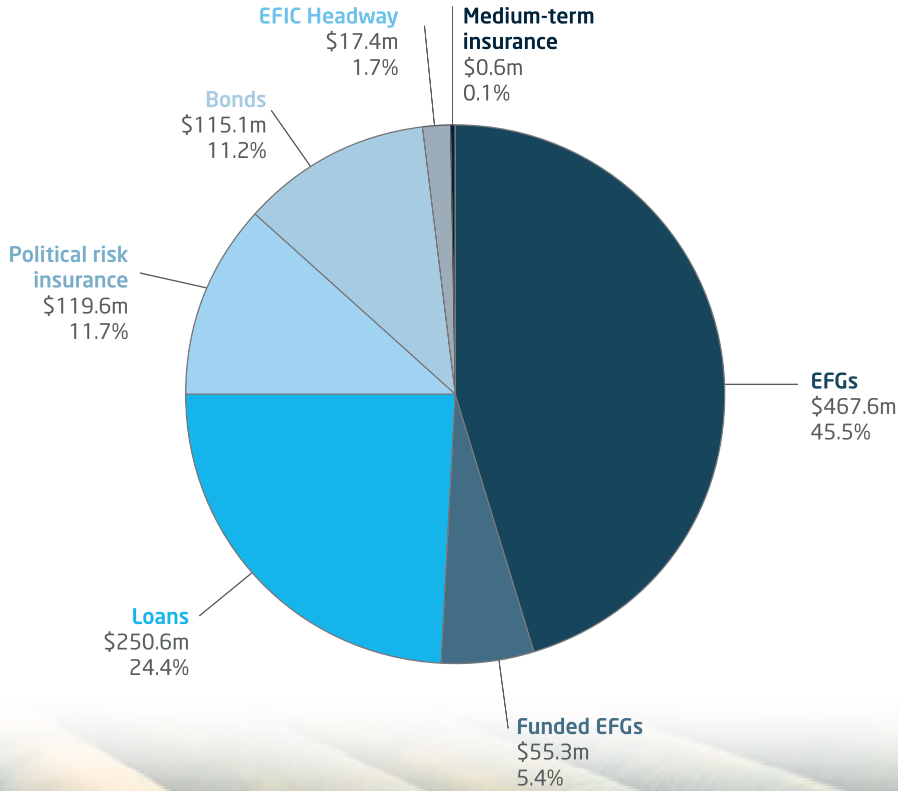


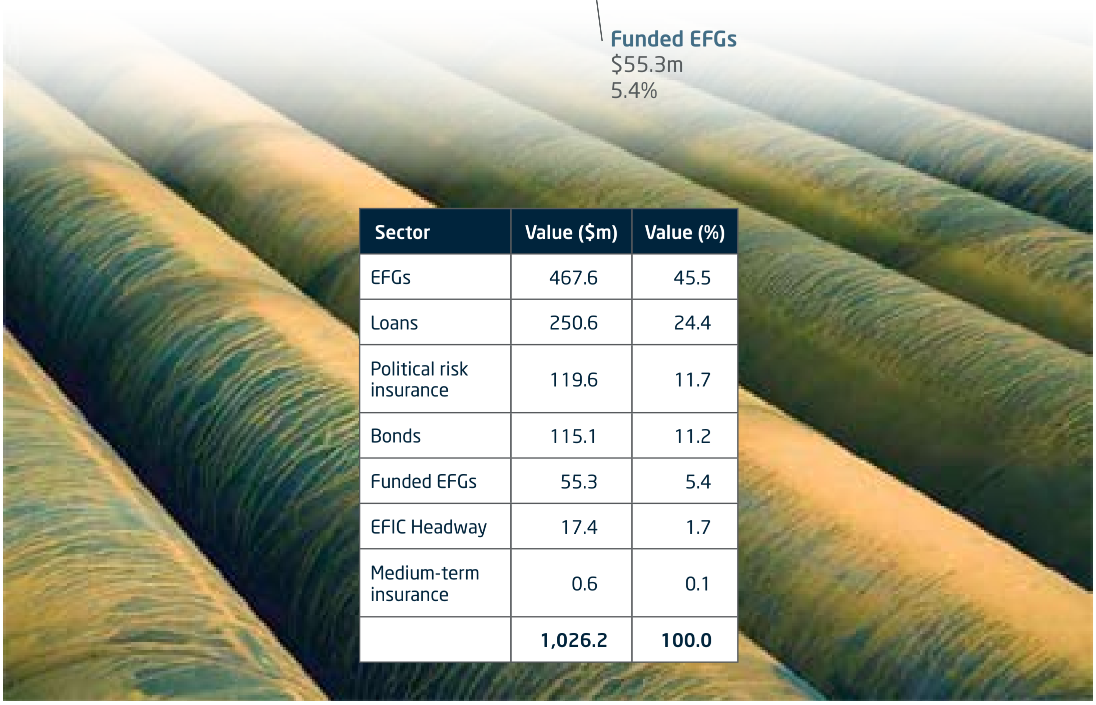


Sector	Value ($m)	Value (%)
Sovereign	253.2	24.6
Reinsurance	205.8	20.1
Ships	133.8	13.0
Mining	130.5	12.7
Construction	129.3	12.6
Bank	52.1	5.1
Manufacturing	48.7	4.7
Aluminium refining	36.6	3.6
Other	20.1	2.0
Political risk	16.1	1.6
	1,026.2	**100.0**

COMMERCIAL ACCOUNT (CONTINUED)

Figure 7: Commercial Account at 30 June 2009: outstanding facilities by type





Sector	Value ($m)	Value (%)
EFGs	467.6	45.5
Loans	250.6	24.4
Political risk insurance	119.6	11.7
Bonds	115.1	11.2
Funded EFGs	55.3	5.4
EFIC Headway	17.4	1.7
Medium-term insurance	0.6	0.1
	1,026.2	**100.0**

NATIONAL INTEREST ACCOUNT

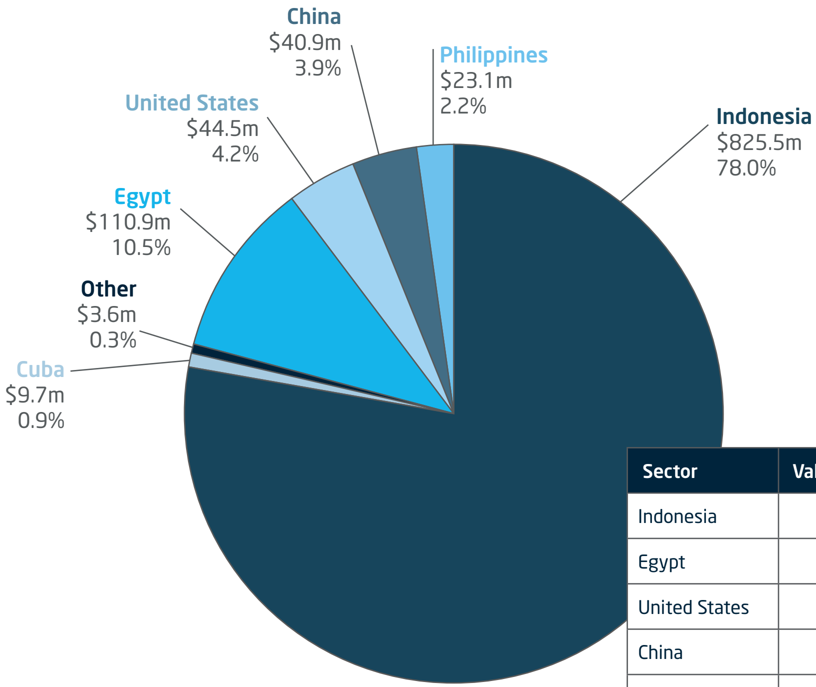
The National Interest Account exposures of $1.1 billion are almost all loans to sovereign countries or their agencies. The largest exposure is to the Indonesian government. The change in distribution by country during the review period mainly reflected repayments and movements in the Australian dollar.

The exposures arose mainly from two sources:

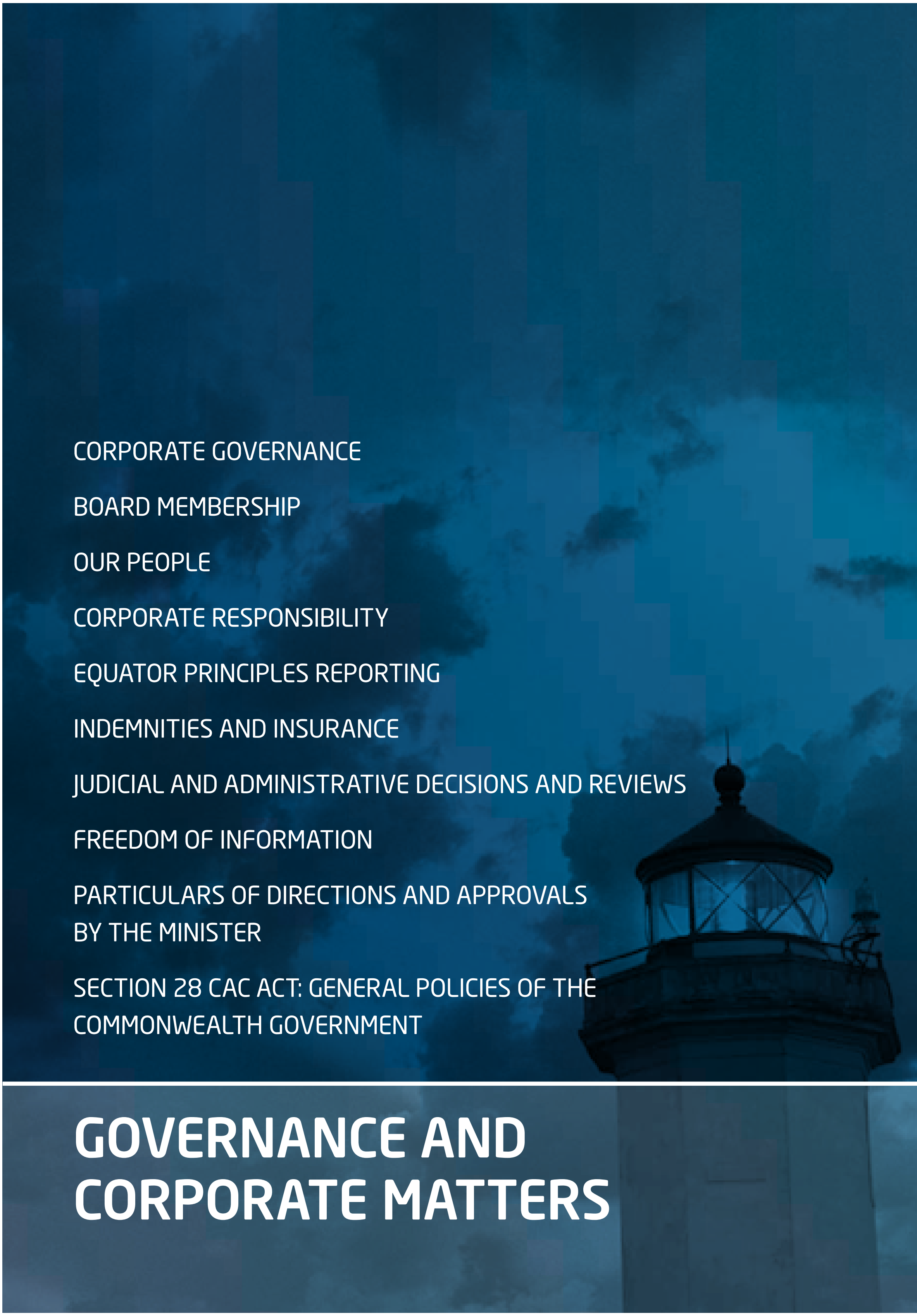
- loans supported by aid grants made under the now discontinued DIFF of AusAID. Reflecting the priorities of Australia's overseas aid program at the time, these loans include exposures of $826 million to Indonesia, $41 million to China and $23 million to the Philippines (exclusive of reinsurance sourced from North America).
- in the mid to late 1980s and early 1990s, EFIC paid credit insurance claims on exports to Egypt. These debts were subsequently rescheduled through the Paris Club. Egypt has paid all amounts due under the rescheduling agreement in full and on time. The balance of rescheduled credit insurance debts to Egypt is $111 million.

The distribution of exposures by country at 30 June 2009 is shown in Figure 8.

Figure 8: National Interest Account at 30 June 2009: exposures by country



Sector	Value ($m)	Value (%)
Indonesia	825.5	78.0
Egypt	110.9	10.5
United States	44.5	4.2
China	40.9	3.9
Philippines	23.1	2.2
Cuba	9.7	0.9
Other	3.6	0.3
	1,058.2	**100.0**



GOVERNANCE AND CORPORATE MATTERS

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CORPORATE GOVERNANCE

The EFIC Board is responsible for the corporate governance of EFIC, managing our affairs and overseeing our operations. This includes establishing EFIC's strategies, defining our risk appetite, monitoring our performance, making decisions on capital usage, including large exposures, and making dividend recommendations to the Government. The Board met nine times in 2008-09.

The minister responsible for EFIC, the Minister for Trade, appoints the members of the Board. The Minister was also responsible for appointing the current Managing Director in 2003 after receiving a recommendation from the Board, and this appointment continues with the recent renewal of that appointment by the Board. Pursuant to the *Export Finance and Insurance Corporation Amendment Act 2007*, any future Managing Director will be appointed by the Board after consultation with the Minister. The majority of the Board is from the private sector, and during the review year the Board included an official Government member. The Board is non-executive, except for the Managing Director, who is a full-time employee.

The membership of the Board is set out on pages 38–41.

We have adopted a Code of Conduct for our employees and there are various obligations on employees and Board members arising from the EFIC Act and the CAC Act. In addition, the Board is rigorous in ensuring that a Board member does not participate in discussions or decisions where there is, or may be, a conflict between that member's interests and the interests of EFIC or one of our customers. EFIC maintains a register of Board members' disclosed interests.

The Australian Securities Exchange (ASX) Corporate Governance Council's revised Principles of Good Corporate Governance and Best Practice Recommendations provide recommendations relating to eight key principles relevant to ASX-listed companies. While EFIC, as a Government-owned corporation, is not required to disclose the extent to which our corporate governance complies with the recommendations (some of which are not directly applicable to us), the following details demonstrate our commitment to good governance practices.

PRINCIPLE 1

Lay solid foundations for management and oversight

1.1 Under the EFIC Act, the Minister for Trade appoints Board members, other than the Managing Director, who is appointed by the Board after consultation with the Minister.

1.2 EFIC provides Board members with a Director's Induction Pack, including a document entitled 'Corporate Governance Information for Directors'. The pack contains details of:

- the legal framework in which EFIC and the Board operate, including the way that conflicts of interest are managed, and the statutory confidentiality obligations applying to Board members and employees

- the policies and procedures adopted by the Board
- the corporate plan and business strategy
- the financial information presented to the Board
- the circumstances in which a Board member can seek independent professional advice at EFIC's expense.

1.3 The Board has formally determined its own responsibilities and set those out in its Board charter, which is available on EFIC's website, and defined the powers of the Managing Director, and set out those powers in an instrument entitled 'Statement of the Powers of Managing Director'. Powers beyond the scope of this statement are reserved for the Board.

1.4 The Board assesses the performance of the Managing Director each year, including eligibility for any performance-related remuneration. The Managing Director's remuneration is determined by the Board within a framework set by the Government's Remuneration Tribunal.

1.5 The Managing Director assesses annually the performance of senior executives under EFIC's Performance Management Program.

PRINCIPLE 2

Structure the Board to add value

2.1 A majority of the Board consists of independent members.

- The Chair is an independent member.
- Different individuals exercise the roles of Chair and Managing Director.
- In addition to their ongoing statutory obligation to disclose material personal interests when they arise, Board members' independence is regularly assessed through annual disclosure of external interests, updated at each Board meeting.
- With the approval of the Chair, a Board member in the furtherance of his or her duties may seek independent professional advice at EFIC's expense.

2.2 The Board regularly evaluates its own performance. The most recent evaluation was completed in April 2008 and addressed issues such as Board composition and skills, quality of information received, roles and responsibilities, exercise of powers and effectiveness, operation of meetings, induction and education, stakeholder obligations and risk management. The main findings of the review were that the Board operates professionally and effectively. The next review is scheduled for November 2009.

2.3 The Board holds 'in camera' discussions without management at the end of each meeting to assess the effectiveness of the meeting and identify areas for improvement.

2.4 Management provides the Board with comprehensive and timely information on relevant matters to enable the Board to discharge its duties effectively, including provision of Board papers one week before each Board meeting. Directors are able to obtain additional information if they wish and have access to all members of the EFIC Executive team.

2.5 EFIC publishes its key performance indicators in its Annual Report.

PRINCIPLE 3

Promote ethical and responsible decision-making

3.1 EFIC has a Code of Conduct.

3.2 In addition, EFIC's Corporate Responsibility Policy (CRP) sets out many of the principles that enable EFIC to attain an appropriate balance between the responsibilities EFIC owes to its varied stakeholders. It assists EFIC to balance the need to achieve its purpose of overcoming financial barriers for exporters while fulfilling its responsibilities to its broader, non-customer stakeholders. The CRP covers:

- responsibilities to exporters, particularly under EFIC's Customer Service Charter, and confidentiality and privacy obligations
- responsibilities to the Australian Government
- responsibilities to EFIC's employees
- assessment of environmental and social issues (under EFIC's Environment Policy) in relation to transactions, information disclosure and anti-corruption initiatives.

Further details on EFIC's CRP are on page 48. The CRP is also published on the EFIC website.

3.3 As a statutory authority of the Australian Government, EFIC regularly consults entities and groups that have an interest in its operations. These include state government departments, business associations and community groups.

PRINCIPLE 4

Safeguard integrity in financial reporting

4.1 EFIC has had an Audit Committee since inception. Details of Audit Committee members and their qualifications appear on pages 40–41. The Board has set out the accountabilities of the Committee in a Charter, available on EFIC's website. The Committee has broad responsibilities to the Board regarding risk oversight and management, including:

- overseeing the work of both the external and internal auditors
- overseeing the preparation of comprehensive and accurate financial statements and reports
- overseeing compliance with statutory obligations
- the effective management and control of financial risks.

All three Committee members, including the Committee Chair, are independent, and two members are non-executive Board members. The Committee Chair is not Chair of the Board. EFIC has a risk management system under the review of the Audit Committee. The Committee met four times in 2008-09.

4.2 The Managing Director and Chief Financial Officer state in writing to the Audit Committee that EFIC's financial reports present a true and fair view, in all material respects, of its financial condition and that the operational results are in accordance with relevant accounting standards.

4.3 In accordance with the CAC Act, the Auditor-General conducts the annual external audit of EFIC. The Auditor-General contracted Ernst & Young to assist with the audit work for 2008-09.

PRINCIPLE 5

Make timely and balanced disclosure

5.1 EFIC places media releases, corporate announcements and its Annual Report (incorporating the Financial Statements) on its website.

5.2 EFIC also keeps the Minister for Trade and the Minister for Finance and Deregulation informed regarding EFIC's operations, in accordance with its obligations under the CAC Act.

5.3 EFIC also keeps the Minister for Trade informed of developments in the financial markets that have an impact on exporters and provides information to assist the Government with policy development.

PRINCIPLE 6

Respect the rights of the shareholder

6.1 EFIC has a close working relationship with the Australian Government, its sole owner, at various levels.

6.2 EFIC's CRP sets out guiding principles to enable it to establish an appropriate balance between the responsibilities EFIC owes to the Australian Government as its sole owner and other stakeholders.

6.3 EFIC conducts its business in a manner that is consistent with applicable international agreements to which Australia is a party. Among the key agreements are:

- the OECD Arrangement on Officially Supported Export Credits
- the Berne Union Guiding Principles
- the OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits
- the OECD Recommendation to Deter Bribery in Officially Supported Export Credits
- the OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries
- OECD Guidelines for Multinational Enterprises.

EFIC also complies with the World Trade Organization Agreement on Subsidies and Countervailing Measures.

PRINCIPLE 7

Recognise and manage risk

7.1 EFIC's risk management systems and procedures are structured around key requirements of the CAC Act, the EFIC Act, other relevant legislation, regulatory guidance and prudential standards, as well as prudent commercial practice.

7.2 EFIC has identified, prioritised and documented all significant risks, and has documented associated risk management systems. EFIC's Risk Management Framework is available on its website. The Framework describes the manner in which EFIC's risk appetite and tolerance are established and subsequently controlled. The Framework sets out core principles, outlines responsibilities, categorises the risks that EFIC faces and identifies the strategies it has adopted to manage those risks. EFIC recognises that risk identification and management is ongoing. At a minimum, EFIC's risks are reviewed twice each year, with a focus on potential new risks on the horizon. More information about the Risk Management Framework is on page 55.

7.3 EFIC's senior executives, after consultation with relevant staff regarding any control deficiencies or lapses, or any compliance breaches or incidents, provide six-monthly written assurances to the Audit Committee regarding the currency of EFIC's risk profile and the effectiveness of compliance and control measures.

7.4 EFIC has contracted PricewaterhouseCoopers to carry out the internal audit function within EFIC.

7.5 The internal auditor reports to management and is accountable to the Audit Committee. The Audit Committee is responsible for overseeing the scope of the internal audit and recommending to the Board the appointment or dismissal of the internal auditor. The Audit Committee has access to the internal audit function without the presence of management.

PRINCIPLE 8

Remunerate fairly and responsibly

8.1 In accordance with legislative requirements, the Government's Remuneration Tribunal determines the fees and other amounts payable to Board members. The Tribunal also determines the parameters within which the Managing Director's remuneration package is set by the Board. Therefore, key remuneration decisions are made outside EFIC.

8.2 Board members (other than the Managing Director) do not receive any performance-related remuneration. Board members are not entitled to any retirement benefits beyond statutory superannuation entitlements. An explanation of the Remuneration Tribunal's operations and practices is available on its website (www.remtribunal.gov.au).

8.3 Under the EFIC Act, the Board determines the terms and conditions of EFIC's employees. The remuneration of EFIC's employees is established with reference to market data from the Financial Institutions Remuneration Group (FIRG). The FIRG data is provided twice yearly by the 100-plus financial institutions which are its members. EFIC benchmarks each position, comparing relevant experience and skills as well as key accountabilities.

BOARD MEMBERSHIP

ANDREW MOHL

BEc (Hons)

Age: 53

Chairman

Term of Board appointment: from 9/12/2008 to 8/12/2011

Board attendance: 5 of 5

Independent Board Member

Non-Executive Member

Andrew Mohl is a Director of the Commonwealth Bank of Australia and the AMP Foundation and an executive coach to chief executive officers. He was Managing Director and Chief Executive Officer of AMP Limited from 2002 to 2007 and has over 30 years of financial services experience, including as Managing Director of AMP Financial Services and AMP Asset Management, Managing Director of ANZ Funds Management, Group Chief Economist at ANZ Banking Group and Deputy Head of Research at the Reserve Bank of Australia.

MICHAEL CARAPIET

MBA

Age: 51

Deputy Chairman

Term of Board appointment: from 28/11/2005 to 27/11/2008 and 9/12/2008 to 8/12/2011

Board attendance: 7 of 9

Independent Board Member

Non-Executive Member

Michael Carapiet is an Executive Director and Head of Macquarie Capital at Macquarie Group Limited, which he joined in 1985. He has led major international project transactions, cross-border deals and corporate finance assignments across a number of companies, industries and countries.

ANGUS ARMOUR

BA (Hons), MBA, FFin, FAICD

Age: 46

Managing Director and Chief Executive Officer

Appointed: 31/10/2003

Board attendance: 9 of 9

Executive Member

Angus Armour joined EFIC in 1993 in the project finance area and after a succession of divisional management and strategic roles was appointed Managing Director in 2003. Prior to joining EFIC he worked with Export Development Canada in project and asset finance in Latin America, Europe and the United States and with the International Finance Corporation's project advisory team for the South Pacific. He is a Trustee of the Committee for Economic Development of Australia and a member of its NSW State Council. In 2008 he served as Chairman of the Asian Exim Banks Forum and in 2006-07 as Vice President of the Berne Union, the international association of export credit and investment insurance companies.

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DAVID CROMBIE

BEc

Age: 66

Member

Term of Board appointment:
from 1/10/2007 to 30/09/2010

Board attendance: 9 of 9

Independent Board Member

Non-Executive Member

David Crombie has over 30 years' commercial and representational experience in the agriculture industry and operates family properties in southern Queensland. He has served as Managing Director of GRM International, Chairman of the National Steering Committee for Meat Standards Australia and Meat & Livestock Australia and on the Boards of Grainco Australia and the Meat Industry Council. He is President of the National Farmers' Federation, a Director of GRM International and Rosewood (NT Beef) and Deputy Chairman of FKP Property Group.

DAVID EVANS

BEc

Age: 44

Member

Term of Board appointment:
from 9/12/2008 to 8/12/2011

Board attendance: 4 of 5

Independent Board Member

Non-Executive Member

David Evans worked with Goldman Sachs JBWere for 18 years, spending 10 of these as a Director and occupying senior roles such as Chief Executive Officer of the Retail Business and also the Equity Business. David is a Director of two ASX publicly listed companies, Healthscope Limited and Mirrabooka Limited, and is also a Director of the Essendon Football Club. He recently started his own investment bank – Evans and Partners Pty Ltd.

MICHAEL L'ESTRANGE, AO

BA (Hons), MA

Age: 56

Government Member

Appointed: 24/01/2005

Board attendance (including alternate): 9 of 9

Represents Australian Government

Non-Executive Member

Michael L'Estrange is Secretary of the Department of Foreign Affairs and Trade and represents the Australian Government on the Board. Prior to this, he served as Australia's High Commissioner to the United Kingdom and was previously appointed by the then Prime Minister as Secretary to Cabinet and Head of the Cabinet Policy Unit. Mr L'Estrange has also worked in a range of policy advisory positions.

BOARD MEMBERSHIP (CONTINUED)

SALLY PITKIN

LLB, LLM, FAICD

Age: 49

Member; Audit Committee Member

Term of Board appointment: from 16/07/2007 to 15/07/2010

Board attendance: 9 of 9

Board Audit Committee attendance: 4 of 4

Independent Board Member

Non-Executive Member

Sally Pitkin is a professional company director whose directorships have spanned publicly listed and private companies across a diverse range of sectors. She was a Partner with Clayton Utz specialising in banking and finance law, corporate governance and privatisation, with 23 years' experience. Currently a Director of Aristocrat Leisure Limited and UniQuest Pty Ltd, she is also a State Council Member in Queensland for the Committee for Economic Development of Australia and a member of a number of advisory boards and industry bodies.

ANTHONY SHERLOCK

BEc

Age: 67

Member; Audit Committee Chairman

Term of Board appointment: from 28/11/2005 to 27/11/2008 and 9/12/2008 to 8/12/2011

Board attendance: 8 of 9

Board Audit Committee attendance: 4 of 4

Independent Board Member

Non-Executive Member

Anthony Sherlock has over 20 years' experience in credit risk management and corporate administration. He has served on a number of public company boards and is currently a Director of IBA Health Limited and Stockland Capital Partners Limited and Chairman of the Showground Precinct Committee.

MEMBERS WHOSE TERM ENDED IN 2008-09

PETER YOUNG, AM

BSc, MBA

Age: 64

Chairman from 23/08/2002

Term of Board appointment:
from 11/06/2002 to 23/08/2008

Board attendance: 2 of 2

Independent Board Member

Non-Executive Member

Peter Young's experience in the investment banking industry spans more than 30 years. His roles have included senior management positions with the international banking groups Citigroup and ABN AMRO. He is Chairman of Transfield Services Infrastructure Fund, Delta Electricity and AIDA Fund Limited (UK) and Director of Fairfax Media, the Australian Business Arts Foundation Limited, the Great Barrier Reef Foundation, the Sydney Theatre Company and the Defence Industry Advisory Board. He is also a Trustee of the Art Gallery of New South Wales and Chairman of its Audit and Finance Committee.

IAN KNOP, AM

BBus, CPA

Age: 60

Member

Term of Board appointment:
from 3/08/2001 to 27/11/2008

Board attendance: 4 of 4

Independent Board Member

Non-Executive Member

Ian Knop is Chairman and Managing Director of Profile Ray & Berndtson, an international executive search and management consulting firm. In addition, he is Chairman of Sullivans Cove Waterfront Authority and Sugar Research & Development Corporation.

HOWARD DAVIES

FAICD

Age: 62

Deputy Chairman from 28/11/2005

Audit Committee Member

Term of Board appointment:
from 11/02/2002 to 27/11/2008

Board attendance: 1 of 4

Extension of Audit Committee appointment:
from 28/11/2008 to 3/08/2009

Board Audit Committee attendance: 3 of 4

Independent Board Member

Non-Executive Member

Howard Davies' specific expertise in the insurance industry is in credit and political risk insurance broking. He was formerly Managing Director and Chairman of the insurance broking business Bain Hogg Australia Limited. He also holds a number of other directorships, including the role of Director and Treasurer of the Fred Hollows Foundation.

ALTERNATE GOVERNMENT MEMBER

During the year, David Spencer, a Deputy Secretary of the Department of Foreign Affairs and Trade, attended five meetings as the alternate Government member. Ric Wells replaced Mr Spencer and was appointed as the alternate Government member from 14 June 2009. Mr Wells attended one meeting.

AUDIT COMMITTEE APPOINTMENT

During the year, Howard Davies' term as a Board member ended; however, the Board temporarily waived the provisions of the Board Audit Committee Charter relating to the appointment of members and approved the extension of Mr Davies' term as a member of the Board Audit Committee through to 3 August 2009.

TRANSACTIONS WITH BOARD MEMBERS AND BOARD MEMBER-RELATED ENTITIES

The Board members declare that none of them has any interest in contracts, transactions, arrangements or agreements with EFIC, other than contracts entered into, or to be entered into, in the ordinary course of EFIC's business.

Note 21 to the Financial Statements sets out the aggregate amount of remuneration received, or due and receivable, by the Board members during the year ended 30 June 2009.

Mr L'Estrange, Mr Spencer and Mr Wells are Commonwealth employees.

Under the EFIC Act, there are a number of financial arrangements between EFIC and the Commonwealth of Australia, including the following:

- the Commonwealth guarantees the payment by EFIC of any money that becomes payable by EFIC to a third party
- in connection with National Interest Account transactions, EFIC is indemnified by the Commonwealth
- EFIC is able to receive interest subsidy from the Commonwealth.

Material transactions are detailed in the Financial Statements.

DECLARED POTENTIAL CONFLICTS OF INTEREST

The Board carefully manages conflicts of interest, or potential conflicts of interest, in relation to EFIC transactions. No Board member declared a conflict of interest or potential conflict of interest relating to an EFIC transaction considered during the review year.

OUR PEOPLE

ORGANISATIONAL STRUCTURE AND STAFF NUMBERS

EFIC's organisational structure is outlined in Figure 9 on the next page. Summary figures relating to our number of employees (in full-time equivalents) are shown in Table 1.

Table 1: Number of employees

	30 June 2009	30 June 2008
Employees (excluding short-term)	**79**	71.3
Short-term contract employees	**1**	1
Total	**80**	72.3

DIVERSITY AND EQUAL EMPLOYMENT OPPORTUNITY

In line with our internal principles of integrity, openness and accountability, EFIC is an equal employment opportunity (EEO) employer which encourages and values a work environment in which all staff are treated with fairness and equity. We continue to have a diverse workforce, with 43 per cent of staff, or one of their parents, having a non-English speaking background.

Our EEO program ensures that employees are not discriminated against at any time in their employment. We provide equal opportunity in all aspects of employment, including conditions of employment, recruitment and selection, remuneration, training and development and promotion, all of which are supported by procedures and practices that encourage fairness and equity. We regularly review our policies and practices and train all employees, including management, on EEO and anti-discrimination matters. We also have a formal commitment to the process of reconciliation between Indigenous and non-Indigenous Australians.

The *Equal Employment Opportunity (Commonwealth Authorities) Act 1987* promotes equal opportunity in employment for members of designated groups, including women and people from non-English speaking backgrounds. In accordance with the Act's reporting requirements, statistics on EFIC's workforce profile are shown in Table 2. Although EFIC employees can be classified by role (for example, managers and administrators, professionals and associated professionals, clerical and service workers), the statistics in Table 2 are grouped by salary range due to EFIC's size and the generality of role classifications.

Table 2: Representation of EFIC's workforce as at 30 June 2009

Employee diversity profile							
		Female	Male	NESB	ATSI	PWD	Total staff
Annual FTE salary* earnings	Up to $75,000	21	3	15	0	0	24
		87.5%	12.5%	62.5%	nil	nil	28.6%
	$75,001 to $150,000	13	20	9	0	0	33
		39.4%	60.6%	27.3%	nil	nil	39.3%
	$150,001 and above	6	21	12	0	0	27
		22.2%	77.8%	44.4%	nil	nil	32.1%
	Totals	40	44	36	0	0	84 (80 FTE)
		47.6%	52.4%	42.9%	0%	0%	

INTERPRETATION

NESB: Non-English speaking background or parents of a non-English speaking background

ATSI: Aboriginal or Torres Strait Islander

PWD: People with a disability

FTE: Full-time equivalent

*Salaries exclude superannuation

Figure 9: Organisational structure

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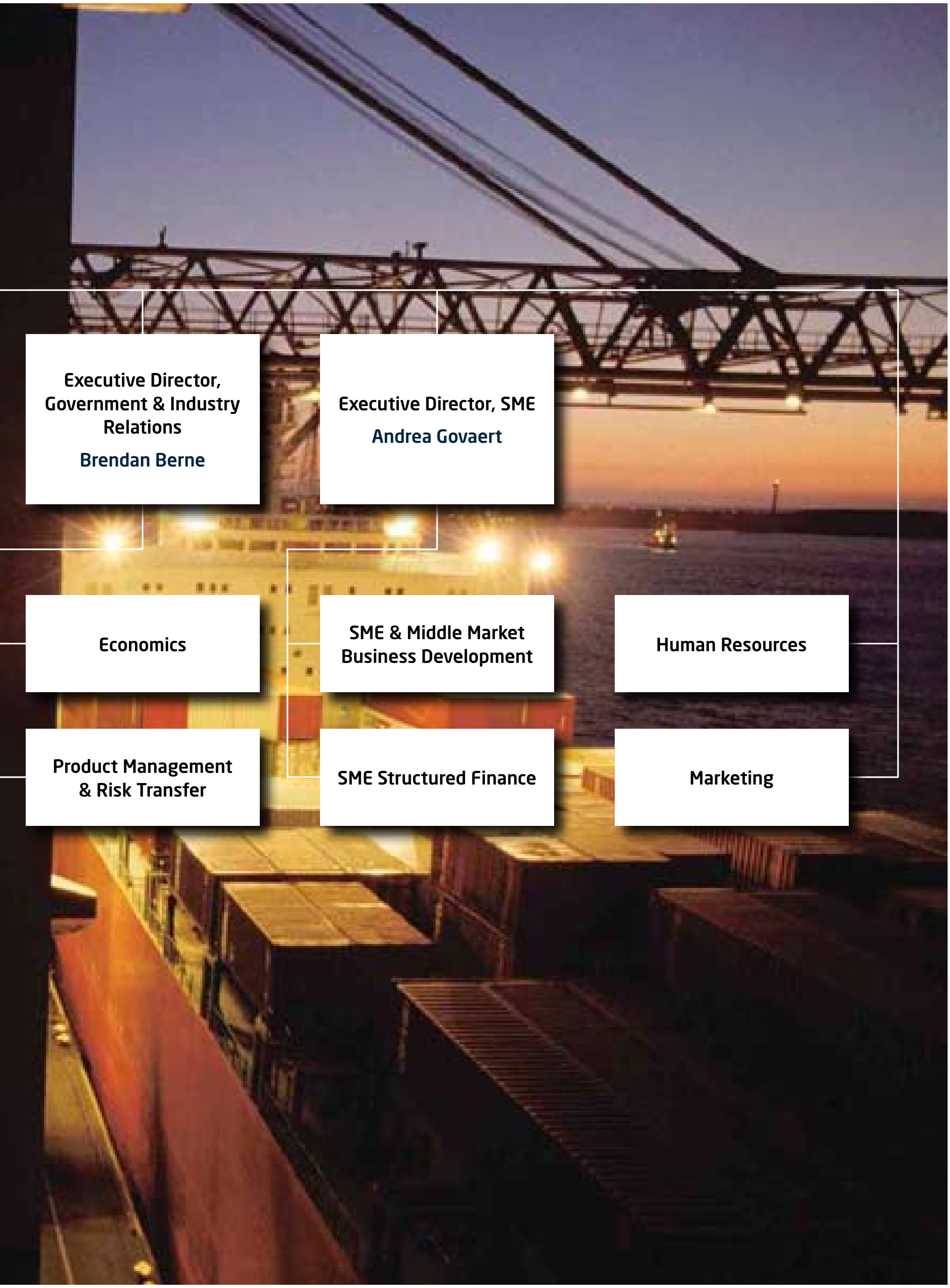

Executive Director, Government & Industry Relations
Brendan Berne

Executive Director, SME
Andrea Govaert

Economics

SME & Middle Market Business Development

Human Resources

Product Management & Risk Transfer

SME Structured Finance

Marketing

TRAINING AND DEVELOPMENT

EFIC is committed to staff development and we review the training requirements of all staff through the annual performance review process. We have undertaken various training and development initiatives throughout the year, including an intensive leadership development program and technical skills development in areas such as information technology, legal documentation and cultural awareness, in addition to a robust compliance training program. EFIC also contributes to the cost of post graduate studies undertaken by employees and we provide those employees with paid leave for study and exams.

WORK/LIFE BALANCE

We understand the pressures that balancing working life and family or personal commitments can bring. To assist employees to meet this balance, we provide the following benefits to our staff:

Part-time work: 10 employees, or 12 per cent of the workforce, worked on a part-time basis at 30 June 2009.

Employee assistance program: a free professional and confidential counselling service, which is available to all employees and their immediate families.

Parental leave: parental leave of up to 12 months, including paid maternity leave for a period of three months. Over the past year, three employees were on maternity leave.

Special leave: we also provide fathers with five days' paid leave for the birth of each child. Other forms of paid special leave available to staff include time off for moving house, emergency/disaster situations, ceremonial leave for Aboriginal and Torres Strait Islander employees, observance of religious holidays, bereavement leave, blood donations and defence force reserve training.

Carer's leave: as part of our sick leave benefit, staff members are able to take up to 10 days of their sick leave annually to care for immediate family members who are ill.

Flexible work arrangements: we give employees the opportunity to work flexible hours wherever possible.

Annual leave: it is EFIC's policy that staff members take a minimum of two weeks' consecutive leave each year to ensure that each person has a significant break from work annually.

OCCUPATIONAL HEALTH AND SAFETY

Demonstrating our strong commitment to occupational health and safety (OHS), and in line with the requirements of the *Occupational Health and Safety Act 1991*, we have in place Health and Safety Management Arrangements (HSMA) which were designed by and are reviewed in consultation with staff. In addition, EFIC's OHS Committee meets quarterly and plays an integral role in the management of OHS. The Committee comprises representatives from both management and staff, including a nominated Health and Safety Representative.

The Committee develops and implements risk management strategies based on quarterly workplace inspections, the review of accident reports and through a formal risk assessment process. We also encourage and support the training of First Aid Officers. The HSMA and OHS Committee framework facilitates the provision of a safe and healthy work environment for all employees.

Given the nature of EFIC's operations, we have identified travel as a risk that requires specialised monitoring. All frequent travellers have access to an annual full medical check. We have also contracted a specialist organisation to provide detailed medical, business and cultural information and assistance to travellers prior to and during an international trip.

We conduct regular testing and preventative maintenance on our plant and equipment, including air conditioning, and undertake all reasonable steps to eliminate or minimise risk to staff and visitors to the building.

There were no serious injuries to EFIC employees during the reporting period.

COMMONWEALTH DISABILITY STRATEGY

EFIC implements the Commonwealth Disability Strategy through a range of actions. We take the following steps to include people with disabilities in consultations about issues which affect them:

- access to EFIC via the internet and a toll-free telephone service that allows concerns or feedback to be provided on any issue
- our OHS Committee openly consults with staff.

Making information available in accessible formats to people with disabilities is a key consideration. The most effective means of providing information in accessible formats is through our website. EFIC is compliant with the Priority 1 checkpoints of the World Wide Web Consortium's accessibility standards, in line with the guidelines of the Australian Government Information Management Office.

We provide both internal and external complaint mechanisms through which people can raise concerns. Our Customer Service Charter provides a mechanism for customers to provide feedback if they are not satisfied with our service.

CORPORATE RESPONSIBILITY

APPROACH TO CORPORATE RESPONSIBILITY

EFIC's Corporate Responsibility Policy (CRP) sets out the guiding principles we use to balance the different responsibilities we have to our varied stakeholders. It assists us to fulfil our responsibilities to our broader, non-customer stakeholders while pursuing our mandate of facilitating and encouraging Australian export trade and investment. The CRP helps EFIC achieve the delicate balance between maintaining customer commercial confidentiality and providing reasonable transparency of our operations.

The policy sets out our responsibilities to exporters, the Australian Government, our employees and the wider community. It covers matters such as environmental and social issues, clean energy, nuclear-related exports, supporting Heavily Indebted Poor Countries, anti-corruption initiatives and climate change. Further information about the CRP is available on our website.

We strive to achieve best practice in corporate responsibility and there is ongoing review of our policies. During the year EFIC commissioned a consultant to provide advice on our response to corporate social responsibility (CSR) and sustainability. The aim of the consultancy was to:

- provide us with advice from experts in the field
- assist in benchmarking our CSR and sustainability performance against our peers
- provide assistance in developing our approach to CSR and sustainability.

We will take into account the consultant's advice in reviewing our approach to CSR and sustainability over 2009-10.

CLEAN ENERGY

Within our mandate, we seek to encourage the export of products and services that benefit the environment. We aim to enhance the economic and financial viability of such exports by considering extended terms of finance, in line with terms and conditions set out in the OECD Arrangement on Officially Supported Export Credits.

During 2008-09 EFIC established an internal working group to examine how EFIC could better support Australia's clean energy industry. The group concluded that we should provide clean energy finance, despite the risks involved and the adjustments required to EFIC's existing policies and business. The SME Structured Finance department is managing EFIC's support for the clean energy sector.

ENVIRONMENT AND SOCIAL POLICY

One element of the CRP is EFIC's Environment Policy. This policy defines how we integrate environmental and social considerations into our due diligence and decision-making.

Our Environment Policy has as its basis the OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits (the Common Approaches). We have also voluntarily joined two other initiatives: the United Nations Environment Programme Finance Initiative (UNEP FI) and the Equator Principles. Both initiatives are consistent with our Environment Policy.

In December 2007 EFIC became a signatory to UNEP FI, a global partnership between UNEP and the financial sector. Our membership of the Initiative allows us to contribute to and benefit from the knowledge base provided by UNEP FI activities, and to access the network of participants.

In March 2009 EFIC adopted the Equator Principles, a set of environmental and social benchmarks for managing environmental and social issues in global project finance. Our adoption of these benchmarks:

- recognises the Equator Principles as a more widely known standard compared with both our Environment Policy and the Common Approaches
- facilitates our interaction with Equator Principle financial institutions, which are estimated to provide more than 80 per cent of all project finance transactions
- allows us to participate in the further development of the Equator Principles.

We have commenced a review of our Environment Policy, examining issues such as:

- practical difficulties in applying the current policy
- internal drivers that influence the policy and its application, for example the provision of support to clean energy projects
- external processes that influence the policy, including a proposed review of the Common Approaches and the various approaches of our peers.

The review is scheduled to be completed in 2010. We will involve our stakeholders in the review over the next year.

ENVIRONMENTAL SCREENING AND DISCLOSURE

EFIC's Environment Policy adopts a screening process that recognises:

- the broad range of potential social and environmental impacts arising from export transactions and overseas investments
- the differences between the types of exports that we facilitate
- the different roles that we play in transactions.

Screening involves categorising a transaction based on the significance of its environmental or social impacts. Our Environment Policy requires us to categorise all transactions. Our level of due diligence differs depending on the category. The categorisation process is explained in detail in our Environment Policy, which is available on our website. In summary, EFIC applies the following three categories:

- Category A: potentially significant adverse environmental and/or social impacts
- Category B: in the spectrum between A and C
- Category C: minimal or no adverse environmental and/or social impacts.

Table 3 summarises the number of EFIC's medium- to long-term facilities under each environmental category, and includes comparative data for the previous two financial years.

Table 3: Environmental category of facilities supported (excluding EFIC Headway)

Year	Environmental category		
	A	B	C
2008-09* All transactions**	0	2	15
2007-08	2	2	16
2006-07	2	2	11

*In 2008-09 one transaction involving the refinancing of an existing facility was not categorised. There were also several projects involving multiple facilities. These are counted as a single facility for the purposes of this table.

**EFIC did not support any project finance transactions in the review year.

EQUATOR PRINCIPLES REPORTING

Principle 10 of the Equator Principles requires that a signatory report on its implementation of the Equator Principles, including the number of project finance transactions screened and their categorisation.

In preparation for the adoption of the Equator Principles in March 2009, we reviewed our credit and risk management policies and procedures and concluded these were consistent with the Equator Principles' requirements.

Since 2001, our Annual Report has included reporting on the categorisation of all medium- to long-term transactions entered into. We have not previously included categorisation data on the numbers of project finance transactions screened but not entered into. EFIC will collect and report this additional data from the 2009–10 financial year.

INDEMNITIES AND INSURANCE

All of EFIC's employees and Board members, and certain former employees and Board members, had the benefit of an indemnity from EFIC during the reporting period, covering them for liabilities incurred as an officer of EFIC and related legal costs. The scope of the indemnity is consistent with the requirements of the CAC Act and the *Trade Practices Act 1974* in relation to such indemnities.

We did not pay any amount in connection with Board member or employee indemnities.

During the year, EFIC maintained, and paid premiums for, certain insurance covering its employees and Board.

JUDICIAL AND ADMINISTRATIVE DECISIONS AND REVIEWS

We believe that during the year ended 30 June 2009, there were no judicial decisions or decisions of administrative tribunals that have had, or are likely to have, a significant impact on EFIC's operations.

The Auditor-General provided his annual Independent Audit Report on EFIC's Financial Statements. The report was unqualified.

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FREEDOM OF INFORMATION

EFIC has provided quarterly reports and an annual report in relation to Freedom of Information (FOI) requests. During the year, we met our obligations under the *Freedom of Information Act 1982* (the FOI Act).

The following statement is provided in accordance with section 8 of the FOI Act.

FUNCTIONS, ORGANISATION AND POWERS

EFIC's functions and general powers are detailed in sections 7 and 11 of the EFIC Act. EFIC's powers to provide specified insurance and financial services and products on the Commercial Account and National Interest Account are detailed in Parts 4 and 5 of the EFIC Act respectively. An organisational structure is shown in Figure 9 on pages 44–45.

ARRANGEMENTS FOR OUTSIDE PARTICIPATION

Persons or bodies outside EFIC may participate in our policy formulation or its administration of enactments by making representations to the Minister for Trade or EFIC. EFIC and Commonwealth employees meet periodically with representatives of relevant industries, exporters' associations, state authorities and other bodies outside the Commonwealth administration for discussions on various matters.

EFIC DOCUMENTS AND PUBLICATIONS

We produce a range of publications aimed at informing Australian exporters and companies investing overseas, as well as a broader audience, about EFIC. Key publications in 2008-09 included:

- Annual Report 2008
- *World Risk Developments* – a regular analysis of worldwide economic and finance developments for Australian exporters and investors abroad
- 2008 Global Readiness index Summary Reports on NSW and Western Australia – reports on the state results from the 2008 Global Readiness index (GRi) survey
- *Into Africa* direct mail postcard – promoting the book *Into Africa* co-authored by EFIC Chief Economist Roger Donnelly and former EFIC Senior Economist Ben Ford for the Lowy Institute for International Policy
- Export Success campaign – direct mail campaign to finalists of the Australian Export Awards
- Government Export Agencies brochure – a guide to Australian Government support with information about EFIC, Austrade and AusIndustry
- Clean energy flyer – an introduction to EFIC's presence in this industry
- 2009 Global Readiness index National Report – a report on the results from the 2009 GRi survey
- 2009 Global Readiness index Summary Reports on NSW, Victoria and Western Australia – reports on the state results from the 2009 GRi survey.

In addition, our Corporate Responsibility Policy, Customer Service Charter, Privacy Policy, Environment Policy, Anti-Corruption Initiatives and Reconciliation Action Plan are key documents that are available to the public.

FACILITIES FOR ACCESS

Facilities for inspecting documents are provided at our office at Level 10, Export House, 22 Pitt Street, Sydney.

FREEDOM OF INFORMATION PROCEDURES AND INITIAL POINTS OF CONTACT

Enquiries concerning access to documents or other matters relating to Freedom of Information should be directed to:

General Counsel, Legal Department
Export Finance and Insurance Corporation
Level 10, Export House
22 Pitt Street
Sydney NSW 2000

Telephone (02) 9201 2111
Fax (02) 9251 3851

PARTICULARS OF DIRECTIONS AND APPROVALS BY THE MINISTER

SECTION 9 EFIC ACT DIRECTIONS

Section 9 of the EFIC Act permits the Minister to issue directions to EFIC with respect to the performance of its functions or the exercise of its powers.

Directions dated 4 July 2007 were in effect during the year ended 30 June 2009 in relation to the following matters:

- EFIC is to continue to participate in Australian Government negotiations in the Paris Club
- EFIC is to comply with Australia's obligations under the OECD Arrangement on Officially Supported Export Credits
- funding arrangements arising from the 2006 EFIC Review
- EFIC must not provide assistance for any transaction linked to uranium without specific written agreement from the Australian Government.

Iran

A direction dated 22 April 2008 was in effect during the period 1 July 2008 to 14 October 2008 in relation to trade with Iran. This direction stated that:

- all decisions regarding financial support for trade with Iran must be made by the Board
- the Board must not approve any application that would not comply with paragraph 9 of Resolution 1803 of the United Nations Security Council
- the Board must accept as decisive a determination by DFAT on the compliance of an application with paragraph 9 of Resolution 1803.

On 15 October 2008 the Minister revoked this direction and issued a new direction to EFIC under section 9. The direction stated that EFIC must not accept an application from a person in respect of any transaction that relates to trade with, or investment in, Iran, nor is EFIC to provide any insurance or financial services or products or in any other way assist or facilitate any trade with, or investment in, Iran.

Zimbabwe

On 27 May 2009 the Minister issued a new direction to EFIC under section 9 in relation to Zimbabwe. Under this direction:

- all decisions regarding support for trade with, or investment in, Zimbabwe must be made by the Board
- the Board must not approve any application prior to referring the matter to DFAT for determination
- the Board must accept as decisive a determination by DFAT on the compliance or otherwise of an application with Australian autonomous sanctions in respect of Zimbabwe.

EFIC complied with the above section 9 directions throughout the reporting period. It is not possible to assess the financial effect on EFIC.

Section 9 directions issued after the 2008-09 financial year

On 19 July 2009, the Minister issued a direction to EFIC under section 9 in relation to the Democratic People's Republic of Korea (DPRK). The direction stated that EFIC must not:

- accept an application from a person in respect of any transaction that relates to trade with, or investment in, the DPRK
- provide any insurance or financial services or products or in any other way assist or facilitate any trade with, or investment in, the DPRK.

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SECTION 27 EFIC ACT APPROVALS

Section 27(4) of the EFIC Act allows the Minister to approve a loan that is the subject of a referred application if the Minister is satisfied that it is in the national interest that EFIC make the loan.

An approval in respect of a referred application by EFIC was made by the Minister on 29 May 2009 for the provision of a $200 million line of credit on the National Interest Account to GM Holden Limited. The line of credit is to support the company's export of vehicles, parts and engineering services as it establishes stronger market links under the newly created General Motors Company.

SECTION 29 EFIC ACT DIRECTIONS

Section 29 of the EFIC Act permits the Minister to issue directions to EFIC with respect to entry into a specified class of transactions on the National Interest Account.

During the year ended 30 June 2009:

- a direction dated 4 July 2007 was in effect setting out facility terms for the provision by EFIC of indemnities or guarantees up to an aggregate of $30 million in relation to advance payments under, or performance of, contracts or proposed contracts
- a direction dated 14 May 2008 was in effect setting out the facility terms for the provision by EFIC of insurance or reinsurance in relation to exports to Iraq. The facility subject to this direction ended on 30 April 2009.

SECTION 28 CAC ACT: GENERAL POLICIES OF THE COMMONWEALTH GOVERNMENT

Under section 28 of the CAC Act the directors of EFIC must ensure that EFIC complies with general policies of the Commonwealth Government that apply to EFIC.

A notification issued on 20 June 2000 was in effect during the review year in relation to the applicability to EFIC of the Government's Agency Pricing Guidelines.

RISK MANAGEMENT AND FINANCIAL MATTERS

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RISK MANAGEMENT FRAMEWORK

EFIC's Risk Management Framework describes the manner in which EFIC's risk appetite and tolerance is established and subsequently controlled. The Framework sets out core principles, outlines responsibilities, categorises the risks that EFIC faces and identifies the strategies it has adopted to manage those risks.

A key element in the Risk Management Framework is the Risk Control Matrix (RCM), which sets out each of the risks that the business faces as well as the mitigants in place and the people responsible for managing the risks. It also includes management's 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. Operational risks are broken down into a number of sub-categories: general processes, external regulation, internal policies, domestic and international laws, and event.

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 EFIC is managing.

The Board is ultimately responsible for setting EFIC's risk appetite and tolerances and formally reviews the RCM on an annual basis. The Audit Committee of the Board is responsible for overseeing all aspects of risk management and internal control, including compliance activity, the audit program, the appropriateness of accounting policies and the adequacy of financial reporting.

The EFIC Executive and the senior management team are responsible at the management level for implementing the Board-approved risk management strategy, and developing policies, processes, procedures and controls for identifying and managing risks in all areas of activity.

Further information on EFIC's Risk Management Framework is available on the EFIC website.

ALLOWANCE FOR CREDIT RISK

While it is never possible to know in advance the losses a financial institution will suffer in a particular year, it is possible to forecast the average level of credit losses it can reasonably expect to experience. Basel II guidelines issued by the Basel Committee on Banking Supervision refer to such losses as 'expected losses'. We view expected losses as a cost component of doing business and manage them by a number of means, including the pricing of credit exposures and credit-related provisioning reflected as an allowance for credit risk.

The underlying profitability of EFIC in the longer term depends primarily upon actual credit losses in the business; however, a major influence in determining our past profits has been the allowance for credit risk in respect of our exposures.

The accounting standards used in preparing EFIC's Financial Statements require a credit risk component to be incorporated into fair value calculations. We assess credit risk in light of the expected losses over the life of facilities. We have developed a model that takes into account the magnitude and nature of the exposures, their risk grade, type and maturity. We estimate the magnitude of the losses using external data for losses of similarly graded risks. When it is likely that a loan or debt will not be recovered in full due to a specific event, the model is not used and instead we determine an appropriate amount to set aside for expected loss. The allowance for credit risk provides for possible loan defaults as well as potential claims in relation to off-balance sheet facilities, such as export finance guarantees.

Our allowance for credit risk on our Commercial Account in 2008–09 grew from $46.3 million to $61.1 million. This increase was mainly due to the growth in new exposures, foreign exchange movements and changes in risk grades. During the year, we refined the grades used to assess individual exposures to incorporate a ratings modifier of 'improving', 'deteriorating' or 'stable'. As a result, exposures within a risk grade that are deteriorating, for example, will be more evident.

Also during the year, we reviewed the methodology for assessing credit risk on derivative instruments. The fair value of any financial instrument should reflect the credit risk associated with the instrument, which in the case of many derivative transactions would include the creditworthiness of both parties to the instrument. This assessment of risk is called a 'credit valuation adjustment'. The global financial crisis resulted in a number of EFIC's counterparties being downgraded to below AA–, and as a prudent measure we provided $3.7 million against derivative counterparty risk at 30 June 2009.

We also provided $3.8 million for specific events in 2008–09 and after recoveries and foreign exchange adjustments, the increase for specific events was $3.1 million, bringing the balance to $14.3 million.

On the National Interest Account, the movement in specific provisions was related to foreign exchange movements, the partial recovery and partial write-off of a facility previously provided for, and two small bond provisions. We do not make any collective provision for losses on National Interest Account facilities as the Government reimburses us for any losses.

We monitor closely the financial health and risk grade of each of the counterparties to which EFIC is exposed. At year end, the weighted average risk grade of our Commercial Account exposures (including political risk insurance policies and reinsurers) remained at an EFIC risk score (ERS) of approximately 4. An ERS 1 is equivalent to a rating of AAA through AA– (Aaa through Aa3) from the major credit rating agencies, while ERS 7 is the lowest grade before default. An ERS of 4 is the equivalent of BB+/BB– (Ba1/Ba3).

CAPITAL ADEQUACY

Under the EFIC Act, the Board must ensure, according to sound commercial principles, that EFIC's capital and reserves are sufficient to meet our likely liabilities arising from our financial obligations and to make adequate allowance for defaults in facilities we extend. This requirement relates only to our Commercial Account activities.

When making this assessment, the Board is required to include as equity the $200 million of callable capital that is available from the Commonwealth in accordance with the provisions of section 54 of the EFIC Act.

EFIC's lending business is essentially similar to a wholesale corporate banking business, although the risk profile is different from that of a typical bank. We have 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 assessments of capital adequacy upon 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 II framework issued by the Basel Committee on Banking Supervision. The model covers credit risk, operational risk, market risk and credit concentration risk. We assign probability of default statistics and loss given default ratios to each of our facilities and calculate an amount of capital accordingly, with the riskier, longer-dated facilities requiring more capital than the less risky, shorter-dated facilities. We have used probability of default statistics published by the major ratings agencies and Berne Union statistics to assist in constructing the model.

The Board reviews the model and calculations annually and is satisfied that, during the year, EFIC's capital, inclusive of the callable capital, was adequate to support the risks EFIC assumed.

We will continue to review our capital adequacy in light of our risk profile (both current and projected), the amount of risk concentration in the portfolio and any further external developments.

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

LARGE EXPOSURES

EFIC has adopted APRA guidelines in relation to large exposures. APRA has indicated a maximum exposure per non-bank counterparty (or related group of counterparties) of 25 per cent of capital. The Board has endorsed this limit of 25 per cent of capital to apply to exposures graded ERS 1 (AAA/AA- or Aaa/Aa3) or 2 (A+/A- or A1/A3), but a 15 per cent target would apply for risks graded ERS 3 (BBB) or worse within the general guideline of 25 per cent. Exceptions in excess of the 15 per cent target would require consideration by the Board in light of such issues as the creditworthiness of the relevant counterparty or group of related counterparties, the tenor of the exposure and the level of Australian content and Australian interest in the particular transaction. In any event, under current delegations, the Board must approve all transactions that involve commitments in excess of $50 million.

For bank counterparties, APRA has indicated a maximum exposure of 50 per cent of capital. The Board has endorsed the application of this limit of 50 per cent of capital to all treasury activities with bank counterparties (defined by EFIC as Approved Deposit-taking Institutions (ADIs) under the *Banking Act 1959* and rated BBB- and above, and other financial entities rated AA- and above), provided any exposure in excess of 25 per cent of EFIC's capital has a maturity of six months or less.

For large exposure purposes, the Board includes as eligible 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.

TREASURY ACTIVITIES

EFIC's treasury activities are carried out within a control framework approved by the Board and complying with the EFIC Act, the CAC Act and approvals of the Australian Government. Within this framework, we aim to minimise the cost of funding the loan assets of EFIC on both the Commercial Account and National Interest Account and to maximise the return on its investments, including funds representing EFIC's equity, reserves and working capital. Our treasury unit confines risk to highly-rated counterparties and does not trade speculatively.

The global financial crisis has impacted our treasury operations. First, the cost of funding EFIC has been impacted by the Government's guarantee of Australian banks' wholesale funding. EFIC was previously one of only a few AAA-rated borrowers globally, but the increased supply of Government-guaranteed debt issuance in the medium-term markets has meant we are now one of many AAA-rated issuers. Second, the investment portfolio has been affected by ratings downgrades on a number of treasury counterparties. The impact at 30 June 2009 was an unrealised loss of $8.6 million. Through prudent management and holding investments to maturity, our treasury has not realised losses on its investment portfolio.

FOREIGN EXCHANGE AND INTEREST RATE MANAGEMENT

The loans we have provided to customers and the rescheduled debts are mostly denominated in foreign currencies. Currently, taking both the National Interest Account and Commercial Account into consideration, 62 per cent are denominated in US dollars and 22 per cent in euros.

We fund our assets in matched currencies, either by borrowing in the appropriate currency or, more usually, by borrowing in another currency and using cross-currency swaps or foreign exchange markets 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.

As noted previously, however, foreign exchange rates do affect EFIC's fair value, 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.

Note 18 of the Financial Statements provides further details of EFIC's financial exposures.

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BORROWINGS

Under the EFIC Act, the Commonwealth guarantees all of EFIC's liabilities, including our borrowings from third parties. Section 59 of the EFIC Act allows us to borrow or raise money, subject to written approval of the Finance Minister. The main borrowing instruments currently used are medium-term notes issued in the capital markets and euro-commercial paper.

The main reason we borrow money is to fund loans made to exporters on either the Commercial Account or the National Interest Account. These assets primarily comprise export finance loans, which are made to finance the export of Australian capital goods and services, and rescheduled credit insurance debts that exist from a business line we divested in 2003.

Funding may also be necessary when contingent liabilities, such as export finance guarantees provided to banks to support the financing of Australian export trade, are called and EFIC pays out the bank. For this reason, we are required to have additional funding lines available to cover the possibility of borrower defaults and subsequent calls by lending banks on EFIC's guarantees.

We are also authorised to raise funds from our approved commercial paper borrowing facilities in advance of loan funding needs. This facility was introduced in 1990 to maintain a minimum market presence and therefore enhance the effectiveness of EFIC's funding ahead of permanent funding requirements.

We continued to issue short-term euro-commercial paper during 2008-09. Issues were mainly in US dollars.

New capital market issues under our medium-term note program in 2008–09 raised $85 million, compared with $31 million in 2007–08. We made three issues in 2008–09, compared with seven in 2007–08. All other funding activities for the year were confined to the short-dated commercial paper market and direct loans from banks. Due to the flight to quality investments caused by the financial turmoil during the year, our sub-LIBOR margins on our short-term commercial paper issuance were higher than normal.

The medium-term note issues were swapped into simple floating interest rate obligations, principally in US dollars, reflecting the currency of the majority of our assets. However, medium- to long-term funding for EFIC remains impacted by the Government's guarantee of Australian banks' wholesale funding. Previously, we could raise medium- to long-term funds at sub-LIBOR rates, but current pricing is above LIBOR and our treasury remains cautious about issuing in this market.

The new capital market issues during the year are shown in Table 4.

Table 4: New capital market issues in 2008-09

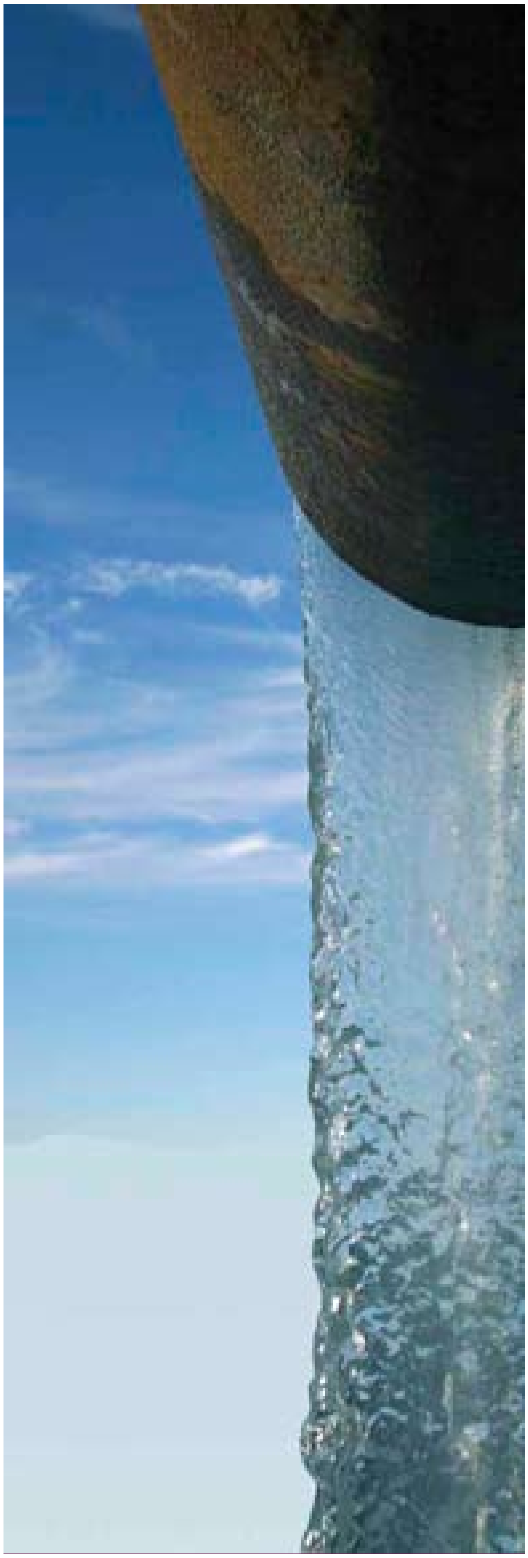
Arranger	Term (years)	Currency	Amount (million)	US$ equivalent (million)
Daiwa Securities SMBC Europe	5*	USD	10	10
Mizuho International plc	4	JPY	6,130	54
Mizuho International plc	15*	JPY	500	5
Total				**69**
Equivalent to				**A$85 million**

*Callable structure (redeemable by the issuer before the scheduled maturity).

INVESTMENTS AND LIQUIDITY

At 30 June 2009, the face value of EFIC's investment and liquidity holdings on the Commercial Account was $1,078 million, comprising cash, bank deposits and investment securities. Of this amount, $381 million represented cash capital and reserves, while the remainder represented liquidity held to maintain a minimum market presence or to refinance borrowings.

EFIC's treasury investments, which are treated from an accounting perspective as 'available for sale', are required to be 'marked to market' and gains or losses are to be reflected through equity, not profit and loss. Our policy is to hold our investments to maturity and, assuming no credit defaults, any 'unrealised' gains or losses caused by revaluations will not be realised. Our treasury investments are entities rated AA– or better or ADIs rated BBB– or better, as prescribed in the CAC Act.



RESCHEDULINGS AND DEBT FORGIVENESS

EFIC has in previous years, pursuant to Paris Club determinations, rescheduled debts owed by the Indonesian, Egyptian and Iraqi governments. The Paris Club is a group of government creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. There were no new Paris Club reschedulings during 2008-09.

INDONESIA

At 30 June 2009, our loans to the Indonesian Government were $826 million on the National Interest Account and $17 million on the Commercial Account. The National Interest Account loans were predominantly loans supported by aid grants and approved under the now discontinued DIFF of AusAID. The loans have various maturities, the longest having a final repayment in 2024.

Payments originally due from Indonesia between August 1998 and December 2003 have been rescheduled on three occasions in the Paris Club. The rescheduled payments totalled US$21 million on EFIC's Commercial Account and US$93 million and €108 million on the National Interest Account. In addition, in the aftermath of the December 2004 tsunami, Australia deferred payments of US$6 million and €5 million due in 2005.

EGYPT

At 30 June 2009, EFIC was owed $95 million and US$32 million by the Egyptian Government ($24 million on the Commercial Account and the balance on the National Interest Account). These amounts arose from credit insurance claims paid in respect of wheat exports in the mid-1980s. These debts were subject to rescheduling at Paris Club meetings of Egypt's government creditors in 1987 and 1991 (with partial debt forgiveness agreed at the latter meeting), and are repayable by 2016. At 30 June 2009, all rescheduled amounts had been paid on time as per the rescheduling agreements.

IRAQ

Between 1987 and 1992, EFIC paid credit insurance claims, mostly on the National Interest Account, in respect of non-payment by the Iraqi Government for exports from Australia. These credit insurance claims were expensed as paid. The prevailing situation in Iraq following the claim payments prevented us and the Government from pursuing recovery of this money. After the passage of United Nations Security Council Resolution 1546 and transfer of full sovereignty to the interim Iraqi Government, the country's external debt was restructured in the Paris Club.

The Paris Club agreed to provide Iraq with 80 per cent debt forgiveness in three stages. In May 2006, EFIC signed a bilateral agreement with Iraq, which triggered 60 per cent forgiveness under stages one and two of the debt-relief package. The third and final stage of debt forgiveness, 20 per cent, was made in accordance with the last International Monetary Fund (IMF) Board review of Iraq's three-year IMF Program, in December 2008. The remaining principal debt is to be repaid over 17 years from 2011. Iraq's debt is currently treated as a contingent asset in the Financial Statements. Any recoveries under this agreement will be taken to income as and when received.

DIVIDENDS

The EFIC Act requires the Board to make a recommendation to the Minister for Trade on the payment of a dividend to the Commonwealth. During the year, the Minister for Trade confirmed that EFIC would pay a dividend of $9.8 million for the year ending 30 June 2008, representing 50 per cent of the Commercial Account profit for that year.

At the date of publication, the Minister for Trade had not yet made a determination in respect of the year ended 30 June 2009.

EFFECT OF PROVIDING NON-COMMERCIAL SERVICES

While EFIC operates as a commercial business, our role is the delivery of export-related financial and insurance services in the 'market gap', that is, the segment of the credit and insurance services market where the capacity of commercial financiers or insurers is limited or insufficient to support the needs of Australian exporters and investors. This limited or insufficient commercial market capacity can result from a number of factors, including the prospective risk of a transaction, the extended tenor of financing sought or the higher transaction costs.

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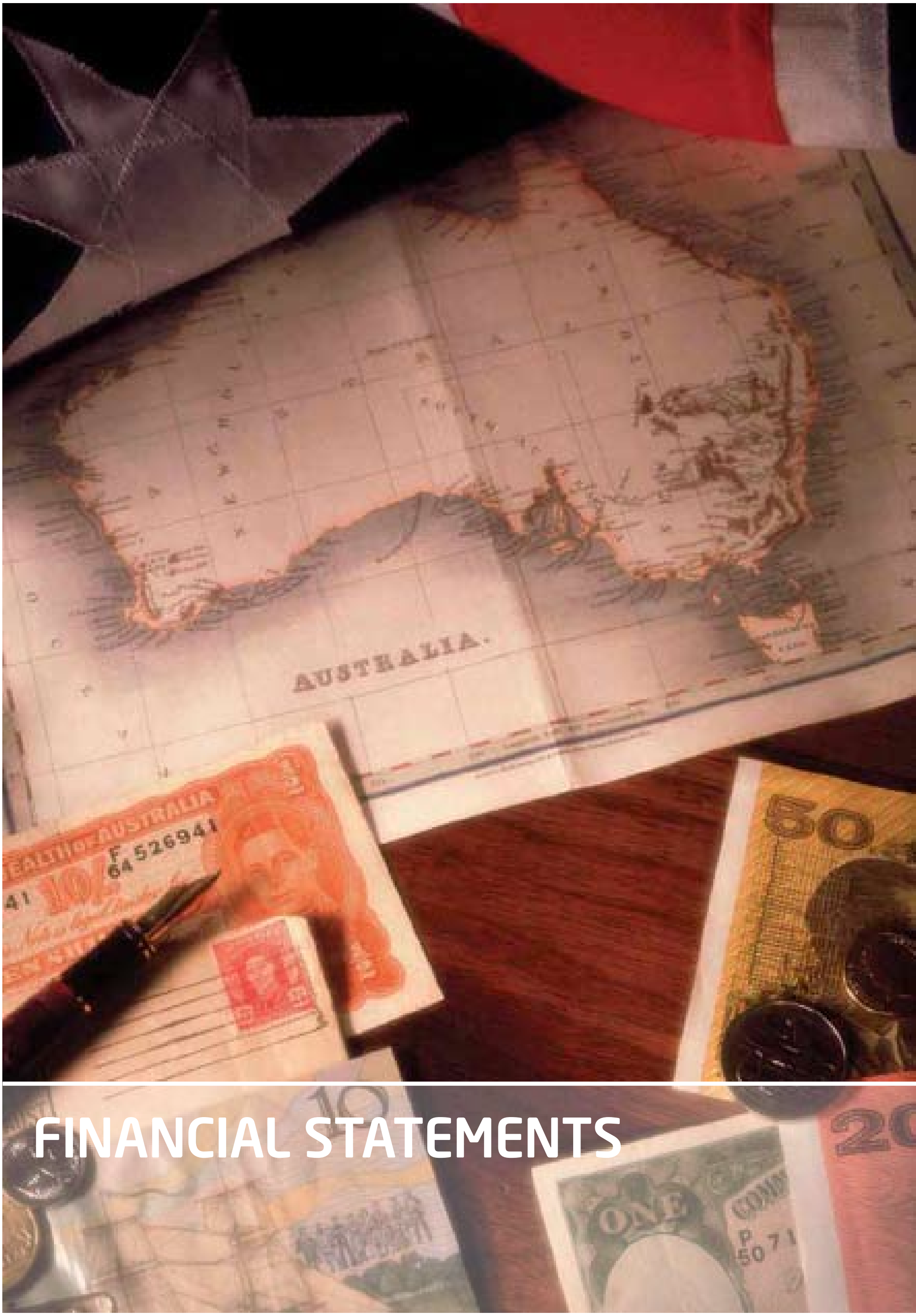
TEN-YEAR SUMMARY

Years ended 30 June	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Commercial Account										
Export contracts and overseas investments supported	817	2,219	1,367	605	176	502	1,967	889	508	359
Net interest income	44.5	32.2	23.4	19.3	18.5	17.7	15.3	13.7	15.2	13.6
Premiums and fees (accrual)	0.0	0.0	0.0	0.0	16.0	16.9	17.3	13.5	14.3	17.9
Fair value loans and guarantees	14.3	7.2	6.2	21.0	0.0	0.0	0.0	0.0	0.0	0.0
Total premiums and fees	14.3	7.2	6.2	21.0	16.0	16.9	17.3	13.5	14.3	17.9
Effect of reinsurance	(3.5)	(2.6)	2.8	(1.8)	(3.2)	(1.7)	(1.4)	(0.1)	(1.4)	(2.2)
Net premiums and fees	10.8	4.6	9.0	19.2	12.8	15.2	15.9	13.4	12.9	15.7
Fair value other financial instruments	(4.2)	(1.6)	21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income	3.0	2.9	2.4	1.9	2.9	2.7	2.2	2.2	2.3	2.4
Total revenue	54.1	38.1	55.8	40.4	34.2	35.6	33.4	29.3	30.4	31.7
Operating expenses	(20.6)	(18.8)	(15.5)	(12.5)	(11.7)	(9.0)	(7.2)	(7.6)	(7.7)	(9.1)
Realised foreign exchange profit/(loss)	(0.1)	0.0	0.1	(0.2)	(0.1)	0.0	(0.4)	(0.2)	0.5	0.1
Profit before specific provisions	33.4	19.3	40.4	27.7	22.4	26.6	25.8	21.5	23.2	22.7
(Charge)/credit for specific provisions	0.0	0.0	0.0	0.0	6.7	(3.2)	2.9	2.2	(14.7)	2.5
Profit/(loss) from the discontinued credit insurance business	0.2	0.4	0.3	1.0	0.3	4.3	(3.2)	(4.3)	1.7	5.4
Operating profit before tax	33.6	19.7	40.7	28.7	29.4	27.7	25.5	19.4	10.2	30.6
Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.8)	(2.0)
Operating profit of EFIC	33.6	19.7	40.7	28.7	29.4	27.7	25.5	19.4	9.4	28.6
Dividend (paid the following year)	Not decided	9.8	20.4	14.3	14.7	12.6	12.7	9.7	4.7	14.3
Special dividend	0	0	0	0	0	2.5	0	0	0	0
Equity	376.7	331.2	359.8	321.7	287.5	266.2	253.7	237.9	210.6	205.9
Return on average equity (% pa)	9%	6%	12%	9%	11%	11%	10%	9%	5%	14%
Dividend payout ratio	Not decided	50%	50%	50%	50%	55%	60%	50%	50%	50%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	227	145	120	210	263	274	309	368	483	409
Funded EFGs	55	0	0	0	0	0	0	0	0	0
Guarantees and other off-balance sheet exposures	514	510	408	464	498	529	611	753	722	590
Exposures reinsured	206	212	103	142	97	82	48	15	0	103
Rescheduled debts	24	25	26	33	37	39	41	44	46	43
Export finance facilities	1,026	892	657	849	895	924	1,009	1,180	1,251	1,145
Retained credit insurance exposures	0	0	0	0	0	0	16	125	1,310	1,027
Reinsured credit insurance exposures	0	0	0	0	0	0	1,176	1,137	0	0
Credit insurance facilities	0	0	0	0	0	0	1,192	1,262	1,310	1,027
Total Commercial Account facilities	1,026	892	657	849	895	924	2,201	2,442	2,561	2,172

Note: the credit insurance business was divested on 30 September 2003.

Years ended 30 June	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
National Interest Account										
Export contracts and overseas investments supported	530	18	85	33	39	21	134	26	15	21
Exports supported by Australian content by drawdown	0	21	46	21	30	20	108	31	54	106
Net interest income (including grant amortised)	3.0	0.3	9.5	17.7	18.7	24.4	22.9	22.9	27.2	21.5
Premiums and fees (accrual)	2.8	3.4	4.0	4.5	4.6	6.1	7.8	9.1	10.3	11.3
Total premiums and fees	2.8	3.4	4.0	4.5	4.6	6.1	7.8	9.1	10.3	11.3
Effect of reinsurance	(0.6)	(1.0)	(1.4)	(1.5)	(1.4)	(0.7)	(1.2)	(1.7)	(2.2)	(2.3)
Net premiums and fees	2.2	2.4	2.6	3.0	3.2	5.4	6.6	7.4	8.1	9.0
Fair value other financial instruments	0.0	0.0	60.6	88.0	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue	5.2	2.7	72.7	108.7	21.9	29.8	29.5	30.3	35.3	30.5
Operating expenses	(2.7)	(1.8)	(3.8)	(4.3)	(4.7)	(4.7)	(5.2)	(5.0)	(4.9)	(4.9)
Realised foreign exchange profit/(loss)	(2.9)	2.1	0.1	2.1	(7.9)	(2.3)	(13.6)	(8.7)	9.7	3.2
Profit before specific provisons	(0.4)	3.0	69.0	106.5	9.3	22.8	10.7	16.6	40.1	28.8
(Charge)/credit for specific provisions	0.2	1.8	1.4	0.0	2.7	(0.2)	5.8	2.9	(3.9)	(6.5)
Profit/(loss) from the discontinued credit insurance business	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.6)	2.4	11.7
Operating profit attributable to the Commonwealth	(0.2)	4.8	70.4	106.5	12.0	22.6	16.4	18.9	38.6	34.0
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	898	893	1,066	1,326	1,398	1,715	1,977	2,378	2,700	2,494
Guarantees and other off-balance sheet exposures	4	8	11	8	7	6	35	1	5	25
Exposures reinsured	45	43	52	61	59	66	31	66	90	90
Rescheduled debts	111	111	121	360	532	607	648	772	860	725
Export finance facilities	1,058	1,055	1,250	1,755	1,996	2,394	2,691	3,217	3,655	3,334
Retained credit insurance exposures	0	0	0	0	0	0	0	5	0	249
Credit insurance facilities	0	0	0	0	0	0	0	5	0	249
Total National Interest Account facilities	1,058	1,055	1,250	1,755	1,996	2,394	2,691	3,222	3,655	3,583



FINANCIAL STATEMENTS

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STATEMENT BY BOARD MEMBERS

In the opinion of the members of the Board of Export Finance and Insurance Corporation:

(a) the accompanying financial report is drawn up so as to give a true and fair view of the performance of the Corporation for the year ended 30 June 2009 and the financial position of the Corporation at 30 June 2009;

(b) the financial report gives a true and fair view of the matters required by Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2008) under subsection 48(1) of the *Commonwealth Authorities and Companies Act 1997* (the CAC Act);

(c) the financial report has been prepared in accordance with Australian Accounting Standards;

(d) the financial report has been prepared based on properly maintained financial records; and

(e) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

Under Section 62 of the *Export Finance and Insurance Act 1991* (the EFIC Act), the Commonwealth guarantees the due payment by EFIC of any money payable by EFIC to third parties.

Signed in accordance with a resolution of the Board.

Andrew Mohl
CHAIRMAN

Angus Armour
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

12 AUGUST 2009

INDEPENDENT AUDITOR'S REPORT

Australian National Audit Office

To the Minister for Trade

SCOPE

I have audited the accompanying financial statements of the Export Finance and Insurance Corporation ("EFIC") for the year ended 30 June 2009, which comprise: a Statement by Board Members; Income Statement; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedules of Commitments and Contingencies, and Notes to and Forming Part of the Financial Statements including a Summary of Significant Accounting Policies.

The Responsibility of the Board of Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and Australian Accounting Standards (including Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to EFIC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EFIC's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Australian National
Audit Office

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

AUDITOR'S OPINION

In my opinion, the financial statements of the Export Finance and Insurance Corporation:

(a) have been prepared in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, and Australian Accounting Standards (including Australian Accounting Interpretations); and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Export Finance and Insurance Corporation's financial position as at 30 June 2009 and of its financial performance and its cash flows for the year then ended.

Australian National Audit Office

P Hinchey
SENIOR DIRECTOR
DELEGATE OF THE AUDITOR-GENERAL

SYDNEY
12 AUGUST 2009

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2009 $ m**	30 June 2008 $ m	**30 June 2009 $ m**	30 June 2008 $ m
Interest income	*3(i)*	**141.7**	147.2	**75.5**	71.5
Interest expense	*3(ii)*	**(97.2)**	(115.0)	**(72.5)**	(71.2)
Net interest income		**44.5**	32.2	**3.0**	0.3
Fair value of third-party loans and guarantees	*3(iii)*	**10.8**	4.6	**-**	-
Fair value of other financial instruments	*3(iv)*	**(4.2)**	(1.6)	**-**	-
Other revenue	*3(v)*	**3.2**	3.3	**2.2**	2.4
Operating income		**54.3**	38.5	**5.2**	2.7
Operating expenses	*3(vi)*	**(20.6)**	(18.8)	**(2.7)**	(1.8)
Foreign exchange profit/(loss) on rescheduled debts		**(0.1)**	-	**(2.9)**	2.1
Profit/(loss) before specific provisions		**33.6**	19.7	**(0.4)**	3.0
Credit/(charge) to specific provisions	*3(vii)*	**-**	-	**0.2**	1.8
Profit/(loss) from ordinary activities		**33.6**	19.7	**(0.2)**	4.8
National Interest Account attributable directly the Commonwealth		**-**	-	**0.2**	(4.8)
Net profit attributable to the Commonwealth as shareholder		**33.6**	19.7	**-**	-

The accompanying notes form an integral part of this financial report.

BALANCE SHEET AS AT 30 JUNE 2009

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
Assets					
Cash and liquid assets	*1(l)*	**0.6**	0.7	**-**	-
Receivables from other financial institutions	*4, 1(m)*	**178.1**	247.7	**-**	-
Amount receivable from the Commonwealth	*5*	**-**	-	**46.7**	53.5
Derivative financial instruments	*6, 1(g)*	**172.9**	83.6	**-**	-
Available-for-sale investment securities	*7, 1(n)*	**940.7**	749.1	**-**	-
Loans and receivables	*8, 1(o)*	**-**	-	**916.2**	897.9
Loans and receivables designated at fair value through profit and loss	*9, 1(p)*	**243.4**	158.2	**-**	-
Loans to National Interest Account designated at fair value through profit and loss	*1(q)*	**1,101.0**	1,053.6	**-**	-
Property, plant and equipment	*10, 1(r)*	**35.6**	42.0	**-**	-
Other assets	*11*	**1.4**	1.2	**12.8**	16.1
Total assets		**2,673.7**	2,336.1	**975.7**	967.5
Liabilities					
Payables to other financial institutions	*4, 1(s)*	**55.2**	16.8	**-**	-
Derivative financial instruments	*6, 1(g)*	**259.8**	267.5	**-**	-
Guarantees designated at fair value through profit and loss	*12, 1(v)*	**39.0**	26.2	**-**	-
Sundry provisions	*13*	**2.3**	2.2	**0.1**	0.6
Borrowings from Commercial Account	*1(q)*	**-**	-	**957.0**	946.1
Borrowings designated at fair value through profit and loss	*14, 1(t)*	**1,929.8**	1,680.1	**-**	-
Other liabilities	*15*	**10.9**	12.1	**18.6**	20.8
Total liabilities		**2,297.0**	2,004.9	**975.7**	967.5
Net assets		**376.7**	331.2	**-**	-
Equity					
Contributed equity	*16*	**6.0**	6.0	**-**	-
Reserves	*16*	**87.9**	66.2	**-**	-
Retained profits	*16*	**282.8**	259.0	**-**	-
Total equity		**376.7**	331.2	**-**	-

The accompanying notes form an integral part of this financial report.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	Note	COMMERCIAL ACCOUNT **30 June 2009 $ m**	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT **30 June 2009 $ m**	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
Total equity at the beginning of the financial year		**331.2**	359.8	-	-
Revaluation of land and buildings		**(3.9)**	-	-	-
Net gain/(loss) taken to equity on cash flow hedge		**4.6**	-	-	-
Net gain/(loss) on available-for-sale investments		**21.0**	(27.9)	-	-
Net income/(expense) recognised directly in equity		**21.7**	(27.9)	-	-
Profit/(loss) for the period		**33.6**	19.7	-	-
Total recognised income/(expense) for the year		**55.3**	(8.2)	-	-
Transactions with the Commonwealth in their capacity as shareholder					
Dividends paid		**(9.8)**	(20.4)	-	-
Total transactions with the Commonwealth		**(9.8)**	(20.4)	-	-
Total equity at the end of financial year		**376.7**	331.2	-	-

The accompanying notes form an integral part of this financial report.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
Cash flows from operating activities					
Inflows:					
Premium and fees received *		**25.5**	14.9	**0.1**	0.3
Interest received		**151.7**	147.0	**39.5**	38.1
Insurance claim recoveries		**0.2**	0.4	-	-
Sundry income *		**3.3**	3.1	-	-
Net repayments/(disbursements) of loans		**(23.4)**	51.6	**129.6**	109.2
Rescheduled debt repayments		**2.9**	2.7	**13.6**	12.2
Net decrease/(increase) in other debtors and prepayments		**(3.3)**	1.4	**0.1**	0.4
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(3.0)**	(2.7)	**(0.5)**	(0.7)
Interest and other costs of finance paid		**(96.7)**	(119.3)	**(73.9)**	(75.3)
Loan administration management fee		**(1.2)**	(1.0)	-	-
Guarantees called and associated costs		**(0.2)**	(2.0)	**(0.4)**	-
Payments to creditors and employees *		**(19.4)**	(18.5)	-	-
Net cash provided by/(used in) operating activities	*22*	**36.4**	77.6	**108.1**	84.2
Cash flows from investing activities					
Inflows:					
Proceeds from sale of reserve investments		**194.7**	204.7	-	-
Proceeds from sale of other investments		**738.0**	691.2	-	-
Proceeds from sale of property, plant and equipment		-	0.1	-	-
Outflows:					
Payments for reserve investments		**(205.0)**	(218.0)	-	-
Payments for other investments		**(895.6)**	(497.9)	-	-
Payments for property, plant and equipment		**(0.3)**	(1.4)	-	-
Net cash provided by/(used in) investing activities		**(168.2)**	178.7	-	-

* grossed up for Goods and Services Tax

The accompanying notes form an integral part of this financial report.

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CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009 (CONTINUED)

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		-	-	**11.8**	12.5
Receipts from the National Interest Account		**2.2**	2.1	-	-
Outflows:					
Dividend payments to the Commonwealth		**(9.8)**	(20.4)	-	-
Other payments to the Commonwealth		-	-	**(4.8)**	(4.3)
Payments to Commercial Account		-	-	**(2.2)**	(2.1)
Net repayments of borrowings		**(55.4)**	(22.6)	**(112.9)**	(90.3)
Net cash provided by/(used in) financing activities		**(63.0)**	(40.9)	**(108.1)**	(84.2)
Net increase/(decrease) in cash equivalents held		**(194.8)**	215.4	-	-
Cash equivalents at beginning of financial year		**248.4**	67.9	-	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		**69.8**	(34.9)	-	-
Cash equivalents at end of financial year	*22*	**123.4**	248.4	-	-

The accompanying notes form an integral part of this financial report.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Export Finance and Insurance Corporation (EFIC) was established in Australia in its current form as an independent entity wholly owned by the Commonwealth of Australia (the Commonwealth) effective on 1 November 1991 by the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act).

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

(a) Basis of preparation

The financial statements are required by clause 2 of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* (the CAC Act) and are a general purpose financial report.

The statements have been prepared in accordance with:

- the Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period;
- the Australian equivalents to International Financial Reporting Standards (AIFRS);
- other authoritative pronouncements of the Australian Accounting Standards Board; and
- Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2008) under subsection 48(1) of the CAC Act.

The statements have been prepared having regard to:

- Statements of Accounting Concepts; and
- Annexure A to the Finance Ministers Orders for Financial Reporting (Incorporating Policy and Guidance) issued by the Department of Finance and Deregulation.

(b) Basis of Accounting

Unless otherwise indicated, all amounts are expressed in Australian dollars. Amounts are rounded to the nearest $0.1 million unless otherwise stated.

The financial statements separately identify the activities undertaken on EFIC's own account, the Commercial Account, and those entered into on behalf of the Government, the National Interest Account.

The Commercial Account financial statements have been prepared on the basis of fair value for all financial assets and liabilities except where transactions qualify for hedge accounting. Changes in fair value are either taken to the income statement or to equity.

The National Interest Account financial statements have been prepared on an accrual basis for all financial assets and liabilities. The National Interest Account does not enter derivative financial instruments (e.g. swaps, foreign exchange or borrowings with embedded derivatives).

(i) Business undertaken on the Commercial Account

The Commercial Account is a departmental item for the Commonwealth.

For activities undertaken under Part 4 of the EFIC Act, all risks are borne by EFIC and the net profit or loss generated from these activities is attributable to EFIC's Commercial Account.

(ii) Business undertaken on the National Interest Account

The National Interest Account is an administered item for the Commonwealth.

For activities undertaken under Part 5 of the EFIC Act, the Minister for Trade gives an approval or direction to EFIC to undertake any transaction which the Minister considers is in the "National Interest". Such transactions may relate to a class of business which EFIC is not authorised to undertake, or involve terms and conditions EFIC would not accept in the normal course of business. Where the Minister gives EFIC a direction to undertake a transaction under Part 5 of the Act, the credit risk is borne by the Commonwealth. The funding risk, however, is borne by EFIC on the Commercial Account, although EFIC is compensated for this funding risk by being able to retain on the Commercial Account profit and loss the difference between the actual borrowing rate and an agreed benchmark rate for funding loans on the National Interest Account. Premium or other income from the transaction is paid to the Commonwealth. EFIC recovers from the Commonwealth the costs of administering business undertaken under Part 5 and recovers from the Commonwealth any losses incurred in respect of such business.

The National Interest Account profit or loss is therefore directly attributable to the Commonwealth. There is also a provision in the EFIC Act which allows EFIC to share part of a National Interest Account transaction. In such cases income, expenses and therefore any profits or losses are apportioned between the two accounts in accordance with the risk participation.

(c) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

No accounting standard has been adopted earlier than the effective date in the current period, which is in line with Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2008) under subsection 48(1) of the CAC Act, which does not permit early adoption. Listed below are the standards and amendments that will become effective in the future. The expected dollar impact on the financial report of adoption of these standards is not significant and is based on initial assessment at this date, but may change. EFIC intends to adopt all the standards upon their application date.

TITLE	STANDARD AFFECTED	APPLICATION DATE*
AASB 2007-3	AASB 8,5,6,102,107,119,127,134,136 AASB 1023,1038	1 January 2009
AASB 2007-6	AASB 123,1,101,107,111,116,138 AASB Interpretation 1,12	1 January 2009
AASB 2007-8	AASB 101	1 January 2009
AASB 2007-10	AASB 101	1 January 2009
AASB 2008-1	AASB 2	1 January 2009
AASB 2008-2	AASB 7,101,132,139 AASB interpretation 2	1 January 2009
AASB 2008-3	AASB 1,2,4,5,7,101,107,112,114,116, AASB 121,128,131,132,133,134,136, AASB 137,138,139 AASB interpretation 9,107	1 July 2009
AASB 2008-5	AASB 5,7,101,102,107,108,110,116, AASB118,119,120,123,127,128,129, AASB131,132,134,136,138,139,140, AASB 141,1023,1038	1 January 2009
AASB 2008-6	AASB 1,5	1 July 2009
AASB 2008-7	AASB 1,118,121,127,136	1 January 2009
AASB 2008-8	AASB 139	1 July 2009
AASB 2008-9	AASB 1049	1 January 2009
AASB 2008-11	AASB 3	1 July 2009
AASB 2008-13	AASB 5,110,interpretation 17	1 July 2009
AASB 2009-4	AASB 2,138,interpretation 9,16	1 July 2009
AASB 2009-5	AASB 5,8,101,107,117,118,136,139	1 January 2010
Interpretation 15	AASB 118	1 January 2009

* Application date is for annual reporting periods beginning on or after the date shown.

(d) Premium, fees and other revenue

On the Commercial Account revenue is measured at the fair value of the consideration received or receivable.

The fair value is determined by applying market rates and using the valuation technique of discounted cash flows. All future premiums to be received or reinsurance premiums to be paid are estimated based on actual disbursements or EFIC's best estimate of future disbursements and these future cash flows are discounted. In the event of a prepayment or expected prepayment, the future risk premiums that have been taken up will be reversed through the profit and loss. On receipt of prepayment any allowance for credit risk is reversed through profit and loss.

On the National Interest Account premiums are treated as earned from the date of attachment of risk and are taken to revenue on a reducing balance method using effective yield, generally reflecting the diminishing exposure over the term of the transactions.

(e) Unamortised grants

Unamortised grants income is comprised of funds previously provided from the Commonwealth Government's overseas aid appropriations. The Government provided overseas aid funds under a mixed credit scheme to assist developing countries to undertake high-priority public sector projects. The mixed credit grant, which is administered by EFIC on the National Interest Account, was blended with funding at commercial rates under EFIC's export finance facility to provide a 'soft loan' package to finance the project in the developing country.

The mixed credit grant is amortised over the life of the loan to cover the difference between EFIC's commercial borrowing costs and the concessional interest income earned on the loan on an effective yield basis. The unamortised balance is included in the balance sheet of the National Interest Account as an offset to loan assets.

The Government discontinued the mixed credit scheme in 1996. The balances outstanding on these loans are shown in Note 8.

(f) Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates prevailing at balance date.

All exchange gains and losses are brought to account in determining the profit and loss for the year.

The principal exchange rates affecting the statement of financial position are the US dollar, the Euro and the Japanese Yen. The relevant exchange rates used are:

	2009	2008
Average rates during year		
US$ / A$	**0.7472**	0.9187
Euro / A$	**0.5415**	0.6328
Yen / A$	**74.1845**	98.4421

	2009	2008
Rates at 30 June		
US$ / A$	**0.8128**	0.9625
Euro / A$	**0.5757**	0.6096
Yen / A$	**77.8817**	101.8999

(g) Derivative financial instruments

EFIC uses derivative financial instruments on the Commercial Account to manage exposures to interest rate and foreign exchange risk. These include foreign exchange contracts, interest rate and cross-currency swaps, financial futures and forward rate agreements. Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured to their fair value at each reporting date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains and losses arising from changes in the fair value of derivatives, except those that qualify for hedge accounting, are taken directly to profit and loss for the year.

The fair value of derivative financial instruments is determined using market rates and valuation techniques which incorporate discounted cash flows for vanilla derivatives. For non-vanilla structured derivatives, EFIC has a valuation model which uses market interest rates to develop zero interest curves. Forward interest rates, discount factors and long-term forward foreign exchange rates are then derived, which are in turn used as inputs to determine the value of future cash flows for each transaction. The same models are applied to the structured borrowings relating to these derivatives. For structured derivatives and borrowings this includes a calculation for the effect of the time value of when the transaction would be called based on the rationale that a reasonable person would choose the date that has the lowest cost (or greatest profit) on a net present value basis. The time value of the embedded option, however, is not included as it has been considered immaterial by management and the current models are still the best estimate of fair value.

These models have been used by EFIC for a number of years for measuring both counterparty exposures and for the "Net Fair Value" figures disclosed in the notes in previous years' financial statements. The inputs to the models are from independent market sources. A credit risk component is included in the valuation for derivatives.

(h) Hedge accounting

Hedge accounting is only applied on transactions where the formal documentation and designation criteria has been met. Cash flow hedges are intended to hedge the exposure to variability in interest rate movements that are attributable to future interest cash flows. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion of the hedge is recognised in the profit and loss.

(i) Taxation

Under Section 63 of the EFIC Act, EFIC is not subject to income tax and a number of other taxes, however, EFIC is subject to Goods and Services Tax (GST). Revenues, expenses and assets are recognised net of the amount of GST, except:

- where the amount of GST incurred is not recoverable as an input tax credit from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- the net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of the receivables, payables or commitments.

(j) Sundry creditors

Creditors and other liabilities are recognised when EFIC becomes obliged to make future payments resulting from the purchase of goods and services.

(k) Employee entitlements

Provisions for annual leave and long service leave have been established to provide for amounts expected to be paid to employees based on their entitlements. Where applicable, the entitlements take into account prior government service.

The provision for annual leave is based on the value of actual entitlements at balance date. Long service leave is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, discounted using the market yields at balance date.

EFIC makes contribution to the CSS and PSS superannuation schemes and its obligation is limited to a required annual contribution as determined by the actuaries of the superannuation plans administered by the Commonwealth. Accordingly, the plans are accounted for by EFIC as defined contribution plans. The liability for defined benefits are recognised in the financial statements of the Australian Government and are settled by the Australian Government in due course.

(l) Cash and liquid assets

Cash and liquid assets include cash on hand and bank account balances. Cash is recognised at its nominal amount as this would be considered their fair value.

(m) Receivables from other financial institutions

Receivables from other financial institutions have three types of transactions, overnight deposits and short term fixed deposits with banks and other financial institutions are measured at amortised cost using the effective interest method as this would be equivalent to their fair value. There is also a floating rate loan to a bank which is recorded at amortised cost as this is part of a cash flow hedge and qualifies for hedge accounting.

(n) Available-for-sale investment securities

Available-for-sale investment securities are those purchased with an intention of being held until maturity but can be sold if required. They are short-term and long-term government, bank and other securities and include bonds, bills of exchange, commercial paper and certificates of deposit. Interest income is taken up on an effective interest method. They are carried at market value with changes in fair value going to equity.

The fair value is the market value, and is determined using published revaluation rates provided by market price-makers. If a revaluation rate is not available for an investment, then the market rate is determined by calculating a yield to calculate the price. The yield is made up of the base yield (determined by straight line interpolation of swap yields), and credit spreads (determined by comparison to public issues of similar entities).

(o) National Interest loans and receivables

Export finance loans and rescheduled credit insurance debts held on the National Interest Account are carried at amortised cost. The recoverable amount, represented by the gross value of the outstanding balances, adjusted by specific provisions for impairment and unearned income, less unamortised grants – see Note 1 (e). Interest income is taken up on an effective interest method. A loan or receivable is recognised as impaired when it is likely that the debt will not be recovered in full. In this instance a specific provision will be created for the impairment.

(p) Commercial Account loans and receivables designated at fair value through profit and loss

Export finance loans and rescheduled credit insurance debts held on the Commercial Account are designated at their fair value with any movement transferred through profit or loss. Interest income in the profit and loss is recorded using the accruals basis, which forms part of the fair value calculation and movement in fair value is recorded separately in the profit and loss. Loans and receivables are considered impaired when an event occurs that results in the likelihood of the debt not being recovered in full.

The fair value is determined by applying market rates and using the valuation technique of discounted cash flows. A credit risk component is included in the valuation to reflect the impact of expected loss on the fair value of each loan and rescheduled debt. When it is likely that a loan or debt will not be recovered in full, a specific event is recognised and recorded using the discounted cash flow method. All individual facilities are reviewed regularly.

(q) Transactions between the Commercial Account and National Interest Account

The Commercial Account funds the loans on the National Interest Account and this funding is recorded in the Commercial Account at the fair value with any movement transferred through profit or loss. Fair value is determined by applying market rates and using the valuation techniques of discounted cash flows.

The National Interest Account loans are funded from the Commercial Account at an agreed benchmark rate and these borrowings are recorded in the National Interest Account at an amount equal to the net proceeds received. Interest expense is recognised on an effective yield basis.

(r) Property, plant and equipment

Property, plant and equipment are revalued periodically at their fair value, as required by Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements for periods ended on or after 1 July 2008) under subsection 48(1) of the CAC Act.

The valuation of land and buildings is made by an independent registered valuer based on the net present value of future expected income expected to be generated from the land and buildings.

The valuation of plant and equipment is based on internal assessment by management to ensure that the carrying amounts do not differ materially from their fair value.

Revaluation increments are credited directly to the asset revaluation reserve and any subsequent decreases are written back against the asset revaluation reserve. On revaluation, the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Property, plant and equipment, other than freehold land, is depreciated over their estimated useful economic lives using the straight-line method.

Depreciation rates used are as follows:

• buildings	6.7%
• computer equipment	33.3%
• other plant and equipment	10.0% – 22.5%

The profit and loss on disposal of property, plant and equipment is taken into account in determining the result for the year.

(s) Payables to other financial institutions

Payables to other financial institutions represent two types of transactions, short term borrowings with banks and other financial institutions are measured at amortised cost using the effective interest method as this would be equivalent to their fair value. There is also a floating rate borrowing which is recorded at amortised cost as this is part of a cash flow hedge and qualifies for hedge accounting.

(t) Commercial Account borrowings designated at fair value through profit and loss

Commercial paper, medium-term notes and bonds (which may have embedded derivatives), are designated at their fair value with any movement transferred through profit or loss. Interest expense in the profit and loss is recorded using the amortised cost basis, which forms part of the fair value calculation, and movement in fair value is recorded separately in the profit and loss.

The fair value for non-structured borrowings is determined by applying market rates at which EFIC can issue debt in the public and private markets, and valuation techniques, which incorporate discounted cash flows. For the structured borrowings, EFIC has a valuation model which uses market interest rates at which EFIC could issue debt in the public markets, to develop zero interest curves. Forward interest rates, discount factors and long-term forward foreign exchange rates are then derived, which are in turn used as inputs to determine the value of future cash flows for each transaction. This includes a calculation for the effect of the time value of when the transaction would be called based on the rationale that a reasonable person would choose the date that has the lowest cost (or greatest profit) on a net present value basis. The time value of the embedded option, however, is not included as it has been considered to be immaterial by management and the current models are still the best estimate of fair value. The inputs to the models are from independent market sources.

(u) Borrowing costs

Borrowing costs are expensed as incurred.

(v) Guarantees designated at fair value through profit and loss

Guarantees written are regarded as financial instruments and are designated at fair value through the profit and loss at inception. Subsequently, they are carried at their fair value with any movements transferred through profit or loss. Guarantees are considered impaired when an event occurs that results in the likelihood of the guarantee being called.

The fair value is determined by applying market rates and using the valuation technique of discounted cash flows. A credit risk component is included in the valuation to reflect the impact of expected loss on the fair value of each guarantee. When it is likely that a guarantee will be called, a specific event is recognised and recorded using the discounted cash flow method. All individual facilities are reviewed regularly.

(w) Cash flows

For the purpose of the statement of cash flows, cash equivalents includes cash on hand and at bank, and deposits with financial institutions, to maintain liquidity.

(x) Operating segments

EFIC operates in only one segment.

(y) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in these financial statements.

(z) Events occurring after the balance sheet date

There have been no material events occurring after the balance sheet date that impact the financial statements for the year ending 30 June 2009.

NOTE 2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the financial statements. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Impairment of available-for-sale assets

EFIC holds a number of available-for-sale financial assets and for the year ended 30 June 2009. It has been determined that on a portfolio basis the decline in value of the available-for-sale investments since purchase is not considered significant or prolonged.

Plant and equipment

The valuation of plant and equipment is based on internal assessment by management to ensure that the carrying amounts do not differ materially from their fair value. It has been determined that the incremental change in the value of plant and equipment is not considered significant.

Treasury counterparty policy

The CAC Act states the EFIC's treasury can only hold receivables from other financial institutions, available-for-sale investment securities and derivative financial instruments with Authorised Deposit Taking Institutions in Australia rated BBB- or above, or with other financial institutions rated AA- or better, based on Standard and Poor's ratings. However, if after purchase a counterparty subsequently falls below the minimum rating, management will evaluate the risk and will decide on the applicable action, which may include selling the asset, novating the contract, holding the asset to maturity, or obtaining security through Collateral Security Agreements (CSA's).

Changes to accounting estimates during the year

As a result of the uncertainties inherent in financial products, many items in the financial report cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. An estimate needs revision when changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. During the year, as more detail became available and due to additional experience and research, the following changes in accounting estimations were approved:

- Previously EFIC considered the credit risk arising from treasury activities through its interest rate and foreign exchange management to be low as the counterparties for any transaction are limited to the Commonwealth, State governments, authorised deposit taking institutions rated BBB- or above and to financial institutions or other entities with a credit rating the equivalent of AA- or better. The global financial crisis has resulted in credit downgrades to some of EFIC's counterparties to below AA-. EFIC has accordingly refined the fair value calculation of derivative counterparties to include a credit valuation adjustment (CVA).

Significant accounting events during the year

There have been no significant events in the current financial year.

Notes to and forming part of the Financial Statements for the year ended 30 June 2009

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
NOTE 3 REVENUE AND EXPENSES					
(i) Interest income					
Receivable from other financial institutions		**8.9**	8.2	-	-
Available-for-sale investment securities		**49.0**	57.4	-	-
Loans and receivables		-	-	**75.5**	71.5
Loans and receivables designated at fair value through profit and loss		**9.7**	8.7	-	-
Loans to National Interest Account designated at fair value through profit and loss		**74.1**	72.9	-	-
Total interest income		**141.7**	147.2	**75.5**	71.5
(ii) Interest expense					
Payables to other financial institutions		**(0.1)**	(0.4)	-	-
Derivative financial instruments		**(35.2)**	(41.1)	-	-
Borrowings from Commercial Account		-	-	**(72.5)**	(71.2)
Borrowings designated at fair value through profit and loss		**(61.9)**	(73.5)	-	-
Total interest expense		**(97.2)**	(115.0)	**(72.5)**	(71.2)
(iii) Fair value of third-party loans and guarantees					
Fair value movement relating to premium and fees		**31.8**	24.7	-	-
Fair value movement relating to reinsurance		**(3.5)**	(2.6)	-	-
Fair value movement relating to interest income		**2.6**	0.5	-	-
Fair value movement relating to credit risk		**(14.8)**	(17.9)	-	-
Fair value movement relating to specific events		**(2.7)**	1.6	-	-
Associated costs		**(0.2)**	-	-	-
Guarantees called		-	(2.0)	-	-
Foreign exchange profit/(loss) on premium		**(2.4)**	0.3	-	-
Total fair value of third-party loans and guarantees		**10.8**	4.6	-	-
(iv) Fair value of other financial instruments					
Derivative financial instruments		**(19.9)**	(6.5)	-	-
Borrowings designated at fair value through profit and loss		**(23.9)**	-	-	-
Loans to National Interest Account designated at fair value through profit and loss		**39.6**	4.9	-	-
Total fair value of other financial instruments		**(4.2)**	(1.6)	-	-

NOTE 3 REVENUE AND EXPENSES

(CONTINUED)

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	30 June 2008 $ m
(v) Other revenue					
Premium and fees		-	-	**2.9**	3.5
Ceded to reinsurers		-	-	**(0.6)**	(1.0)
Foreign exchange profit/(loss) on premium		-	-	**(0.1)**	(0.1)
Rental income		**2.7**	2.5	-	-
Sundry income		**0.3**	0.4	-	-
Recoveries from credit insurance		**0.2**	0.4	-	-
Total other revenue		**3.2**	3.3	**2.2**	2.4
(vi) Operating expenses					
Staff costs		**(11.0)**	(9.5)	-	-
Depreciation of property, plant and equipment		**(2.8)**	(2.6)	-	-
Promotional costs		**(1.7)**	(1.1)	-	-
Professional fees		**(1.6)**	(1.8)	-	-
Superannuation costs		**(1.2)**	(1.0)	-	-
Travel costs		**(1.0)**	(1.0)	-	-
Property costs		**(0.9)**	(0.8)	-	-
Computer costs		**(0.7)**	(0.4)	-	-
Corporate insurance		**(0.5)**	(0.3)	-	-
Provision for employee entitlements		**(0.4)**	(0.4)	-	-
Other expenses		**(1.5)**	(1.7)	-	-
National Interest Account allocation		**2.7**	1.8	**(2.7)**	(1.8)
Total operating expenses		**(20.6)**	(18.8)	**(2.7)**	(1.8)
(vii) (Charge)/credit to specific provisions					
Specific provisions for losses		-	-	**0.5**	4.5
Recoveries		-	-	-	2.4
Associated costs		-	-	**(0.3)**	-
Write offs		-	-	-	(5.1)
Total (charge)/credit to specific provisions		-	-	**0.2**	1.8

Notes to and forming part of the Financial Statements for the year ended 30 June 2009

NOTE 4 OTHER FINANCIAL INSTITUTIONS

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
Receivables from other financial institutions	*1(m)*				
Overnight deposits		**20.7**	12.3	-	-
Fixed cash deposits		**102.1**	235.4	-	-
Floating rate loan		**55.3**	-	-	-
Total receivables from other financial institutions		**178.1**	247.7	-	-
Maturity analysis of receivables from other financial institutions					
At call		**20.7**	12.3	-	-
Due in less than 3 months		**76.6**	176.7	-	-
Due after 3 months to 1 year		**25.7**	58.7	-	-
Due after 1 year to 5 years		**20.7**	-	-	-
After 5 years		**34.4**	-	-	-
Total receivables from other financial institutions		**178.1**	247.7	-	-
Payables to other financial institutions	*1(s)*				
Overnight borrowings		-	16.8	-	-
Floating rate borrowing		**55.2**	-	-	-
Total payables to other financial institutions		**55.2**	16.8	-	-
Maturity analysis of payables to other financial institutions					
At call		-	16.8	-	-
Due after 3 months to 1 year		**55.2**	-	-	-
Total payables to other financial institutions		**55.2**	16.8	-	-

These receivables are from Authorised Deposit Taking Institutions (ADI's). Receivables of $168.1 million are with various ADI's all rated AA and $10.0 million is with an ADI rated BBB and this deposit has a maturity date of the 15 July 2009.

The floating rate borrowing will be rolled over every six months in line with the floating rate loan. These two transactions are part of a cash flow hedge.

NOTE 5 COMMONWEALTH AMOUNT RECEIVABLE/(PAYABLE)

	Commercial 2009	Commercial 2008	National Interest 2009	National Interest 2008
Commonwealth movement in receivable/(payable)				
Commonwealth opening balance receivable/(payable)	-	-	**53.5**	67.4
Net payments	-	-	**(7.0)**	(9.1)
	-	-	**46.5**	58.3
Less: Profit/(loss) for the year on National Interest Account	-	-	**(0.2)**	4.8
Commonwealth closing balance receivable/(payable)	-	-	**46.7**	53.5

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NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS	*1(g)*				
Derivative financial assets					
Interest rate swaps		**25.6**	16.0	-	-
Cross-currency swaps		**146.7**	65.6	-	-
Forward foreign exchange contracts		**0.6**	1.1	-	-
Futures		-	0.9	-	-
Total derivative financial assets		**172.9**	83.6	-	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		**35.2**	14.1	-	-
Due after 3 months to 1 year		**31.9**	19.8	-	-
Due after 1 year to 5 years		**58.8**	17.9	-	-
Due after 5 years		**47.0**	31.8	-	-
Total derivative financial assets		**172.9**	83.6	-	-
Derivative financial liabilities					
Interest rate swaps		**120.4**	84.3	-	-
Cross-currency swaps		**99.5**	175.6	-	-
Forward foreign exchange contracts		**39.9**	7.6	-	-
Total derivative financial liabilities		**259.8**	267.5	-	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**61.5**	41.6	-	-
Due after 3 months to 1 year		**91.4**	64.9	-	-
Due after 1 year to 5 years		**76.3**	132.1	-	-
Due after 5 years		**30.6**	28.9	-	-
Total derivative financial liabilities		**259.8**	267.5	-	-

Refer to Note 18 for further disclosures regarding AASB 7 Financial Instrument Disclosures which provide further information regarding credit risk, liquidity risk and market risk.

NOTE 7 AVAILABLE-FOR-SALE INVESTMENT SECURITIES

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
NOTE 7 AVAILABLE-FOR-SALE INVESTMENT SECURITIES	*1(n)*				
Discount securities		**353.6**	158.3	-	-
Floating rate notes		**518.0**	499.2	-	-
Fixed rate bonds		**69.1**	91.6	-	-
Total available-for-sale investment securities		**940.7**	749.1	-	-
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**284.7**	113.3	-	-
Due after 3 months to 1 year		**320.4**	275.9	-	-
Due after 1 year to 5 years		**335.6**	359.9	-	-
Total available-for-sale investment securities		**940.7**	749.1	-	-

Refer to Note 18 for further disclosures regarding AASB 7 Financial Instrument Disclosures which provide further information regarding credit risk and market risk.

NOTE 8 LOANS AND RECEIVABLES

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
NOTE 8 LOANS AND RECEIVABLES	*1(o)*				
At amortised cost					
Gross export finance loans		-	-	**943.7**	936.3
Gross rescheduled credit insurance debts		-	-	**110.9**	111.1
Loans and receivables gross		-	-	**1,054.6**	1,047.4
Unearned premiums		-	-	**(10.7)**	(13.2)
Specific provision for impairment		-	-	**(9.7)**	(9.7)
Unamortised grants	*1(e)*	-	-	**(118.0)**	(126.6)
Loans and receivables		-	-	**916.2**	897.9
Maturity analysis loans and receivables gross					
Due in 3 months or less		-	-	**30.1**	28.5
Due after 3 months to 1 year		-	-	**101.2**	110.9
Due after 1 year to 5 years		-	-	**463.0**	406.2
Due after 5 years		-	-	**460.3**	501.8
Total loans and receivables gross		-	-	**1,054.6**	1,047.4
Restructured exposures included above		-	-	**380.7**	374.3

All payments due in the year in respect of restructured exposures have been paid on time in accordance with the new terms.

The carrying value of these loans and receivables on the National Interest Account approximates their fair value.

There are no overdue amounts for non-impaired loans.

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	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	30 June 2008 $ m

NOTE 8 LOANS AND RECEIVABLES (CONTINUED)

1(o)

Specific provision				
Specific provision opening balance	-	-	**9.7**	16.9
Charge against profit	-	-	-	0.3
Recoveries	-	-	-	(2.4)
Write offs	-	-	-	(5.1)
Specific provision closing balance	-	-	**9.7**	9.7
Impaired loans				
Impaired loans	-	-	**9.7**	9.7
Specific provision for impairment	-	-	**(9.7)**	(9.7)
Carrying value of impaired loans	-	-	-	-
Interest foregone on impaired loans	-	-	**0.3**	0.5

Loans are considered to be impaired if payments have not been made by the due date.

Amounts shown under National Interest Account represent loans made by EFIC under the National Interest provisions of the EFIC Act.

NOTE 9 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

1(p)

	Commercial 30 June 2009 $ m	Commercial 30 June 2008 $ m	National Interest 30 June 2009 $ m	National Interest 30 June 2008 $ m
Gross export finance loans	**226.8**	144.9	-	-
Gross rescheduled credit insurance debts	**23.8**	25.2	-	-
Loans and receivables gross	**250.6**	170.1	-	-
Fair value premium and fees	**13.1**	6.7	-	-
Fair value interest	**4.4**	2.2	-	-
Fair value of credit risk	**(16.5)**	(15.7)	-	-
Fair value of specific events	**(8.2)**	(5.1)	-	-
Loans and receivables	**243.4**	158.2	-	-
Maturity analysis loans and receivables gross				
Due in 3 months or less	**32.9**	22.6	-	-
Due after 3 months to 1 year	**24.3**	21.3	-	-
Due after 1 year to 5 years	**129.6**	64.5	-	-
Due after 5 years	**63.8**	61.7	-	-
Total loans and receivables gross	**250.6**	170.1	-	-
Restructured exposures included above	**41.9**	55.8	-	-

All payments due in the year in respect of restructured exposures have been paid on time in accordance with the new terms.

There are no overdue amounts for the non-impaired loans.

Notes to and forming part of the Financial Statements for the year ended 30 June 2009

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m

NOTE 9 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS (CONTINUED)

	Note	30 June 2009 $ m	30 June 2008 $ m	30 June 2009 $ m	30 June 2008 $ m
	1(p)				
Impaired loans					
Impaired loans		**15.1**	14.2	-	-
Fair value of specific events		**(8.2)**	(5.1)	-	-
Carrying fair value of impaired loans		**6.9**	9.1	-	-

Loans are considered to be impaired if payments of interest or repayments of principal have not been made by the due date or there is reason to believe that amounts due may not be able to be made in the future. For the impaired loan there is a first ranked mortgage held over two vessels. Refer to Note 18 for further disclosures regarding AASB 7 Financial Instrument Disclosures which provide further information regarding credit risk including maximum exposures and market risk.

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

	Note	30 June 2009 $ m	30 June 2008 $ m	30 June 2009 $ m	30 June 2008 $ m
	1(r)				
Freehold land and building, at valuation		**32.8**	41.0	-	-
Accumulated depreciation		**-**	(2.2)	-	-
Net book value - land and building		**32.8**	38.8	-	-
Plant and equipment, at valuation		**7.3**	7.3	-	-
Accumulated depreciation		**(4.5)**	(4.1)	-	-
Net book value - plant and equipment		**2.8**	3.2	-	-
Total property, plant and equipment		**35.6**	42.0	-	-

	Land and buildings $ m	Plant and equipment $ m	Total $ m
Gross value			
Balance as at 30 June 2008	41.0	7.3	48.3
Additions	-	0.3	0.3
Write back of accumulated depreciation on revaluation	(4.3)	-	(4.3)
Write back to revaluation reserve	(3.9)	-	(3.9)
Disposals	-	(0.3)	(0.3)
Balance as at 30 June 2009	**32.8**	**7.3**	**40.1**
Accumulated depreciation			
Balance as at 30 June 2008	(2.2)	(4.1)	(6.3)
Depreciation charged for assets held at 1 July 2008	(2.1)	(0.7)	(2.8)
Depreciation charged for additions	-	-	-
Write back on revaluation	4.3	-	4.3
Depreciation recovered on disposals	-	0.3	0.3
Balance as at 30 June 2009	**-**	**(4.5)**	**(4.5)**

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	Note	Land and buildings $ m	Plant and equipment $ m	Total $ m
NOTE 10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)	*1(r)*			
Net book value as at 1 July 2008		38.8	3.2	42.0
Net book value as at 30 June 2009		**32.8**	**2.8**	**35.6**

An independent valuation of land and buildings was carried out in June 2009 by Mr Mark Smallhorn FAPI, Registered Valuer No. 1207 and Mr James Marks AAPI, Registered Valuer No.14499 of Jones Lang LaSalle. On a Capital Approach and Discounted Cash Flow Analysis, the land and buildings were valued at $32,800,000.

Leased accommodation

Freehold land and buildings includes accommodation which has been leased to third parties. The valuation, accumulated depreciation and depreciation charge attributed to the leased space has been derived based on the floor area of the leased space. The allocated valuation, accumulated depreciation, written down value and depreciation expense of the leased space are as follows:

	30 June 2009 $ m	30 June 2008 $ m
Freehold land and building, at valuation	**23.4**	29.2
Accumulated depreciation	-	(1.6)
Written-down value	**23.4**	27.6
Depreciation expense	**1.5**	1.6

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2009 $ m	30 June 2008 $ m	30 June 2009 $ m	30 June 2008 $ m
NOTE 11 OTHER ASSETS					
Accrued interest receivable		-	-	**12.8**	13.8
Sundry debtors and prepayments		**1.4**	1.2	-	2.3
Total other assets		**1.4**	1.2	**12.8**	16.1
NOTE 12 GUARANTEES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	*1(v)*				
Fair value of credit risk		**44.6**	30.6	-	-
Fair value of specific events		**5.8**	6.2	-	-
Fair value of net premium receivable		**(11.4)**	(10.6)	-	-
Total guarantees designated at fair value through profit and loss		**39.0**	26.2	-	-

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2009 $ m**	30 June 2008 $ m	**30 June 2009 $ m**	30 June 2008 $ m

NOTE 12 GUARANTEES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS (CONTINUED)

	Note	**30 June 2009 $ m**	30 June 2008 $ m	**30 June 2009 $ m**	30 June 2008 $ m
	1(v)				
Impaired guarantees					
Impaired guarantees		**5.8**	6.2	-	-
Less: fair value of specific events		**(5.8)**	(6.2)	-	-
Carrying fair value of impaired guarantees		-	-	-	-

When it is likely that a guarantee will be called or a claim has been submitted but not yet paid, then the exposure is considered impaired.

Refer to Note 18 for further disclosures regarding AASB 7 Financial Instrument Disclosures which provide further information regarding credit risk, market risk and maximum exposures.

NOTE 13 SUNDRY PROVISIONS

	Note	**30 June 2009 $ m**	30 June 2008 $ m	**30 June 2009 $ m**	30 June 2008 $ m
Employee entitlements	1(k)	**2.3**	2.2	-	-
Specific provision for off-balance-sheet export finance facilities		-	-	**0.1**	0.6
Total sundry provisions		**2.3**	2.2	**0.1**	0.6

NOTE 14 BORROWINGS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

	Note	**30 June 2009 $ m**	30 June 2008 $ m	**30 June 2009 $ m**	30 June 2008 $ m
	1(t)				
Borrowings		**1,929.8**	1,680.1	-	-
Total borrowings		**1,929.8**	1,680.1	-	-
Borrowings designated at fair value through profit and loss					
Structured borrowings					
Australian dollar		**65.9**	14.5	-	-
Japanese yen		**720.2**	626.9	-	-
US dollar		**63.2**	45.7	-	-
Total structured borrowings		**849.3**	687.1	-	-
Non-structured borrowings					
Australian dollar		**108.1**	122.3	-	-
Euro		**73.2**	74.7	-	-
Japanese yen		**82.6**	64.6	-	-
New Zealand dollar		**53.8**	52.0	-	-
US dollar		**123.0**	104.3	-	-
Total non-structured borrowings		**440.7**	417.9	-	-

	Note	COMMERCIAL ACCOUNT **30 June 2009 $ m**	30 June 2008 $ m	NATIONAL INTEREST ACCOUNT **30 June 2009 $ m**	30 June 2008 $ m
NOTE 14 BORROWINGS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS (CONTINUED)	*1(t)*				
Euro commercial paper					
Euro		-	16.1	-	-
US dollar		**639.8**	559.0	-	-
Total Euro commercial paper		**639.8**	575.1	-	-
Total borrowings		**1,929.8**	1,680.1	-	-
Maturity analysis of borrowings					
Due in 3 months or less		**750.4**	694.3	-	-
Due after 3 months to 1 year		**523.4**	469.3	-	-
Due after 1 year to 5 years		**428.6**	246.7	-	-
Due after 5 years		**227.4**	269.8	-	-
Total borrowings		**1,929.8**	1,680.1	-	-

Where borrowings are in a different currency from the assets being financed, cross-currency swaps or foreign exchange contracts are entered into (see Note 18).

Refer to Note 18 for further disclosures regarding AASB 7 Financial Instrument Disclosures which provide further information regarding credit risk, liquidity risk, market risk and contractual amounts.

NOTE 15 OTHER LIABILITIES

Unearned off-balance-sheet export finance premiums	-	-	**0.1**	0.2
Sundry creditors	**10.9**	12.1	**6.8**	5.7
Interest payable	-	-	**11.7**	14.9
Total other liabilities	**10.9**	12.1	**18.6**	20.8

NOTE 16 EQUITY

Contributed equity	**6.0**	6.0	-	-
Total contributed equity	**6.0**	6.0	-	-

In addition to the contributed equity, Section 54 of the EFIC Act provides for $200 million Callable Capital from the Commonwealth, which has never been called.

General reserves	**66.2**	66.2	-	-
Property and land revaluation reserve	**25.7**	29.6	-	-
Cash flow hedge reserve	**4.6**	-	-	-
Available-for-sale investment reserve	**(8.6)**	(29.6)	-	-
Total reserves	**87.9**	66.2	-	-

General reserves represent other net assets transferred from the Australian Trade Commission on 1 November 1991.

Notes to and forming part of the Financial Statements for the year ended 30 June 2009

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
NOTE 16 EQUITY (CONTINUED)					
Movement in asset revaluation reserve					
Opening balance		**29.6**	29.6	-	-
Revaluation of land and building at the end of the financial year		**(3.9)**	-	-	-
Closing balance asset revaluation reserve		**25.7**	29.6	-	-
Movement in cash flow hedge reserve					
Opening balance		-	-	-	-
Net gain on cash flow hedge		**4.6**	-	-	-
Closing balance cash flow hedge reserve		**4.6**	-	-	-
Movement in available-for-sale investment reserve					
Opening balance		**(29.6)**	(1.7)	-	-
Net gain/(loss) on available-for-sale investments		**21.0**	(27.9)	-	-
Closing balance available-for-sale investment reserve		**(8.6)**	(29.6)	-	-
Movement in retained profits					
Opening balance		**259.0**	259.7	-	-
Dividends paid		**(9.8)**	(20.4)	-	-
Profit for the year		**33.6**	19.7	-	-
Closing balance retained profits		**282.8**	259.0	-	-

Section 55 of the EFIC Act requires the EFIC Board to provide a recommendation to the Minister and then the Minister approves any dividend to be paid to the Commonwealth. The dividend paid in 2009 and 2008 was based on 50% of the prior-year profits.

NOTE 17 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities				
Guarantees	**467.6**	433.3	-	1.4
Bonds	**115.1**	108.8	**3.6**	6.3
Political risk insurance	**119.6**	160.9	-	-
Medium-term insurance	**0.6**	0.5	-	-
EFIC Headway guarantees	**17.4**	18.6	-	-
Total contingent liabilities	**720.3**	722.1	**3.6**	7.7

These contingent liabilities commit EFIC to make payments should specific events occur.

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	Note	COMMERCIAL ACCOUNT **30 June 2009 $ m**	30 June 2008 $ m	NATIONAL INTEREST ACCOUNT **30 June 2009 $ m**	30 June 2008 $ m

NOTE 17 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

	Note	COMMERCIAL ACCOUNT 30 June 2009 $ m	COMMERCIAL ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m
Commitments to provide financial facilities					
Loans		**244.9**	110.4	-	-
Guarantees		**14.4**	90.8	-	-
Political risk insurance		**186.3**	102.0	-	-
Bonds		**5.1**	1.0	-	-
Total commitments to provide financial facilities		**450.7**	304.2	-	-

Commitments to provide financial facilities are contractually based.

Commitments payable					
Capital commitments					
Due in 1 year or less		**0.1**	0.1	-	-
Total commitments payable		**0.1**	0.1	-	-
Commitments receivable					
Operating lease receivable					
Due in 1 year or less		**2.5**	2.1	-	-
Due after 1 year to 2 years		**0.8**	1.8	-	-
Due after 2 years to 5 years		**1.0**	1.6	-	-
Total commitments receivable		**4.3**	5.5	-	-

Operating lease receivable represents rental income to be received in respect of the property owned and partially occupied by the Corporation.

NOTE 18 FINANCIAL RISK MANAGEMENT

(i) General

As part of its normal operations, EFIC enters into a variety of transactions in various currencies, including medium-term loans, guarantees, bonds and political risk insurance.

EFIC also enters into a number of financial derivative transactions on the Commercial Account to protect against interest rate, foreign exchange and funding risks associated with EFIC's normal operations. These transactions include:

- interest rate swaps, forward rate agreements and futures contracts which protect against the interest rate movements where the interest rate of the borrowing is different from that of the required liability to fund assets. These are used primarily to convert any fixed rate exposures into floating rate exposures;
- cross-currency swaps which protect EFIC against interest rate and exchange movements where the currency and interest rate of the borrowing is different from that of the required liability to fund assets. These are used primarily to convert the borrowing and interest payment into the same currency and type as the loan or investment; and
- forward foreign exchange contracts which are used to protect against foreign exchange movements in investments, loans and borrowings.

However, EFIC does not enter into derivative instruments for speculative or trading purposes.

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Credit risk

(a) Commercial Account exposures

Credit risk arises from the possibility of defaults on contractual obligations, resulting in financial loss.

Exposures to credit risk for the Commercial Account are as follows:

Credit Risk Exposures	Note	30 June 2009 $ m	30 June 2008 $ m
Receivables from other financial institutions	4, 1(m)	178.1	247.7
Derivative financial instruments	6, 1(g)	172.9	83.6
Available-for-sale investment securities	7, 1(n)	940.7	749.1
Loans and receivables designated at fair value through profit and loss	9, 1(p)	243.4	158.2
Total*		**1,535.1**	1,238.6
Contingent liabilities	17	720.3	722.1
Commitments	17	450.7	304.2
Total		**1,171.0**	1,026.3
Total credit risk exposure		**2,706.1**	2,264.9

* Cash and liquid assets; loans to National Interest Account designated at fair value through profit and loss; other assets; and property, plant and equipment have not been included in the above table as there is no significant associated credit risk.

> Exposures to treasury counterparties

Credit risk arising from EFIC's treasury activities through its investment portfolios and from interest rate and foreign exchange management is considered low as the counterparties for any new transactions are limited to the Commonwealth, State governments, Authorised deposit taking institutions rated BBB- or above and to financial institutions or entities with credit ratings the equivalent of AA- or better. However, if after purchase a counterparty subsequently falls below the minimum rating, management will evaluate the risk and will decide on the applicable action, which may include holding the exposure to maturity.

Prudential controls set by the CAC Act for EFIC's Treasury operation consist of :

(i) EFIC can invest with Authorised Deposit Taking Institutions (ADI) rated BBB- or above;

(ii) EFIC can invest with financial institutions or entities with credit ratings the equivalent of AA- or better;

(iii) The investments are limited to deposits with, or securities issued or guaranteed by the above ADI's or entities;

(iv) Investments in ADI's with a rating lower than A- must not exceed 25% of EFIC's total investments;

(v) Investments in ADI's with a term longer than 6 months and a rating lower than A- must be able to be traded in the secondary market and must not exceed a term of 3 years;

(vi) Investments in an individual ADI with a rating lower than A- must not exceed 10% of EFIC's total investments;

In addition to the CAC Act prudential controls stated above, the EFIC Board have set further controls for EFIC's Treasury operation which consist of:

(i) a cap on foreign exchange open positions;

(ii) a cap on interest rate exposure to asset maturity;

(iii) minimum levels for committed funding over the life of assets;

(iv) a cap on the structured borrowing component of funding; and

(v) limits relating to individual counterparties.

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

All individual counterparty limits and sub limits required by Treasury are approved by the Chief Credit Officer and Chief Financial Officer and the usage against limits is monitored independently of Treasury.

These limits set by the Board are monitored by management. A Treasury Operations Report, including prudential controls, is reported to the Treasury Risk Review Committee and the Board Audit meeting on a quarterly basis and then submitted to the Board.

The Treasury Risk Review Committee consisting of the Managing Director, Chief Financial Officer, Chief Credit Officer, Head of Treasury, Senior Manager Financial Accounting, and Treasury dealers meets quarterly to review all risk reporting and to discuss the overall strategy of the Treasury operations.

The tables below show Treasury credit risk exposures by the current counterparty rating:

Derivative financial instruments	*Note*	**30 June 2009 $ m**	30 June 2008 $ m
Authorised Deposit Taking Institutions in Australia		**45.8**	22.2
Other Financial institutions			
AAA		**50.5**	24.5
AA+		-	1.5
AA		**19.7**	11.7
AA-		**19.5**	23.7
A+		**35.7**	-
A		**1.7**	-
Exposure to credit risk for derivative financial instruments	*6, 1(g)*	**172.9**	83.6

Available-for-sale investment securities	*Note*	**30 June 2009 $ m**	30 June 2008 $ m
Authorised Deposit Taking Institutions in Australia		**644.2**	439.2
Other Financial institutions			
AAA		**113.2**	35.1
AA+		**29.6**	100.8
AA		-	77.1
AA-		**19.4**	64.0
A+		**35.0**	9.4
A		**99.3**	23.5
Exposure to credit risk of available-for-sale investments securities	*7, 1(n)*	**940.7**	749.1

For treasury exposures there are no overdue or restructured amounts.

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

> Exposures to clients

EFIC's principal exposure to credit risk arises from the financing and credit facilities extended to clients. On the Commercial Account, loans written off during the year or credit facilities called were Nil (2008: $2.0 million).

EFIC employs risk grading systems to rank risks according to both the counterparty risk and the level of country risk inherent in the exposure. EFIC also measures and monitors country, industry and counterparty risk concentration in the Commercial Account. Any significant risk concentration in the Commercial Account is taken into account in assessing the amount of capital which EFIC requires to conduct its Commercial Account activities.

EFIC uses seven broad categories of risk grade, with category 1 representing the lowest risk. Within each category a ratings modifier is used to indicate if the risk is stable, improving or deteriorating. The equivalent risk, based on Standards and Poor's risk rating is stated in brackets. The exposure for the Commercial Account under each of the seven broad categories is as follows:

Loans and receivables designated at fair value through profit and loss	*Note*	**30 June 2009 $ m**	30 June 2008 $ m
Risk category 1 (AA- to AAA)		**-**	-
Risk category 2 (A- to A+)		**13.9**	34.7
Risk category 3 (BBB- to BBB+)		**105.8**	21.3
Risk category 4 (BB- to BB+)		**37.1**	38.7
Risk category 5 (B- to B+)		**18.2**	17.1
Risk category 6 (CCC+)		**61.5**	37.3
Risk category 7 (C to CCC)		**-**	-
Impaired		**6.9**	9.1
Loans and receivables designated at fair value through profit and loss	*9, 1(p)*	**243.4**	158.2

As part of its normal operations, EFIC enters into a variety of transactions which give rise to contingent liabilities including guarantees, medium term insurance, bonds, and political risk insurance. The maximum exposure to credit risk is the maximum amount EFIC would pay if called upon to do so.

Contingent liabilities	*Note*	**30 June 2009 $ m**	30 June 2008 $ m
Risk category 1 (AA- to AAA)		**1.0**	0.6
Risk category 2 (A- to A+)		**16.9**	16.3
Risk category 3 (BBB- to BBB+)		**30.0**	6.4
Risk category 4 (BB- to BB+)		**158.3**	257.7
Risk category 5 (B- to B+)		**285.0**	207.7
Risk category 6 (CCC+)		**197.4**	227.7
Risk category 7 (C to CCC)		**25.9**	-
Impaired		**5.8**	5.7
Total contingent liabilities	*17*	**720.3**	722.1

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NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

To reduce EFIC's exposure to counterparties in the higher risk categories or to reduce concentration risk, EFIC enters into reinsurance contracts with reinsurers. This will change the exposure from the counterparty in the higher risk categories to an exposure to the reinsurers who will be in a lower risk categories. As can be seen from the below table EFIC has reinsured exposures with counterparties in risk categories 4,5, or 6 to reinsurers in risk categories 1 or 2.

Reinsurance	*Note*	**30 June 2009 $ m**	30 June 2008 $ m
Risk category 1 (AA- to AAA)		**127.9**	154.7
Risk category 2 (A- to A+)		**77.9**	56.9
Risk category 3 (BBB- to BBB+)		**-**	-
Risk category 4 (BB- to BB+)		**(41.2)**	(43.7)
Risk category 5 (B- to B+)		**-**	-
Risk category 6 (CCC+)		**(155.6)**	(167.9)
Risk category 7 (C to CCC)		**(9.0)**	-
Total		**-**	-

The above tables do not take into account the value of any collateral or security held which may include first ranking mortgage over assets financed by EFIC, standby Documentary Credits, third-party guarantees and recourse to companies and company directors. No collateral has currently been called and held at year end.

As part of its normal operations, EFIC enters into a variety of transactions which give rise to commitments including loans, guarantees, medium term insurance, bonds, and political risk insurance. The maximum exposure to credit risk is the full amount of the commitment.

Commitments	*Note*	**30 June 2009 $ m**	30 June 2008 $ m
Risk category 1 (AA- to AAA)		**138.2**	43.2
Risk category 2 (A- to A+)		**111.4**	88.7
Risk category 3 (BBB- to BBB+)		**142.0**	109.7
Risk category 4 (BB- to BB+)		**-**	21.0
Risk category 5 (B- to B+)		**14.6**	1.6
Risk category 6 (CCC+)		**44.5**	40.0
Risk category 7 (C to CCC)		**-**	-
Total commitments	*17*	**450.7**	304.2

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

Gross exposure (before fair value adjustments) on each of the products offered on the Commercial Account are as follows:

Gross exposures	Note	30 June 2009 $ m	30 June 2008 $ m
Export finance loans	*9, 1(p)*	**226.8**	144.9
Rescheduled credit insurance debts	*9, 1(p)*	**23.8**	25.2
Floating rate loan	*4*	**55.3**	-
Guarantees	*17*	**467.6**	433.3
Bonds	*17*	**115.1**	108.8
Political risk insurance	*17*	**119.6**	160.9
Medium-term insurance	*17*	**0.6**	0.5
EFIC Headway guarantees	*17*	**17.4**	18.6
Total gross exposures		**1,026.2**	892.2
Reinsured exposures included above		**205.8**	211.6

Allowance for credit risk on the above gross exposures on the Commercial Account are as follows:

Allowance for credit risk by product	30 June 2009 $ m	30 June 2008 $ m
Export finance loans	**(15.0)**	(14.5)
Rescheduled credit insurance debts	**(1.5)**	(1.2)
Guarantees	**(40.8)**	(26.5)
Bonds	**(1.7)**	(2.5)
Political risk insurance	**(0.7)**	(0.8)
EFIC Headway guarantees	**(1.4)**	(0.8)
Allowance for credit risk closing balance	**(61.1)**	(46.3)

The movement in the allowance for credit risk on the Commercial Account is comprised of:

Allowance for credit risk for gross exposures	30 June 2009 $ m	From 1 July 2005 designation $ m
Allowance for credit risk opening balance	**(46.3)**	(60.0)
New exposures	**(13.0)**	(45.9)
Repayments	**9.4**	28.0
Change in risk grade	**(5.2)**	9.8
Change in term	**4.8**	13.7
Change in allowance rates	**(4.0)**	3.1
Exchange rate movements	**(6.8)**	5.0
Allowance for credit risk closing balance	**(61.1)**	(46.3)

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

The exposure is also monitored by country and on the Commercial Account the country exposures are as follows:

Country exposures	**30 June 2009 $ m**	**30 June 2009 % of total**	30 June 2008 $ m	30 June 2008 % of total
Australia*	**169.4**	**16.5**	111.3	12.5
Turkey	**91.6**	**8.9**	84.7	9.5
United Arab Emirates	**80.4**	**7.8**	61.1	6.8
Spain	**79.5**	**7.7**	102.7	11.5
Zambia	**71.7**	**7.0**	72.8	8.2
Trinidad and Tobago	**55.1**	**5.4**	-	-
Philippines	**43.5**	**4.2**	36.4	4.1
Sri Lanka	**30.4**	**3.0**	23.8	2.7
China	**28.6**	**2.8**	26.6	3.0
Greece	**26.7**	**2.6**	28.3	3.2
Egypt	**23.8**	**2.3**	25.2	2.8
Indonesia	**20.5**	**2.0**	16.9	1.9
Canada	**19.7**	**1.9**	13.5	1.5
Vietnam	**17.8**	**1.7**	10.1	1.1
French Polynesia	**15.1**	**1.5**	13.2	1.5
Singapore	**13.1**	**1.3**	11.7	1.3
Russia	**10.1**	**1.0**	8.1	0.9
Ukraine	**9.0**	**0.9**	-	-
United States of America	**-**	**-**	21.8	2.4
Other	**14.4**	**1.4**	12.4	1.4
Retained exposures	**820.4**	**79.9**	680.6	76.3
Reinsured exposures	**205.8**	**20.1**	211.6	23.7
Total country exposures	**1,026.2**	**100.0**	892.2	100.0

* Includes performance bonds and guarantees issued on behalf of Australian companies.

> *Retained sector exposure*

The sectors that represents more than 15% of EFIC's Commercial Account retained exposure are the ship, mining and construction sectors. At 30 June 2009, the exposure to the ship sector accounted for $133.8 million, representing 16% of EFIC's total retained exposure (2008: $158.3 million, representing 23% of the total),the exposure to the mining sector accounted for $130.5 million, representing 16% of EFIC's total retained exposure (2008: $77.4 million, representing 11% of the total), and the exposure to the construction sector accounted for $129.3 million, representing 16% of EFIC's total retained exposure (2008: $115.7 million, representing 17% of the total).

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) National Interest Account exposures

Under the National Interest Account, the exposures for loans and rescheduled credit insurance debts are all to overseas governments, or entities owned or guaranteed by overseas governments. On the National Interest Account, loans written off during the year were Nil (2008: $5.1 million).

Gross exposure (before unearned premiums, specific provision for impairment and unamortised grants) on each of the products offered on the National Interest Account are as follows:

Gross exposures	*Note*	**30 June 2009 $ m**	30 June 2008 $ m
Export finance loans	*8, 1(q)*	**943.7**	936.3
Rescheduled credit insurance debts	*8, 1(q)*	**110.9**	111.1
Guarantees	*17*	-	1.4
Bonds	*17*	**3.6**	6.3
Total gross exposures		**1,058.2**	1,055.1
Reinsured exposures included above		**44.5**	43.1

The exposure is also monitored by country and on the National Interest Account the country exposures are as follows:

Country exposures *	**2009 $ m**	**2009 % of total**	2008 $ m	2008 % of total
Indonesia	**825.5**	**78.0**	813.3	77.1
Egypt	**110.9**	**10.5**	111.1	10.5
China	**40.9**	**3.9**	41.4	3.9
Philippines	**23.1**	**2.2**	28.8	2.7
Cuba	**9.7**	**0.9**	9.7	0.9
Other **	**3.6**	**0.3**	7.7	0.8
Retained exposures	**1,013.7**	**95.8**	1,012.0	95.9
Reinsured exposures	**44.5**	**4.2**	43.1	4.1
Total country exposures	**1,058.2**	**100.0**	1,055.1	100.0

* Excludes Iraq which is treated as a contingent asset.

** Includes performance bonds and guarantees issued on behalf of Australian companies.

(c) Rescheduled debt exposures

Indonesia: Scheduled payments from Indonesia for December 1998 to December 2003 have been rescheduled on three occasions in the Paris Club. The payments rescheduled totalled US$21 million on EFIC's Commercial Account and US$93 million and Euro 108 million on the National Interest Account. The repayment schedule for the rescheduled debts requires six monthly payments until June 2019, June 2016, and June 2021 depending on the rescheduling agreement. In the aftermath of the December 2004 tsunami, Australia deferred payments of US$6 million and Euro 5 million due in 2005 from Indonesia. These deferred payments are interest free and will be repaid in seven equal instalments from December 2006 to December 2009. As at the 30th June 2009 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Egypt: EFIC is owed $24 million by Egypt on the Commercial Account and US$32 million and $71 million on the National Interest Account. These debts arose from credit insurance claims in respect of wheat exports in the mid-1980's. These debts were subject to rescheduling (with partial forgiveness) at the Paris Club meetings of Egypt's government creditors in 1987 and 1991. The repayment schedule for the rescheduled debts calls for six monthly payments until July 2016. As at the 30th June 2009 all rescheduled amounts have been paid on time as per the rescheduling agreements.

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NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Liquidity risk

Prudent liquidity risk management on the Commercial Account is achieved by maintaining sufficient cash and marketable securities to meet any sudden shortfalls in the ability to fund EFIC. EFIC also has the explicit guarantee of the Commonwealth of Australia which is rated AAA and therefore there is no significant liquidity risk for EFIC. Section 61 of the EFIC Act 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 and Section 59 allows EFIC to borrow or raise money, subject to written approval of the Finance Minister. To date, EFIC has funded its activities under Section 59 and does not borrow directly from the Commonwealth of Australia. Not withstanding the above EFIC maintains a liquid investment portfolio.

On the National Interest Account all the cash flows on loans are matched with funding from the Commercial Account and as a result there, is no significant liquidity risk.

For Commercial Account the contractual undiscounted principal and interest repayment obligations are as follows:

	CONTRACTUAL UNDISCOUNTED AMOUNTS			
30 June 2009	**3 months or less**	**3 months to 1 year**	**1 year to 5 years**	**Greater than 5 years**
Undiscounted financial assets				
Cash and liquid assets	0.6	-	-	-
Receivables from other financial institutions	90.0	24.2	36.9	38.5
Derivative financial instruments				
- Contractual amounts receivable	641.1	763.9	446.1	186.6
Available-for-sale investment securities	291.2	336.6	364.8	-
Loans and receivables designated at fair value through profit and loss	36.2	32.0	172.3	106.6
Loans to National Interest Account designated at fair value through profit and loss	29.0	128.5	583.9	533.6
Total undiscounted financial assets	1,088.1	1,285.2	1,604.0	865.3
Undiscounted financial liabilities				
Payables to other financial institutions	-	55.3	-	-
Derivative financial instruments				
- Contractual amounts payable	643.1	755.5	485.2	204.4
Borrowings designated at fair value through profit and loss				
- Euro commercial paper	479.8	160.2	-	-
- Non structured borrowings	64.9	24.3	216.1	173.6
- Structured borrowings	228.2	398.6	245.6	70.8
Total undiscounted financial liabilities	1,416.0	1,393.9	946.9	448.8
Net undiscounted financial assets/(liabilities)	(327.9)	(108.7)	657.1	416.5

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

	CONTRACTUAL UNDISCOUNTED AMOUNTS			
30 June 2008	3 months or less	3 months to 1 year	1 year to 5 years	Greater than 5 years
Undiscounted financial assets				
Cash and liquid assets	0.7	-	-	-
Receivables from other financial institutions	189.7	60.7	-	-
Derivative financial instruments				
- Contractual amounts receivable	437.2	704.7	824.1	395.1
Available-for-sale investment securities	125.8	316.7	392.1	-
Loans and receivables designated at fair value through profit and loss	24.7	11.5	34.5	189.5
Loans to National Interest Account designated at fair value through profit and loss	30.1	128.3	571.2	596.4
Total undiscounted financial assets	808.2	1,221.9	1,821.9	1,181.0
Undiscounted financial liabilities				
Payables to other financial institutions	16.8	-	-	-
Derivative financial instruments				
- Contractual amounts payable	450.6	712.0	947.5	436.4
Borrowings designated at fair value through profit and loss				
- Euro commercial paper	477.9	99.5	-	-
- Non structured borrowings	11.7	49.4	269.8	164.9
- Structured borrowings	225.0	373.7	21.0	152.9
Total undiscounted financial liabilities	1,182.0	1,234.6	1,238.3	754.2
Net undiscounted financial assets/(liabilities)	(373.8)	(12.7)	583.6	426.8

While the above tables show a liquidity shortfall in the next twelve months, approximately 32% (34% for 2008) of the borrowings are in a form which allows there to be a call for a full repayment of the debt at predetermined intervals (usually annually or bi-annually), the maturity profile is based on the next call date. If the borrowing is not called then the maturity will roll to the next callable interval. This would mean in the next twelve months $630.3 million may not have to be repaid. Last year EFIC had $575.8 million that could be called in the year and only $93.5 million was in fact called.

(iv) Market risk

(a) Interest rate risk

As EFIC is involved in lending and borrowing activities, interest rate risks arise. EFIC uses interest rate swaps, forward rate agreements, cross-currency swaps and futures on the Commercial Account as the primary methods of reducing exposure to interest rate movements.

EFIC's policy is to minimise interest rate risk. If loans are not at floating-rates, a fixed to floating-rate swap is generally entered into from the time terms and conditions are agreed.

In certain circumstances cash flow hedges may be entered into to hedge the exposure to variability in interest rate movements that are attributable to future interest cash flows. At year end EFIC has entered two cash flow hedge relationships using interest rate swaps as the hedging instrument, which require settlement of net interest receivable or payable every 180 days. The underlying hedged items are a loan classified as a receivable from other financial institutions and a borrowing classified as a payable to other financial institutions where the settlement date of interest coincides with the corresponding interest rate swap.

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

As exposures to interest rate risks are protected as far as practicable, movements in market interest rates do not have a material impact on EFIC's Commercial Account lending portfolio.

The National Interest Account funds their loans from the Commercial Account at a matched rate and therefore they are not exposed to interest rate risk.

Fixed interest loans and borrowing portfolios have an opportunity cost exposure to changes in market value. The change in market value can be caused by either a general shift in the level of interest rates or by a change in the credit margin of individual assets. Exposure to the general level of interest rates is a function of "duration", whereas, exposure to credit margin is a function of "term to maturity". The board sets a benchmark for the duration of the capital and reserves portfolio. Other fixed interest portfolios and EFIC's loan and investments and borrowing portfolios are not impacted by changes in the general level of interest rates due to duration hedging.

EFIC's exposure to interest rate risk is only on the Commercial Account and is shown below. The amounts shown are the undiscounted principal exposure and notional principal amounts outstanding.

30 June 2009 Undiscounted principal exposures	Floating interest rate $ m	Non-interest bearing $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed Total $ m
Financial assets						
Cash and liquid assets	0.6	-	-	-	-	-
Receivables from other financial institutions	177.6	-	-	-	-	-
Available-for-sale investment securities	883.5	-	5.0	66.5	-	71.5
Loans and receivables designated at fair value through profit and loss	226.3	-	4.9	14.7	4.8	24.4
Loans to National Interest Account designated at fair value through profit and loss	372.3	-	73.1	283.9	227.8	584.8
Total financial assets	1,660.3	-	83.0	365.1	232.6	680.7
Financial liabilities						
Payables to other financial institutions	55.1	-	-	-	-	-
Derivative financial instruments						
– Cross currency swaps	363.2	-	(125.6)	(305.7)	(7.7)	(439.0)
– Interest rate swaps *	(403.1)	-	33.9	223.7	145.5	403.1
Borrowings designated at fair value through profit and loss	1,289.7	-	165.8	381.4	95.3	642.5
Other monetary liabilities	-	47.5	-	-	-	-
Total financial liabilities	1,304.9	47.5	74.1	299.4	233.1	606.6
Net interest exposures	355.4	(47.5)	8.9	65.7	(0.5)	74.1

* Notional principal amounts

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

30 June 2008 **Undiscounted principal exposures**	Floating interest rate $ m	Non-interest bearing $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed Total $ m
Financial assets						
Cash and liquid assets	0.7	-	-	-	-	-
Receivables from other financial institutions	245.6	-	-	-	-	-
Available-for-sale investment securities	679.6	-	35.2	61.5	-	96.7
Loans and receivables designated at fair value through profit and loss	144.7	-	4.9	13.4	7.2	25.5
Loans to National Interest Account designated at fair value through profit and loss	369.9	-	65.0	259.6	251.6	576.2
Total financial assets	1,440.5	-	105.1	334.5	258.8	698.4
Financial liabilities						
Payables to other financial institutions	16.8	-	-	-	-	-
Derivative financial instruments						
- Cross currency swaps	430.1	-	(115.8)	(147.3)	(102.4)	(365.5)
- Interest rate swaps *	(409.1)	-	35.9	206.9	166.3	409.1
- Interest rate futures *	-	-	-	(56.0)	-	(56.0)
Borrowings designated at fair value through profit and loss	1,148.9	-	149.2	213.7	195.4	558.3
Other monetary liabilities	-	10.2	0.3	0.2	-	0.5
Total financial liabilities	1,186.7	10.2	69.6	217.5	259.3	546.4
Net interest exposures	253.8	(10.2)	35.5	117.0	(0.5)	152.0

* Notional principal amounts

> Interest margin (duration)

To ensure consistency and a common approach to interest rate sensitivity analysis, EFIC have adopted the recommendations provided by the Commonwealth. The sensitivity analysis movement percentages are based on both statistical and non-statistical analysis. The statistical analysis is based on the cash rate for the past five years issued by the Reserve Bank Of Australia (RBA) as the underlying dataset. This information is then revised and adjusted for reasonableness under the current economic circumstances. The below percentage changes are the recommendations for interest rate sensitivity provided by the Commonwealth.

Sensitivity analysis of interest rate risk (which is the risk that the fair value will fluctuate because of changes in market interest rates and not credit factors) for the Commercial Account is only performed for capital and reserve investments as these are the only products of EFIC'S portfolio materially affected by interest rate movements:

	Exposure at risk 2009 $m	**Increase in basis points Effect on profit 2009 $m**	**Decrease in basis points Effect on profit 2009 $m**	**Increase in basis points Effect on equity 2009 $m**	**Decrease in basis points Effect on equity 2009 $m**
Capital and reserve portfolio					
Fixed rate investments					
75 basis points interest margin	**71.5**	**-**	**-**	**(0.9)**	**0.9**
Floating rate investments					
75 basis points interest margin	**309.4**	**2.1**	**(2.1)**	**(0.2)**	**0.2**

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NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Exposure at risk 2008 $m	Increase in basis points Effect on profit 2008 $m	Decrease in basis points Effect on profit 2008 $m	Increase in basis points Effect on equity 2008 $m	Decrease in basis points Effect on equity 2008 $m
Capital and reserve portfolio					
Fixed rate investments					
75 basis points interest margin	96.7	-	-	(1.3)	1.3
Floating rate investments					
75 basis points interest margin	244.2	1.7	(1.7)	(0.2)	0.2
Futures					
75 basis points interest margin	56.0	(1.2)	1.2	-	-

> Credit margin (term to maturity)

For EFIC's investment portfolio there is a credit revaluation risk as the fair value of the investments will fluctuate because of changes in the credit of the counterparty where the investment is placed. These amounts are reflected in EFIC's equity, as the portfolio is classified as available-for-sale.

EFIC's investment approval is from the CAC Act under s18(3)(d). This approval requires EFIC to only invest in Australian Commonwealth and State Governments, Authorised Deposit Taking Institutions rated at least BBB- and other entities rated AA- or better. The counterparty rating may be downgraded after purchase and management will decide whether to sell or hold the investment.

Not withstanding such a high level of credit quality required in EFIC's investments, the portfolio is exposed to movements in credit spreads and over the past year, given disruptions in world financial markets, all credit classes have been impacted.

Unrealised mark to market losses were minimised by having a short average life to maturity. As investments are classified as available-for-sale, mark to market losses are reflected in equity, and assuming no credit defaults, losses would not be realised in the profit and loss; on maturity, unrealised losses will be reversed out of equity.

Sensitivity analysis of credit risk for the Commercial Account is as follows:

	Increase in basis points Effect on equity 2009 $m	**Decrease in basis points Effect on equity 2009 $m**	Increase in basis points Effect on equity 2008 $m	Decrease in basis points Effect on equity 2008 $m
Investment portfolio				
Fixed rate investments				
50 basis points credit margin	**(0.6)**	**0.6**	(0.9)	0.9
100 basis points credit margin	**(1.2)**	**1.2**	(1.7)	1.7
200 basis points credit margin	**(2.3)**	**2.5**	(3.3)	3.6
Floating rate investments				
50 basis points credit margin	**(3.7)**	**3.7**	(4.2)	4.2
100 basis points credit margin	**(7.4)**	**7.4**	(8.4)	8.4
200 basis points credit margin	**(14.8)**	**14.8**	(16.9)	16.9

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Foreign exchange risk

EFIC extends facilities in various currencies, principally in US dollars and Euros. Where the borrowing currency is different from the currency of the assets being funded, cross-currency swaps, or the foreign exchange markets are used to offset the exposure (before provisions).

Foreign currency exposures for the Commercial Account in Australian dollar equivalents:

30 June 2009	USD	EUR	JPY	Other
Financial assets exposure in foreign currencies	**A$m**	**A$m**	**A$m**	**A$m**
Cash and liquid assets	**0.1**	**0.1**	**-**	**0.1**
Receivables from other financial institutions	**121.1**	**19.7**	**-**	**1.3**
Derivative financial instruments	**1,232.9**	**222.4**	**816.8**	**53.8**
Available-for-sale investment securities	**67.5**	**67.7**	**-**	**10.3**
Loans and receivables designated at fair value through profit and loss	**213.5**	**6.9**	**-**	**-**
Loans to National Interest Account designated at fair value through profit and loss	**665.1**	**342.6**	**-**	**-**
Total financial assets exposure in foreign currencies	**2,300.2**	**659.4**	**816.8**	**65.5**
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	**55.2**	**-**	**-**	**-**
Derivative financial instruments	**1,391.3**	**592.2**	**14.0**	**10.3**
Guarantees designated at fair value through profit and loss	**23.7**	**8.6**	**2.7**	**1.8**
Borrowings designated at fair value through profit and loss	**826.0**	**73.2**	**802.8**	**53.8**
Total financial liabilities exposure in foreign currencies	**2,296.2**	**674.0**	**819.5**	**65.9**
Net foreign exchange exposures in foreign currencies	**4.0**	**(14.6)**	**(2.7)**	**(0.4)**

30 June 2008	USD	EUR	JPY	Other
Financial assets exposure in foreign currencies	A$m	A$m	A$m	A$m
Cash and liquid assets	0.1	-	-	0.1
Receivables from other financial institutions	168.6	24.3	-	-
Derivative financial instruments	686.9	6.4	702.3	52.0
Available-for-sale investment securities	42.1	39.0	-	10.4
Loans and receivables designated at fair value through profit and loss	125.6	9.1	-	-
Loans to National Interest Account designated at fair value through profit and loss	600.1	349.5	-	-
Total financial assets exposure in foreign currencies	1,623.4	428.3	702.3	62.5
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	16.8	-	-	-
Derivative financial instruments	888.8	338.7	10.8	10.4
Guarantees designated at fair value through profit and loss	12.8	5.3	3.7	1.8
Borrowings designated at fair value through profit and loss	709.0	90.8	691.5	52.0
Total financial liabilities exposure in foreign currencies	1,627.4	434.8	706.0	64.2
Net foreign exchange exposures in foreign currencies	(4.0)	(6.5)	(3.7)	(1.7)

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NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

EFIC's business creates foreign exchange exposures in relation to future income and expense. EFIC's current policy is only to hedge 'realised' income and expense not to hedge 'unrealised' or future foreign currency income and expense.

The exposure to foreign exchange rate movement is kept to a minimum as borrowings are converted via cross currency swaps into the currency that is needed to lend to EFIC's clients. The three main components that are exposed to foreign exchange movements relate to (i) an asset for future fixed interest profit that has been taken to income in US dollars and Euro; (ii) an asset of future risk premiums taken to income in US dollars and Euro; and (iii) a liability for allowance for credit risk which is held in AUD against loans predominately in foreign currencies. As shown by the above tables the net foreign exchange exposure as at 30 June 2009 is minimal in value and would not have a material impact on profit as shown by the tables below.

To ensure consistency and a common approach to foreign exchange sensitivity, EFIC have adopted the recommendations provided by the Commonwealth. The sensitivity analysis movement percentages are based on both statistical and non-statistical analysis. The statistical analysis is based on main currency movements for the last five years. This information is then revised and adjusted for reasonableness under the current economic circumstances. Sensitivity has only been performed on the three currencies that are material to EFIC's accounts.

Sensitivity analysis for foreign exchange on the Commercial Account:

	Change in foreign exchange rate (FX) %	Exposure at risk 2009 A$m	Increase in FX rate Effect on profit 2009 A$m	Decrease in FX rate Effect on profit 2009 A$m	Exposure at risk 2008 A$m	Increase in FX rate Effect on profit 2008 A$m	Decrease in FX rate Effect on profit 2008 A$m
Exposure USD	12	4.0	(0.4)	0.5	(4.0)	0.4	(0.5)
Exposure EUR	12	(14.6)	1.6	(2.0)	(6.5)	0.7	(0.9)
Exposure JPY	12	(2.7)	0.3	(0.4)	(3.7)	0.4	(0.5)

Foreign currency exposures for the National Interest Accounts in Australian dollar equivalents:

	USD 30 June 2009 A$m	EUR 30 June 2009 A$m	USD 30 June 2008 A$m	EUR 30 June 2008 A$m
Financial assets exposure				
Loans and receivables	551.9	303.9	512.8	323.0
Total financial assets exposure	551.9	303.9	512.8	323.0
Financial liabilities exposure				
Borrowings from Commercial Account	561.5	303.9	522.7	323.0
Total financial liabilities exposure	561.5	303.9	522.7	323.0
Net foreign exchange exposures	(9.6)	-	(9.9)	-

The exposure relates to the US dollar to be funded by the Australian government in respect of the National Interest Account rescheduled debts of the Egyptian government. The policy of the Commonwealth is not to hedge these exposures.

Sensitivity analysis for foreign exchange on the National Interest Account:

	Change in foreign exchange rate (FX) %	Exposure at risk 2009 A$m	Increase in FX rate Effect on profit 2009 A$m	Decrease in FX rate Effect on profit 2009 A$m	Exposure at risk 2008 A$m	Increase in FX rate Effect on profit 2008 A$m	Decrease in FX rate Effect on profit 2008 A$m
Exposure USD	12	(9.6)	1.0	(1.3)	(9.9)	1.1	(1.4)

NOTE 19 CAPITAL

	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	30 June 2009 $ m	30 June 2008 $ m	**30 June 2009 $ m**	30 June 2008 $ m
Capital available				
Equity at start of period	**331.2**	359.8	-	-
Profit year-to-date	**33.6**	19.7	-	-
Revaluation of land and buildings	**(3.9)**	-	-	-
Net gain on cash flow hedges	**4.6**	-	-	-
Net gain/(loss) on available-for-sale investments	**21.0**	(27.9)	-	-
Dividend paid	**(9.8)**	(20.4)	-	-
Equity at end of period	**376.7**	331.2	-	-
Eligible allowance for credit risk in capital	**11.3**	9.4	-	-
EFIC capital	**388.0**	340.6	-	-
Callable capital	**200.0**	200.0	-	-
Capital available (including callable capital)	**588.0**	540.6	-	-
Capital required				
Export finance	**96.2**	76.6	-	-
Treasury	**36.5**	30.5	-	-
Other assets	**2.9**	3.4	-	-
Operational capital	**7.3**	8.4	-	-
Capital before concentration capital	**142.9**	118.9	-	-
Concentration capital	**146.6**	123.7	-	-
Dividend payable (subject to Board approval)	**16.8**	9.9	-	-
Total capital required	**306.3**	252.5	-	-
Capital ratios				
Risk weighted assets	**1,885.3**	1,566.9	-	-
Capital adequacy ratio (excl. callable capital)	**20.6%**	21.7%	-	-
Capital adequacy ratio (incl. callable capital)	**31.2%**	34.5%	-	-

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NOTE 19 CAPITAL (CONTINUED)

Under Section 56 of the EFIC Act the Board is required "to ensure, according to sound commercial principals, that the capital and reserves of EFIC at any time are sufficient". APRA requires banks in Australia to have minimum capital requirements consistent with the Basel II framework. Accordingly, and in line with best practice, the Board has adopted Basel II principles where appropriate to ECA's for measuring capital adequacy in EFIC. EFIC's management provide an annual update to the Audit Committee and the Board in relation to the capital adequacy policy. The capital adequacy ratio, capital available and capital required is reported as part of the management accounts at every Board meeting.

Under Basel II and APRA guidelines, there are a number of risks that are incorporated into the measurement of capital adequacy. These risks include credit risk, operational risk, and market risk. In addition "other risks" such as credit concentration risk may be included. EFIC's model can be summarised as follows:

- EFIC adopts the Standardised approach to measure credit risk for Treasury related business and the Internal Ratings Based (IRB) approach (as allowed by APRA and Basel II) to measure credit risk for the core Export Finance business;
- EFIC adopts the Standardised approach to measure capital required for operational risk which uses an asset indicator (as allowed by APRA), as the proxy for the scale of business risk, and thus the likely scale of operational risk rather than annual gross income outlined in Basel II. Under this alternate approach, gross loans and advances over the past six consecutive half-yearly observations are used;
- EFIC has not allocated any capital for market risk such as interest rate and currency risk as these risks are fully hedged and therefore EFIC has replaced market risk with counterparty risk. Counterparty risks are incorporated into EFIC's credit risk calculations. However, any mark-to-market gains and losses on Treasury's investment portfolio are treated as equity as the portfolio is deemed 'available-for-sale';
- EFIC allows for concentration risk on large exposures as other risks in our model and carry concentration capital based on the highest of:
    - 100% of the largest individual exposure; or
    - 50% of the largest country exposure (excluding ERS 1 and 2); or
    - 50% of the largest industry exposure (except shipping at 40%)
- EFIC does not differentiate between Tier I and Tier II capital;
- EFIC requires a minimum capital adequacy ratio of 16% including callable capital, and 8% excluding callable capital to EFIC's risk-weighted assets.
- Where total expected losses are less than eligible provisions, EFIC recognises up to a maximum of 0.6% of credit risk weighted assets.

NOTE 20 REMUNERATION OF AUDITORS

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2009 $ m**	30 June 2008 $ m	**30 June 2009 $ m**	30 June 2008 $ m
Audit services					
Paid		**139,700**	144,000	-	-
Payable		**106,300**	136,151	-	-
Other services		**47,000**	-	-	-
Total audit services		**293,000**	280,151	-	-

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NOTE 21 RELATED PARTY DISCLOSURES

Key management personnel

Total remuneration received and receivable by key management personnel for the year. Remuneration includes all cash remuneration, superannuation and any non-cash benefits (including applicable FBT). For this note, key management personnel includes persons who are in the senior management team of EFIC.

	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	30 June 2009 $ m	30 June 2008 $ m	**30 June 2009 $ m**	30 June 2008 $ m
Short-term employee benefits	**3,292,598**	2,942,221	-	-
Post-employment benefits	**353,299**	257,600	-	-
Termination payments	**99,090**	-	-	-
Total remuneration	**3,744,987**	3,199,821	-	-
Board Members				
Remuneration received or receivable by Board Members of EFIC	**764,846**	879,860	-	-
Total remuneration of board members	**764,846**	879,860	-	-

The names of each person who held office as a member of the Board of EFIC during the financial year are:

Mr A Mohl, Mr P Young, Mr M Carapiet, Mr H Davies, Mr A Armour, Mr D Crombie, Mr D Evans, Mr I Knop, Mr M L'Estrange, Ms S Pitkin, and Mr A Sherlock.

Changes in Board membership during the year:

23 August 2008	Mr P Young	Appointment ended
27 November 2008	Mr H Davies	Appointment ended
27 November 2008	Mr I Knop	Appointment ended
9 December 2008	Mr M Carapiet	Reappointed
9 December 2008	Mr A Sherlock	Reappointed
9 December 2008	Mr A Mohl	Appointed
9 December 2008	Mr D Evans	Appointed

Transactions with Board Members and Board Member related entities

EFIC has not entered into any transactions with a Board Member. Any transactions entered into with an entity related to a Board Member, have been entered into in the normal course of business and on normal terms and conditions applied to EFIC's facilities of insurance, bonds, guarantees and loans.

Under the EFIC Act, EFIC has a number of transactions with the Commonwealth. The principal transactions are those related to the National Interest Account activities. Material transactions are detailed in these statements.

The Commonwealth guarantees the due payment by EFIC of any money that becomes payable by EFIC to a third party.

NOTE 22 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	30 June 2009 $ m	30 June 2008 $ m	**30 June 2009 $ m**	30 June 2008 $ m
Operating profit from ordinary activities	**33.6**	19.7	**(0.2)**	4.8
Reclassification on non-cash items				
Depreciation	**2.8**	2.6	**-**	-
Employee entitlements	**0.4**	0.4	**-**	-
Amortisation of deferred income	**-**	-	**(36.4)**	(34.5)
Credit risk movement	**14.8**	17.9	**-**	-
Specific provision	**2.7**	(1.6)	**(0.5)**	0.6
Foreign exchange (gains)/losses	**2.5**	-	**3.0**	(2.1)
Unearned premium	**-**	-	**(2.2)**	(3.2)
Fair value movement	**(6.1)**	(11.2)	**-**	-
Other	**0.4**	(0.9)	**-**	(0.9)
Reclassification on cash items				
(Increase)/decrease in receivables	**9.3**	0.8	**1.8**	(1.7)
(Decrease)/increase in payables	**(3.5)**	(4.4)	**(0.6)**	(0.2)
Net repayments of loan balances	**(23.4)**	51.6	**129.6**	109.2
Rescheduled debt repayments	**2.9**	2.7	**13.6**	12.2
Net cash inflows/(outflows) from operating activities	**36.4**	77.6	**108.1**	84.2
Reconciliation of cash				
Cash at end of financial year is reconciled to the related items in the Statement of Financial Position as follows:				
Cash	**0.6**	0.7	**-**	-
Receivable from other financial institutions	**122.8**	247.7	**-**	-
Cash (including liquid funds) at end of financial year	**123.4**	248.4	**-**	-
Financing facilities				
Borrowing facilities available to EFIC at end of financial year				
Overdraft facilities	**0.3**	0.3	**-**	-
Amount of facilities used	**-**	-	**-**	-
Amount of facilities unused	**0.3**	0.3	**-**	-

GLOSSARY

TERM	DESCRIPTION
ADI	Authorised Deposit-taking Institution
AIFRS	Australian equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASX	Australian Securities Exchange
AusAID	Australian Agency for International Development
Austrade	Australian Trade Commission
CAC Act	*Commonwealth Authorities and Companies Act 1997*
Commonwealth	Government of the Commonwealth of Australia
CRP	Corporate Responsibility Policy
CSR	Corporate social responsibility
DFAT	Department of Foreign Affairs and Trade
DIFF	Development Import Finance Facility
ECA	Export credit agency
EEO	Equal employment opportunity
EFG	Export finance guarantee
EFIC	Export Finance and Insurance Corporation
EFIC Act	*Export Finance and Insurance Corporation Act 1991*
ERS	EFIC risk score
FIRG	Financial Institutions Remuneration Group Inc
FOI Act	*Freedom of Information Act 1982*
Government	Government of the Commonwealth of Australia
GRi	Global Readiness index
GDP	Gross domestic product
HSMA	Health and Safety Management Agreement
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rates
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational health and safety
RCM	Risk Control Matrix
SME	Small and medium enterprise
UNEP FI	United Nations Environment Programme Finance Initiative

All figures are Australian dollars unless stated otherwise.

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EFIC Annual Report 2009

Australian Government

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