EFIC

Export Finance & Insurance Corporation

2011–12 ANNUAL REPORT

Overcoming financial barriers for exporters

Export Finance and Insurance Corporation

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Internet access

This document is available online at www.efic.gov.au/annual-report.

In March 2012, the responsibilities of the Minister for Trade were expanded, and he became the Minister for Trade and Competitiveness. For consistency, the expanded title is used throughout this report.

All dollar figures are Australian dollars unless otherwise indicated.

For information about EFIC's products, please refer to our website, www.efic.gov.au.

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EFIC's mission and values

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 principal o

Objective 1: Support Australian exports and overseas investments

2011-12

Table 1: EFIC's performance in supporting exports and investments, 2011-12

Performance measure	2011-12 target	2011-12 outcome
Value of facilities signed	$940 million	$1 billion
Value of exports and overseas investments supported	Over $4.8 billion	Over $4.5 billion
Number of facilities provided	143	104

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2011-12

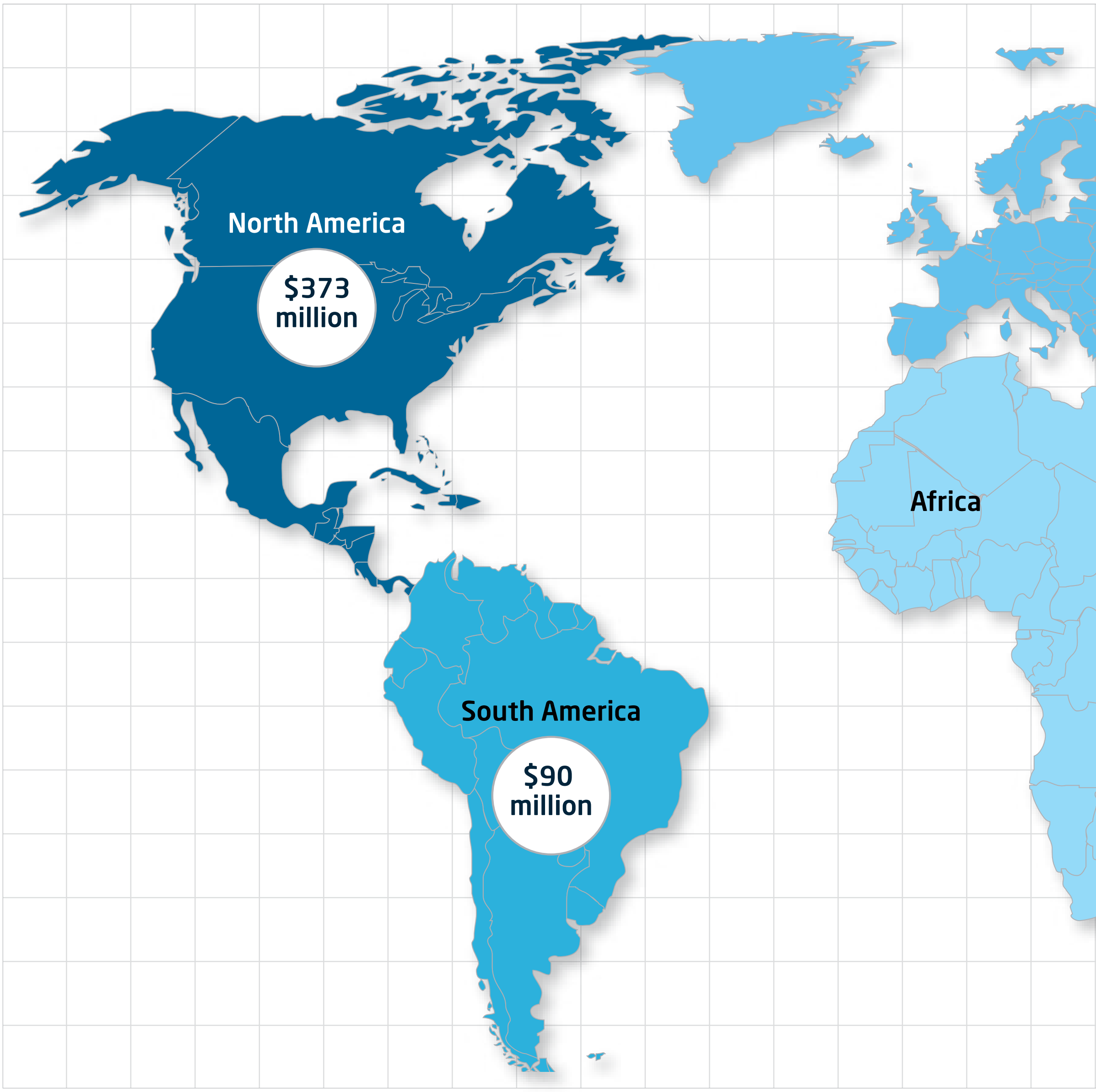
Objective 2: Generate sustainable profit within the market gap and prevailing policy and pricing constraints

Table 2: EFIC's financial performance, 2011-12

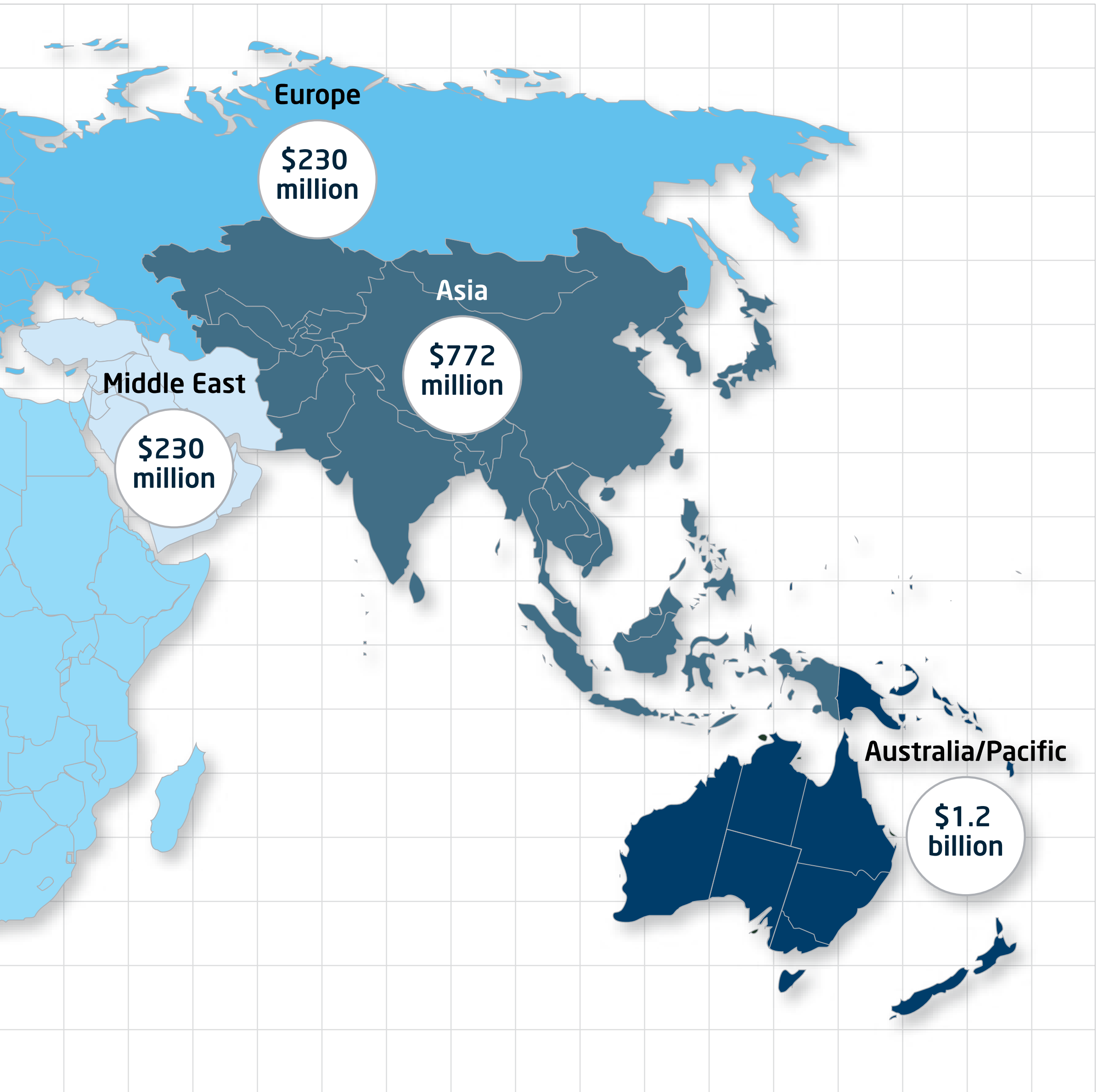
Performance measure	2011-12 target	2011-12 outcome
Profit on Commercial Account	$22.4 million	$26.8 million
Capital adequacy ratio	Above 16 per cent of risk-weighted assets including callable capital, and 8 per cent on a cash capital basis	Capital adequacy ratio during the year of between 29 per cent and 34 per cent of risk-weighted assets including callable capital and between 19 per cent and 23 per cent on a cash capital basis. (31 per cent of risk-weighted assets including callable capital and 21.2 per cent on a cash capital basis at 30 June 2012)
Manage EFIC's overall portfolio risk within the market gap	Weighted average risk grade over the business cycle of between 3.5 and 4.5, where 4 is equivalent to a rating of BB/Ba and 5 is equivalent to B/B	Weighted average risk grade during the year between 3.5 and 3.8 (3.6 at June 2012)

Exposures by region

Figure 1: EFIC's exposures by region

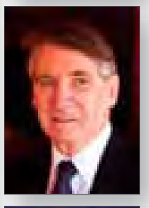


At 30 June 2012, EFIC managed maximum exposures of $2.9 billion across 25 countries (Figure 1).



Note: Maximum exposures for the Commercial Account and National Interest Account. Includes facilities not yet drawn.

Summary and statement by the



The EFIC Board at 30 June 2012
Back row (L-R): Jennifer Seabrook, Angus Armour (Managing Director), Nicholas Minogue
Front row (L-R): David Evans, Sally Pitkin (Deputy Chair), Andrew Mohl (Chairman), Deena Shiff
Insets (top - bottom): Bruce Brook, Dennis Richardson, Bruce Gosper

EFIC performed strongly in 2011-12, entering into more than 100 facilities to support Australian exporters and investors in more than 40 countries.

During the year, EFIC provided facilities totalling just over $1 billion (2010-11: $593.1 million), the first time that we have surpassed the $1 billion mark in our export finance business. This record level supported export contracts and overseas investments of over $4.5 billion (2010-11: over $3.4 billion). EFIC's profit on the Commercial Account was $26.8 million (2010-11: $30.2 million).

With ongoing capacity constraints in financial markets, many of EFIC's larger transactions in 2011-12 continued to involve clients with better risk profiles than is usual for our business. As a result, the credit quality of our portfolio continues to be robust. EFIC ended the financial year with a weighted average risk grade of 3.6, which is equivalent to between BBB and BB. When the market normalises, we expect our average risk grade to return to historical levels.

EFIC ended the financial year with a cash capital adequacy ratio of 21.2 per cent (31 per cent including callable capital of $200 million), higher than the minimum ratio of around 8 per cent generally required by bank supervisors around the world.

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Board

In the 2012–13 Federal Budget, the Treasurer announced that EFIC would be required to pay a 'special dividend' of $200 million during 2012–13. The mechanism to direct how this will be paid is yet to be determined; however, legislative changes to the *Export Finance and Insurance Corporation Act 1991* (Cth) will be needed to enable payment. The timing of these legislative changes is yet to be finalised, but the Budget requires the dividend to be paid to the Federal Government by 30 June 2013.

Despite this, our capital base is solid and allows us to support many small and medium-sized exporters. However, the level of demand to support large, long-term transactions continues to be greater than we can prudently meet on the Commercial Account.

EFIC's Board is confident that at a time of heightened credit risk, EFIC has appropriate controls in place and can responsibly meet 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.

During the year, Andrew Mohl was reappointed as Chairman, while Nicholas Minogue and Deena Shiff were appointed to the EFIC Board in December 2011, replacing Tony Sherlock and Michael Carapiet. Sally Pitkin was appointed as Deputy Chair, replacing Mr Carapiet in this capacity. Both Mr Sherlock and Mr Carapiet made highly valuable contributions to the Board during their tenure and we would like to thank them for their service. Tony headed EFIC's Audit Committee for several years, while Michael's expertise in banking and markets proved critical for EFIC, especially during the global financial crisis. David Evans was also reappointed to the Board for a second three-year term in December 2011.

The Board of EFIC is responsible for the preparation and content of this annual report comprising the report of operations and the financial statements under section 9 of the *Commonwealth Authorities and Companies Act 1997* (Cth) and has prepared this report in accordance with the relevant Orders of the Minister for Finance and Deregulation.

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

Andrew Mohl
CHAIRMAN

16 AUGUST 2012

Angus Armour
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

The year in review

During 2011-12, EFIC provided more than 100 facilities worth just over $1 billion, the first time that we have surpassed the $1 billion mark in our export finance business. This record value of facilities supported exports and overseas investments valued at over $4.5 billion. We recorded a profit on EFIC's Commercial Account of $26.8 million, reflecting the continued strength of our underwriting of risk and the repayment of existing facilities.

These strong results were delivered in a year of significant volatility, persistent demand for debt to finance large-scale resource projects and related infrastructure, an uneven recovery in the global economy and in commercial credit markets, and a high Australian dollar.

This year saw the Productivity Commission launch its inquiry into Australia's export credit arrangements and the release of its final report. We made two detailed submissions to the inquiry and look forward to working with the Government as it considers the outcomes of the review in the coming months.

We continued to help Australian exporters of all sizes overcome financial barriers by supporting exports to more than 40 countries. We were particularly active in supporting the mining sector, which accounted for just over 60 per cent of EFIC's new signings by dollar value, as well as the construction sector.

Our Structured Trade and Project Finance team continued to experience demand from large corporate borrowers. We responded to private sector constraints for companies involved in the resource export supply chain by providing advance payment bonds to UGL Limited for its role in constructing a $900 million power plant for the US$34 billion, Australian-based Ichthys liquefied natural gas (LNG) project. We also provided a US$250 million export finance guarantee to support a corporate senior debt facility for Santos's contribution to the Gladstone LNG project and an insurance policy to Brookfield Rail to help fund the upgrade of its rail infrastructure network in the Mid West region of Western Australia.

Our SME and Mid Market team experienced another strong year, with the team consolidating its industry and geographical focus. The commodity, trade and agribusiness team was expanded following increased demand for solutions.

In response to the growing number of companies providing services for the export of resources, we expanded our support for those contractors and subcontractors providing services for export-related projects. These are projects where the ultimate goods produced are exported, including iron ore and oil and gas, but the companies that are a part of the export contract supply chain are not themselves the exporters.

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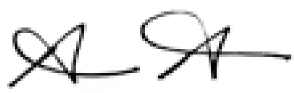
EFIC opened offices in Melbourne and Perth, with the latter underscoring our efforts to support Western Australian subcontracting companies working on major export resource projects.

We partnered with online foreign exchange company OzForex and specialist currency services provider HiFX to expand our foreign currency offering to help exporters overcome the barriers presented by ongoing foreign exchange fluctuations and the high Australian dollar. And our Producer Offset loan continued to be a success – we supported films including the Indigenous production, *Satellite Boy*, and the political thriller, *Last Dance*.

While commercial lenders are gradually regaining their appetite for credit risk, world financial markets remain volatile and demand for finance from both the large corporate and SME sectors is strong. The challenge for EFIC in the coming year is adapting to the structural change in the Australian economy and its implications for Australian exporters.

Notably, EFIC is increasingly being asked to deliver solutions for onshore export-related projects and large resource projects. In response, we will continue to adapt our products and approaches to help Australian firms win new export and export-related contracts and finance their offshore investments.



Angus Armour
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
16 AUGUST 2012

Part 1: Report of operations

New business and exports supported

Structured Trade and Project Finance team

In 2011–12, credit market volatility persisted and offshore bank appetite remained difficult to predict. Notably, Japanese and US banks showed renewed interest in specific sectors of the market, and Australian banks continued to support high-quality project finance and corporate recourse transactions. European banks have been much more selective in using their balance sheets, given constraints driven by conditions in their primary markets.

The Structured Trade and Project Finance team entered into seven new facilities totalling $784.4 million on the Commercial Account in the year to 30 June 2012, supporting the exporting activities of Australia's larger companies.

Our activities remained concentrated on filling the gaps which result from insufficient private market capacity. Some of these gaps were driven by the size of the credit demand for specific transactions, which has exceeded the capacity of the bank markets, and where foreign export credit agencies have been significant participants. Demand for bonding lines continued, reflecting the investment boom in the resource sector, both here and abroad.

Selectively, these gaps have required EFIC to assist with the financing of large-scale resource projects and related infrastructure in Australia and the region, either directly or through providing assistance to Australian companies engaged in these large export-related projects. We engage in these opportunities, within the terms of EFIC's mandate, to assist companies to expand Australia's export revenues where the private market cannot meet that demand.

A case study of a transaction undertaken during the year is on page 15.

Bonding facilities and insurance

Demand for performance bond facilities increased in 2011–12. EFIC established bonding lines for NRW Holdings Limited, Macmahon Holdings Limited, UGL Limited and Brookfield Multiplex Limited.

This increased demand reflects the greater volume of business being undertaken, both internationally and domestically, in relation to new exporting activity rather than a contraction in the provision of these facilities from the private sector. Our clients are encouraged to use bank bonding lines where possible; however, EFIC's facilities are an important part of contractors' financing platforms, enabling them to bid for new work with the confidence that, if they are successful, they have the capacity necessary to perform those contracts.

Infrastructure and project finance

EFIC was asked to assist with three major export facilities during the year: two involving export finance guarantees and the third requiring a medium-term export payments insurance policy. An export finance guarantee for US$100 million was issued to Sumitomo Mitsui Banking Corporation, one of the 19 domestic and international financial institutions providing finance to the Wiggins Island Coal Export Terminal project, to expand its participation in that financing. The project is being developed by a group of coal companies, including Xstrata Coal, to cater for growing worldwide demand for Australian coal exports.

The second export finance guarantee was issued on behalf of Santos to help finance its share of the capital contributions associated with the construction of the Gladstone LNG project. EFIC provided a US$250 million guarantee to commercial lenders in a coordinated export credit agency financing deal involving Canada and Italy, providing more than $1 billion to Santos.

A medium-term export payments insurance policy was issued to Brookfield Rail to help the finance of an upgrade of its rail infrastructure network in the Mid West region of Western Australia. The upgraded rail network will carry 10 million tonnes of iron ore annually from a new mine in that region. Brookfield Rail and its bankers required certainty of the payment obligations of the shipper, which EFIC and our Canadian counterpart, Export Development Canada, were able to provide.

Many smaller companies represent the Australian content that EFIC supports through engagement with our clients. Those companies benefit indirectly from our participation in these large-scale financings, though they do not obtain facilities from EFIC, nor are they necessarily aware of our role in these transactions.

Working with other export credit agencies

The increasing presence of foreign export credit agencies (ECAs) in the financing of Australian resource developments and related infrastructure is, in part, assisted by EFIC's participation in these transactions. On several occasions, sponsors have sought EFIC's cooperation and participation in the lead financier group, to encourage the participation of other agencies. This catalytic role is consistent with EFIC's mandate to 'crowd in' other financiers, not just private market participants, to ensure that these projects are financed, successfully completed and commissioned. EFIC is actively engaged with other ECAs to share risk where there is foreign content in transactions that are eligible for support from the relevant foreign agencies.

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Support for large corporate clients

Brookfield Rail Pty Ltd

CASE STUDY

Medium-term export payments insurance

Export destination: China

Brookfield Rail required support to fund the upgrade of its rail infrastructure network in the Mid West region of Western Australia, the largest investment program the company has undertaken on its network in the last 40 years.

With the help of EFIC, which provided a US$270 million insurance policy, Brookfield Rail was able to secure financing for the rail upgrade project, which will provide important export infrastructure.

As manager of the Mid West rail network, Brookfield Rail has an important role to play in supporting developing mining projects in the region by providing access to rail infrastructure. Brookfield Rail is a rail infrastructure owner and rail access provider operating in Western Australia.

The rail upgrade project involves the improvement of around 200 kilometres of Brookfield Rail's network between the port of Geraldton and Morawa in the developing Mid West iron ore region. It will enable local mining companies including Karara Mining to ship iron ore for export to Asia.

To finance the rail upgrade project, Brookfield Rail borrowed $350 million from a syndicate of banks to meet part of the approximately $600 million project costs.

The company sought EFIC's assistance to insure the credit risk on security issued on behalf of the owners of the Karara mine to support its payment obligations to Brookfield Rail. The private market was unable to provide the insurance needed to ensure the financing of the project could be completed successfully.

Brookfield Rail estimates that total exports supported by EFIC's insurance policy will be at least $10 billion over the life of the policy and potentially up to $30 billion, based on the primary users of the upgraded rail infrastructure.

SME and Mid Market team

EFIC's SME and Mid Market team is focused on finding solutions to the financing challenges faced by Australian exporters with an annual turnover of less than $150 million.

In 2011–12, the team signed 95 facilities worth $195.5 million across a wide range of products and sectors, reflecting the continuing challenges SME and mid-market exporters face in obtaining finance from the commercial market.

In 2011–12, the SME and Mid Market team was reorganised to enhance its capabilities and provide more effective solutions for SME and mid-market clients. A highlight was the opening of two interstate offices. We boosted our presence in Victoria with the opening of an office in Melbourne, while our new Perth office underscored EFIC's efforts in the subcontracting arena. Support for Western Australian subcontracting companies working on major resource projects will be a major focus in the year ahead.

Following an increase in demand for effective financing solutions, the commodity, trade and agribusiness group within the SME and Mid Market team was expanded to enhance the team's capabilities in those areas. We also centralised our execution and relationship management function to offer greater support to EFIC's origination and credit teams.

As a result of these efforts, the SME and Mid Market team has been successful in delivering solutions for a range of SME and mid-market clients, from traditional exporters to subcontracting firms working on export-related projects.

Case studies of transactions undertaken during the year are on pages 18–21.

Product innovation

EFIC continued to expand its distribution network, partnering with online foreign exchange company OzForex and specialist currency services provider HiFX to help clients overcome the barriers presented by dealing in foreign currencies. These partnerships build on the strong relationship we have with our longstanding partner, Travelex, in the foreign exchange arena.

In a year that saw the strong Australian dollar continue to threaten exporters' bottom lines, EFIC provided OzForex and HiFX with a foreign exchange guarantee facility to help eligible small and medium-sized exporters manage their currency exposure risk. Companies that trade internationally are then better able to protect their profit and have more capital to further invest in their business.

EFIC's Producer Offset loan continued to be a success. The loan program, developed in collaboration with Screen Australia, assists small Australian film and television productions that have international distribution agreements and are eligible for the Australian Government's Producer Offset scheme, but have difficulty attracting finance in the commercial market. In 2011–12, the films EFIC supported included *Satellite Boy*, the story of a young Aboriginal boy trying to save his outback home from developers, and the political thriller, *Last Dance*.

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Product development

As a result of our commitment to offering tailored solutions for our clients, EFIC decided to withdraw the EFIC Headway product in December 2011. However, we continue to evolve our support for small exporters through our export working capital guarantee product. The guarantee provides exporters with support for their short-term working capital requirements.

In 2011–12, companies that EFIC assisted through the guarantee included Lean Field Developments, a supplier to the Queensland Curtis LNG project, and railway management software group TTG Transportation Technology.

EFIC also increased its support for eligible Australian-based contractors and subcontractors that supply projects in Australia where the final goods and/or services are exported. We have helped eligible companies working on projects such as oil and gas, defence and resources to win and finance contracts.

Products and alliances

In 2011–12, EFIC continued to build on its risk-sharing agreement with the Asian Development Bank (ADB), which was signed in May 2011. The agreement, part of ADB's Trade Finance Program, aims to make it easier for some of Asia's developing economies to import crucial Australian goods.

In March 2012, we extended the agreement to include Vietnam, making it easier for Vietnamese companies to import Australian goods, including those for use in export production. EFIC shares in the risk that ADB takes when it provides guarantees against non-payment under financial instruments issued for the payment of Australian exports to Vietnam.

Support for SME and mid-market exporters

Wellard Rural Exports

CASE STUDY

Export finance guarantee

Export destination: Sri Lanka

As one of Australia's and the world's leading livestock exporters, Wellard Rural Exports often seeks the support of flexible financing solutions for its international business ventures.

When bidding for a US$12.95 million project to assist the National Livestock Development Board of Sri Lanka in the establishment of a high-productivity dairy farm, Wellard needed the backing of a financing package to enable it to deliver the best possible outcome for the project.

Under the contract, Wellard is supplying the Government of Sri Lanka with high-quality Australian dairy cattle, farming infrastructure, plant and equipment and farm management support services. The farm is to act as a pilot project for the subsequent development of larger-scale dairy production farms in other parts of Sri Lanka.

EFIC provided Rabobank with an export finance guarantee for an amount equal to 81 per cent of the US$12.95 million project, which enabled Rabobank to provide a long-term sovereign loan to the Government of Sri Lanka to fund the dairy infrastructure project.

EFIC's understanding of the complexities of international financing structures and its ability to partner with local and international finance institutions helped Wellard to compete in global markets.

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Binder Group

CASE STUDY

Warranty bond

Project location: Western Australia

Pipe suspension designer and manufacturer Binder Group needed to provide a warranty bond for the supply of pipe supports for the Gorgon liquefied natural gas (LNG) project, Australia's largest single resource project and one of the world's largest LNG projects.

EFIC provided a warranty bond for $547,000 to cover Binder's warranty obligations for the Gorgon project. A warranty bond protects a buyer from loss if the goods or services provided do not meet contractual warranty obligations after a contract is completed.

The bond enabled the company to use its existing bank guarantee lines to fund additional LNG export projects.

Binder is one of Western Australia's largest designers and manufacturers of proprietary and custom-built pipe suspension solutions for the oil and gas, power generation, petrochemical, mining and mineral processing industries. It also supplies Woodside's Pluto LNG project and the Worsley Alumina refinery, both in Western Australia, as well as other Australian and international projects.

GRM International

CASE STUDY

Bonding facility

Project location: India

GRM International is one of Australia's leading providers of project management services and technical assistance for international development projects.

The company focuses on social infrastructure projects across a wide range of sectors. EFIC provided a $10 million bonding facility to support the Brisbane-based company's international contracts.

In 2012, EFIC provided a bond to the European Commission for €796,626 to support the provision of services by a GRM group company for a European Union aid program focused on achieving improvements to rural and child health outcomes in India.

GRM's clients include national aid agencies, such as the Australian Agency for International Development (AusAID) and the UK Department for International Development, the European Commission, multilateral development banks and government authorities.

The company has almost 50 years of development experience and has managed over 700 projects in more than 120 countries.

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United World Enterprises

CASE STUDY

Export working capital guarantee

Project location: China

Agribusiness exports group United World Enterprises (UWE) required upfront funding to facilitate cottonseed exports to Chinese buyers and to pursue further growth opportunities.

The company had identified new buyers and suppliers and needed working capital to offer more flexible payment terms.

EFIC supplied UWE with a $3 million revolving export working capital guarantee facility through the company's commercial bank, ANZ. As a result, UWE was able to pursue larger contracts and ship larger amounts of cottonseed to more buyers.

An export working capital guarantee supports working capital needs for one or more contracts and can help a company's future export growth plans.

UWE is a commodity trader specialising in facilitating agribusiness exports and recently moved into cottonseed exports on the back of demand from China. The company acts as a selling agent between Australian suppliers and buyers in China, currently the world's largest market for Australian cottonseed.

Facilities signed

Table 3: Facilities signed by EFIC, 2011-12

Exporter / investor / client	Sector	Goods / services	Country	Facility type	Amount (A$ million equivalent)	Environmental /social impact category[(a)]
Asian Development Bank	Manufacturing	Carbonised wool	Pakistan	RPA (9)	0.47	Low potential - Note 1
Asian Development Bank	Mining	Titanium ores and concentrate, rutile sand	Bangladesh	RPA	0.08	Low potential - Note 1
Australian Rural Exports Pty Ltd	Agriculture, forestry and fishing	Breeding cattle	China	EWCG (11)	42.60	C / Low potential - Note 1
Binder Group Pty Ltd	Manufacturing	Pipe struts for Gorgon LNG project	Australia	Bond	0.50	Low potential - Note 1
Bothar Boring and Tunnelling Operations Pty Ltd	Construction	Water and sewerage pipe laying	Kuwait	Bond (3)	3.40	Low potential - Note 1
Brookfield Rail Pty Ltd	Mining (iron ore)	Rail expansion project	Australia	MTI	276.50	B
Brookfield Multiplex Limited	Non-residential building construction	Bonding construction contract obligations	Various	Bond line	47.50	Note 2
Elders International Australia Limited	Agriculture, forestry and fishing	Breeding cattle	Russia	Funded EFG	2.50	B
Ferra Engineering Pty Ltd	Manufacturing	Weapon bay adaptors	United States	EWCG (2)	5.00	C
Great Southern Dairy Pty Ltd	Wholesale trade	Ice cream and frozen confection	United States	EWCG	0.80	Low potential - Note 1
Greyhound Australia Pty Ltd	Transport, postal and warehousing	Transport services	Australia	Bond	5.10	Low potential - Note 1
GRM International Pty Ltd	Professional, scientific and technical services	Project management services	Zambia	Bond	0.30	Low potential - Note 1
GRM International Pty Ltd	Professional, scientific and technical services	Project management services	India	Bond	1.00	Low potential - Note 1
Innovative Technologies 2 Pty Ltd	Manufacturing	Automotive testing equipment	China	EWCG	0.75	C
Knog Pty Ltd	Wholesale trade	Cycling accessories	Various	EWCG	0.30	C
Landmark Global Exports Pty Ltd and Elders International Australia Limited	Agriculture, forestry and fishing	Breeding cattle	Russia	Funded EFG	47.60	B
Lean Field Developments Pty Ltd	Mining	Pipe laying	Australia	Bond	1.00	Low potential - Note 1
Macmahon Holdings Limited	Construction	Mining and construction services	Australia	Bond line	40.50	Note 2
NRW Holdings Limited	Construction	Mining and construction services	Australia	Bond line	30.00	Note 2
Prior Industries Australia Pty Ltd	Professional, scientific and technical services	Components for nickel smelters	Cuba	EWCG	3.00	C
Quickstep Technologies Pty Ltd	Manufacturing	Vertical tail components	United States	EFG	13.30	C
Refrigeration Engineering Pty Ltd	Manufacturing	Industrial cooling equipment for a polyethylene manufacturer	South Korea	Bond (3)	0.90	Low potential - Note 1
Santos Finance Limited	Mining (oil and gas extraction)	LNG exports	Australia	EFG	245.70	A
Shark Bay Salt Pty Ltd	Mining	Solar salt	Indonesia	DCG	1.90	Low potential - Note 1
Synertec Pty Ltd	Professional, scientific and technical services	Gas analyser houses	Australia	EWCG	1.50	C
TTG Transportation Technology Pty Ltd	Professional, scientific and technical services	Consulting services to railways	United Kingdom	EWCG (2)	1.00	C

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Exporter / investor / client	Sector	Goods / services	Country	Facility type	Amount (A$ million equivalent)	Environmental /social impact category[(a)]
UGL Limited	Construction (heavy and civil engineering)	Construction and engineering services	Australia	Bond line	50.00	Note 2
United World Enterprises Pty Ltd	Wholesale trade	Cottonseeds	China	EWCG	0.40	Low potential - Note 1
Wellard Rural Exports Pty Ltd	Agriculture, forestry and fishing	Dairy cattle and associated infrastructure	Sri Lanka	EFG	9.90	B
Wellard Rural Exports Pty Ltd, Landmark Global Exports Pty Ltd and Elders International Australia Limited	Agriculture, forestry and fishing	Breeding cattle	Russia	Funded EFG	38.00	B
Wiggins Island Coal Export Terminal	Mining (coal)	Export coal terminal project	Australia	EFG	94.20	A
Xstrata Coal Queensland Pty Ltd	Mining (coal)	Coking coal	Various	RPA (2)	23.60	Potential impacts - Note 1
EFIC Headway clients	Various	Various	Various	EFIC Headway (5)	1.60	Not applicable
Foreign exchange facility guarantee clients	Various	Various	Various	FXG (28)	5.38	Not applicable
Producer Offset loan clients	Various	Film and television production	Various	Loan (14)	7.20	Not applicable
Total facilities (104)					**1,003.48**	

DCG: documentary credit guarantee

EFG: export finance guarantee

EWCG: export working capital guarantee

FXG: foreign exchange facility guarantee

MTI: medium-term export payments insurance

RPA: risk participation agreement

Note 1: Transaction associated with either a non-project or bond.

Note 2: Facility involves a bonding line. Individual projects supported under the line are separately evaluated.

(a) An explanation of EFIC's three categories (A, B and C) for classifying potential environmental and/or social impacts is on pages 57-58.

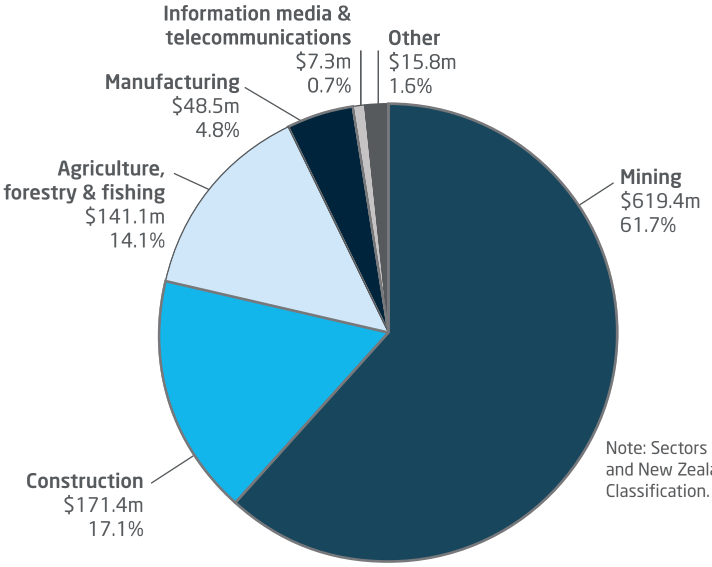
Signings and exports supported

During 2011–12, EFIC entered into 103 facilities on the Commercial Account worth a total of $990.2 million and one facility on the National Interest Account for $13.3 million, underpinning exports and overseas contracts for Australian companies of nearly $4.3 billion and $0.2 billion respectively.

Mining was the main industry supported in terms of dollar value, accounting for almost 62 per cent of total signings (Figure 2). This was followed by construction at just over 17 per cent.

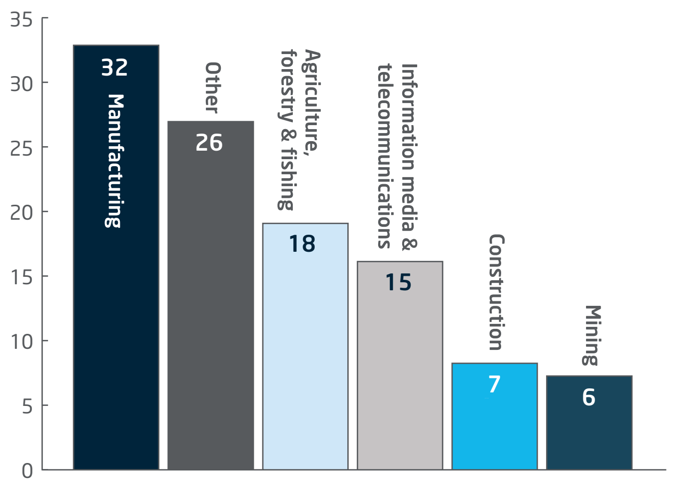
In terms of the number of transactions, manufacturing was the main industry supported, accounting for 32 signings (or 31 per cent of total signings), reflecting the number of SME and mid-market transactions that EFIC supported during the year (Figure 3).

Figure 2: Value of signings by industry sector supported



Note: Sectors based on Australian and New Zealand Standard Industrial Classification.

Figure 3: Number of signings by industry sector supported



Note: Sectors based on Australian and New Zealand Standard Industrial Classification.

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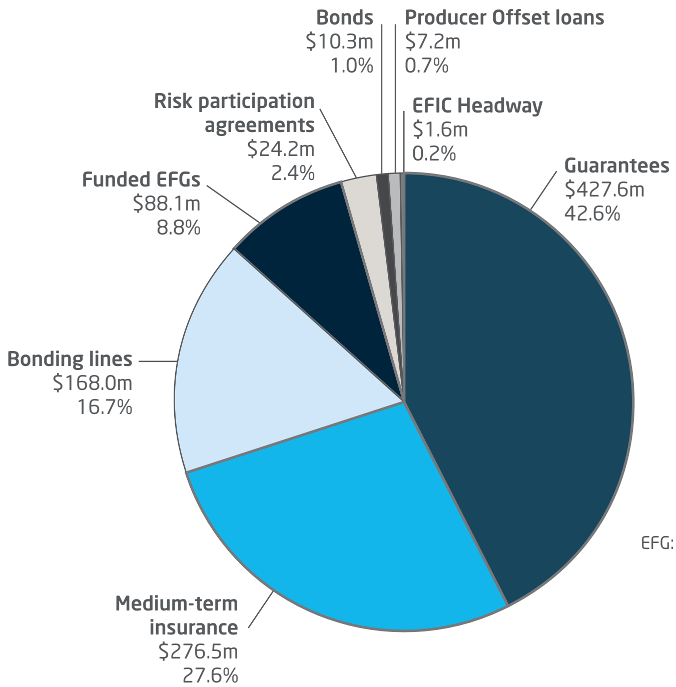
Guarantees represented almost 43 per cent of the total value of signings by facility type, and medium-term insurance accounted for another 28 per cent (Figure 4).

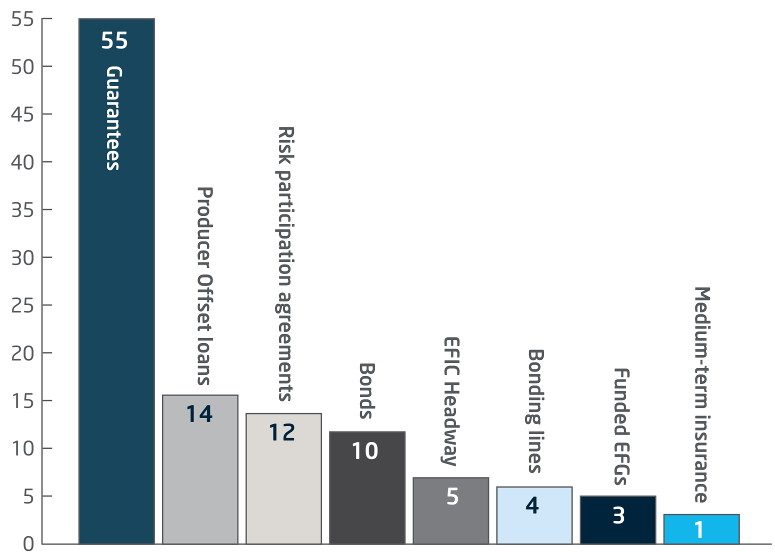
Of the total number of signings, guarantees (including export working capital guarantees, foreign exchange facility guarantees and documentary credit guarantees) accounted for 55 signings (or 53 per cent of total signings), followed by Producer Offset loans with 14 signings (Figure 5).

Figure 4: Value of signings by facility type



EFG: export finance guarantee

Figure 5: Number of signings by facility type



EFG: export finance guarantee

Financial performance

The 2011-12, Commercial Account profit of $26.8 million was above the target of $22.4 million. This was primarily the result of higher income from premiums, interest and upfront fees as the timing of facility drawdowns was ahead of expectations, although the higher income was partly offset by a higher allowance for credit risk. Profit was also enhanced by higher income due to various recoveries and lower operating costs.

On the National Interest Account, there was a profit of $16.6 million in 2011-12, compared with a targeted profit of $10.9 million. This was primarily due to a recovery taken to income relating to Russia short-term credit insurance claims paid in the 1980s, in addition to favourable movements in exchange rates on Egypt exposures and Iraq recoveries. For the National Interest Account, Commonwealth Government policy requires EFIC to comply with 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 Commonwealth and does not form part of EFIC's net profit or loss.

EFIC's exposures

Commercial Account

EFIC's Commercial Account exposures of $1.41 billion comprise loans, export finance guarantees (EFGs) including funded EFGs, EFIC Headway, working capital guarantees, political risk insurance, bonds, medium-term export payments insurance and rescheduled credit insurance debts. The facilities vary in maturity up to 14.5 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 2012 was 2.8 years, and 7 years on a weighted average basis.

The exposures represent risks on the overseas purchasers of Australian goods and services exports, the majority of which are held in the private sector and on Australian parties directly or indirectly involved in the export of goods and services to overseas purchasers. While exposures remain predominantly to private sector companies – both customers and reinsurers – EFIC continues to accept risks on governments and public sector entities (classified as 'Public administration and safety' by the Australian and New Zealand Standard Industrial Classification) in developing countries. At 30 June 2012, EFIC's highest private sector exposures were to the reinsurance and construction industries. However, as this year's signings translate to exposure in later years, EFIC's risk profile will continue to change.

The distribution of exposures by region, industry sector and facility type at 30 June 2012 are shown in figures 6 to 8.

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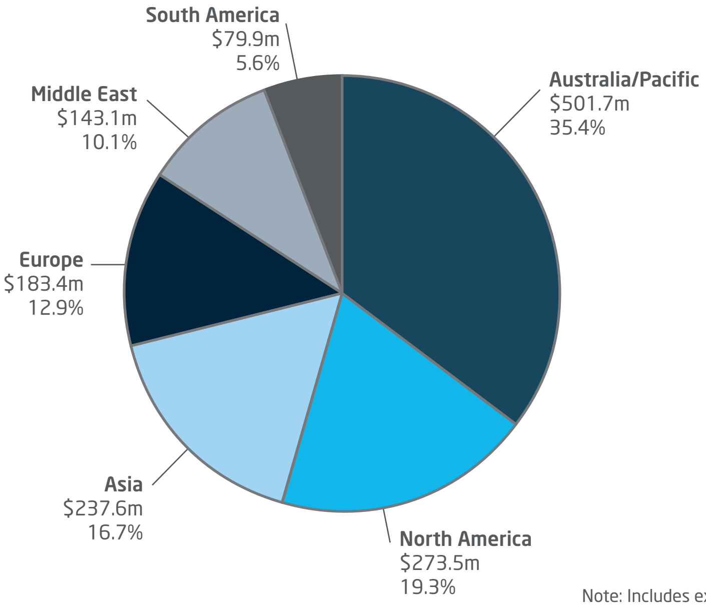
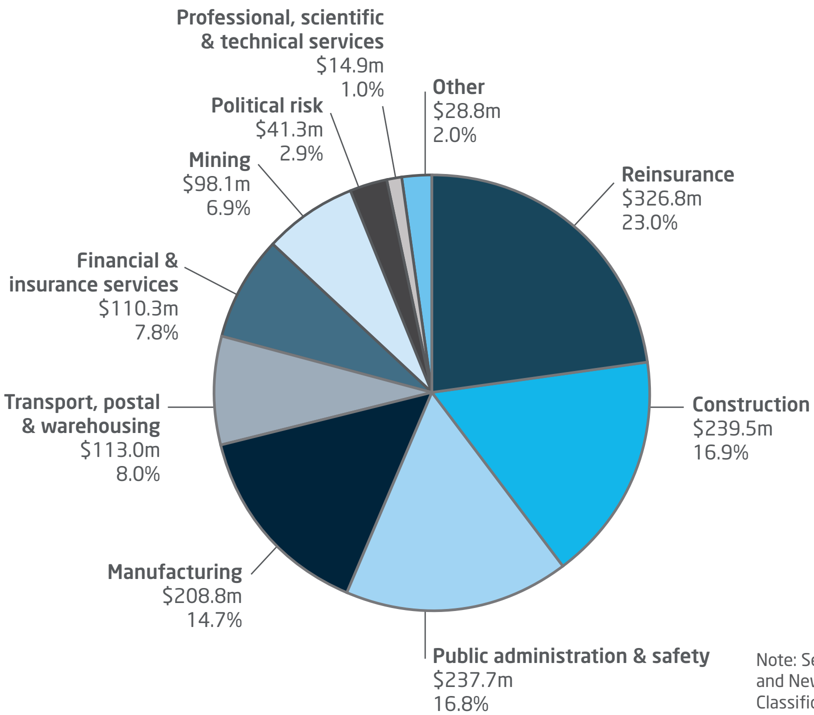
Figure 6: Commercial Account at 30 June 2012 – exposures by region



Note: Includes exposures that have been reinsured.

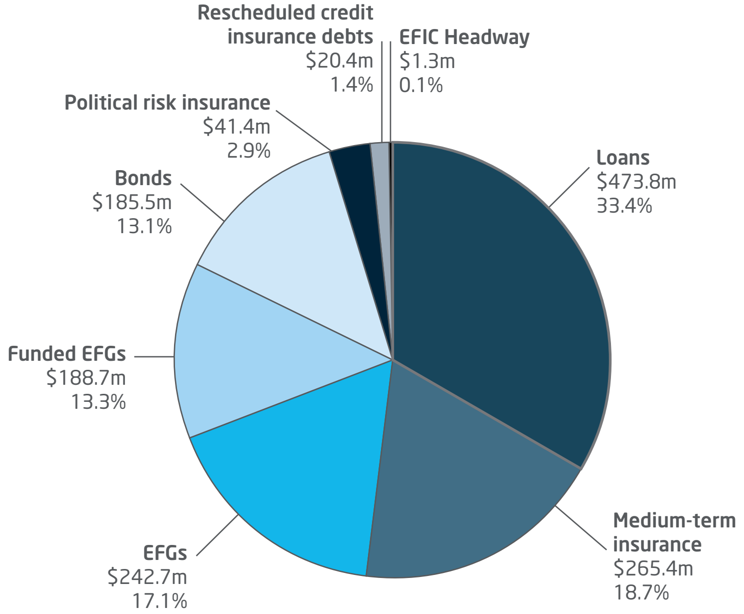
Figure 7: Commercial Account at 30 June 2012 – exposures by industry sector



Note: Sectors based on Australian and New Zealand Standard Industrial Classification.

Commercial Account *continued*

Figure 8: Commercial Account at 30 June 2012 – outstanding facilities by type



EFG: export finance guarantee

National Interest Account

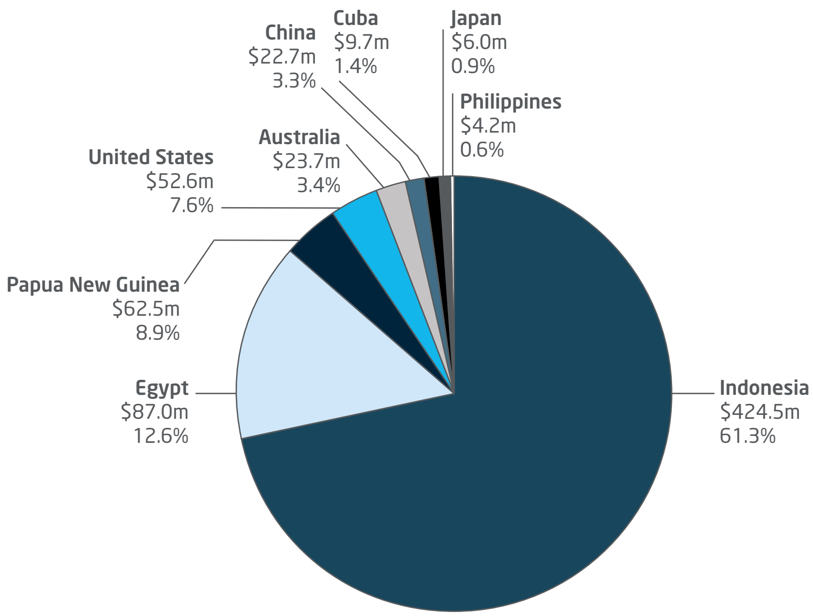
The National Interest Account exposures of $692.9 million are almost all loans to sovereign countries or their agencies. The largest exposure is to the Indonesian Government. The nominal increases in exposures over the past 12 months primarily reflect disbursements under the Papua New Guinea Liquefied Natural Gas (PNG LNG) transaction and the scheduled repayment of loans. The changes in distribution by country between 2010–11 and 2011–12 mainly reflected repayments and movements in the Australian dollar.

The National Interest Account exposures arose mainly from three sources:

- In the 1980s and 1990s, EFIC made loans under the Australian Government's aid-supported mixed credit program, the now discontinued Development Import Finance Facility. Reflecting the priorities of Australia's overseas aid program at the time, these loans include exposures of $424.5 million to Indonesia, $23 million to China and $4 million to the Philippines (excluding 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 owed by Egypt is $87 million.
- In support of the PNG LNG project, EFIC is to provide US$250 million in total on the National Interest Account, with loan disbursements having commenced in December 2010. The National Interest Account exposure at the end of June 2012 was $128.6 million.

The distribution of exposures by country at 30 June 2012 is shown in Figure 9.

Figure 9: National Interest Account at 30 June 2012 – exposures by country



Note: Includes exposures that have been reinsured.

Part 1: Report of operations

Business overview

Overview of EFIC's role

EFIC provides finance and insurance solutions to help Australian exporters overcome the financial barriers they face when growing their business overseas. As Australia's export credit agency, we help successful businesses to win, finance and protect export trade or overseas investments where the private market is unable to provide all the support they need.

We work directly with exporters or with their banks to provide loans, guarantees, bonds and insurance products which can be tailored to meet the needs of both large and small exporters.

EFIC is a Commonwealth authority and its Board is responsible for the corporate governance of EFIC (see 'Corporate governance' on page 39 for further information).

EFIC Act

EFIC is Australia's export credit agency and has performed 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* (Cth) (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 Development Import Finance Facility, the Australian Government's aid-supported mixed credit program (a facility that has now been discontinued, although loans remain outstanding under it)
- to provide information and advice regarding insurance and financial arrangements to support Australian exports.

EFIC is a self-funding organisation operating in accordance with commercial principles. We operate in that part of the market that is not served by the private market. In July 2011, this mandate was formalised in the Statement of Expectations issued by the Minister for Trade and Competitiveness and is described as the segment of the credit and insurance services market where the capacity of commercial sector financiers and/or insurers is limited or insufficient to support the needs of financially viable Australian exporters and investors. Our role is to complement, not compete with, private financiers and insurers.

EFIC's obligations to third parties are guaranteed by the Commonwealth of Australia. This guarantee has never been called. EFIC attributes this success to the strong risk management framework that we have implemented for identifying, evaluating and managing risk.

EFIC's legislation provides for two distinct platforms from which Australian exports can be supported, the Commercial Account and the National Interest Account.

Commercial Account

In the case of the Commercial Account, the risks underwritten are carried by EFIC as a corporation. Premiums and other fees are retained by EFIC and any losses are borne from EFIC's accumulated capital and reserves.

National Interest Account

In the case of the National Interest Account, the Minister for Trade and Competitiveness can direct EFIC to enter into a facility, or give approval for EFIC to enter into a facility, if the Minister believes that it is in the 'national interest' to do so. If a transaction is written on the National Interest Account, the Commonwealth receives the net income from EFIC and must reimburse EFIC for any losses.

Transactions on the National Interest Account tend to involve:

- financial commitments which are too large for EFIC's balance sheet
- risks which EFIC considers are too high for it to prudently accept on its own account
- transactions which would be commercially acceptable if EFIC did not already have significant exposures to a country or entity related to the transaction.

CAC Act

As a Commonwealth statutory corporation that holds money on its own account, EFIC is a Commonwealth authority and subject to the *Commonwealth Authorities and Companies Act 1997* (Cth) (CAC Act) and to regulations and orders made under it. The CAC Act sets out requirements in relation to aspects of EFIC's corporate governance, financial management and reporting, which are additional to those in the EFIC Act.

Accountability

EFIC is part of the Australian Government's Foreign Affairs and Trade portfolio and the Minister for Trade and Competitiveness is responsible for EFIC. During 2011-12, the Hon Dr Craig Emerson MP was Minister for Trade and Competitiveness.

The Minister for Trade and Competitiveness has a number of powers in relation to EFIC, as set out in the EFIC Act. The Minister may give written directions to EFIC in respect of the performance of its functions or the exercise of its powers if satisfied that it is in the public interest that directions be given. The Minister may also approve, or direct, entry into transactions on the National Interest Account (see page 37). In relation to the Commercial Account, the Minister cannot require EFIC to obtain ministerial approval for a particular transaction or direct EFIC to enter into a particular transaction. Details of ministerial directions must be published in EFIC's annual report (see page 62), which is tabled in the Federal Parliament.

Any budgetary appropriation in respect of EFIC that relates to the National Interest Account is effected through the Department of Foreign Affairs and Trade and is scrutinised by the Federal Parliament.

EFIC is required to provide the Minister for Trade and Competitiveness with a Statement of Intent in response to the Minister's Statement of Expectations. These statements express and formalise the Minister's expectations of EFIC and the Board's intention to meet those expectations.

As a Commonwealth authority under the CAC Act, EFIC is required to notify the Minister for Trade and Competitiveness of certain significant events, such as the acquisition or disposal of interests in companies or other ventures. The EFIC Board must also keep the Minister informed about EFIC's operations and provide any information required by the Minister for Trade and Competitiveness or the Minister for Finance and Deregulation.

The Minister for Trade and Competitiveness, or the Minister's representative, responds to questions about EFIC from members of the Federal Parliament and to parliamentary orders relating to EFIC.

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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 solutions, many of which can be tailored to meet the needs of both large and small exporters.

In 2011-12, EFIC expanded its support for eligible Australian-based contractors and subcontractors providing services for export-related projects, in response to demand for services related to the resources boom. We also extended our geographical presence with the opening of offices in Melbourne and Perth, the latter underscoring our efforts in the subcontracting arena. In addition, EFIC signed new reciprocal risk participation agreements with the Export-Import Bank of China and the Export-Import Bank of Korea to increase financing options available to Australian exporters. This brings to 14 the number of agreements signed with overseas export credit agencies to date.

Helping exporters compete for and WIN export contracts

EFIC helps Australian-based businesses to win and finance export, offshore investment and onshore export-related opportunities when the private market is unable to provide all the support they need in order to win international business. EFIC understands the issues exporters face in competing for overseas contracts:

- When buyer finance is key to winning a deal, EFIC can support the exporter's bid with a competitive finance package.
- If a performance bond or warranty bond is a condition of a contract or tender, EFIC may be able to help when the exporter's bank cannot.
- If the exporter needs funds from their buyer in order to start work on a 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, EFIC 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
- 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:

- export working capital guarantees
- buyer finance – direct loans and export finance guarantees
- documentary credit guarantees
- export payments insurance
- advance payment bonds and performance bonds
- foreign exchange facility guarantees
- Producer Offset loans.

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 market that commercial banks consider too risky.

EFIC's extensive experience in 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, EFIC's 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
- foreign exchange facility guarantees.

Exporter and bank perceptions of EFIC

During 2011-12, EFIC undertook research to gain further insights into the exporter community and to deepen EFIC's understanding of its bank partners. As part of that research, EFIC determined its 'net promoter score', which gauges the strength of a company's customer advocacy and is a leading indicator of future business growth. EFIC's high net promoter score of 94 per cent is derived from high satisfaction scores for key service dimensions, such as 'acting ethically and responsibly' and 'understanding exporting'. A high level of satisfaction in these key areas of customer interaction is a strong indicator of future business growth and referrals, and suggests that when an exporter becomes aware of EFIC from a peer, it will most often be in a positive light.

Banks are an important referral channel for EFIC, and our research showed strong levels of awareness and perception of EFIC among bank staff undertaking the functions of trade finance, relationship management and credit. There is a high level of awareness and a positive perception of EFIC among our primary bank contacts. Over 78 per cent of contacts had a 'highly positive' or 'positive' view of EFIC, driven by high satisfaction with service aspects such as 'professional competence' and 'general trade expertise', both deemed very important by our bank partners.

Our research showed a high degree of correlation between the satisfaction levels of exporters and those of bankers. Three of the four service dimensions attracting the highest satisfaction levels among exporters – including 'acting ethically and responsibly' and 'professional competence' – also featured in the top four among banks.

Whole-of-government support for exporters

EFIC works with other government departments and agencies to effectively deliver its services to exporters. In 2011-12, we worked closely with the Australian Trade Commission (Austrade) on a number of activities aimed at:

- increasing awareness and understanding of export finance
- sharing information on overseas markets and export opportunities
- increasing cooperation to better serve exporters.

An important initiative in 2011-12 was the placement of permanent business origination staff from EFIC's SME and Mid Market team in Austrade's Melbourne and Perth offices. EFIC also works closely with other Commonwealth, State and Territory government agencies, and in particular has been active in working with agencies to help address financial barriers limiting Australian firms to compete and win opportunities in onshore export supply chains.

Public inquiry into Australia's export credit arrangements

In September 2011, the Minister for Trade and Competitiveness and the Assistant Treasurer announced that an inquiry into Australia's export credit arrangements would be undertaken by the Productivity Commission.

The terms of reference for the inquiry were broad-ranging and covered EFIC's mandate, scope of operations, financial performance and governance. The Productivity Commission conducted its review from September 2011 to May 2012. During that time, the commission accessed comprehensive transactional data, and EFIC policy and procedural information. EFIC staff and management were made available to answer specific questions throughout the review process, and also participated in two hearings in Sydney.

The Productivity Commission also sought input from EFIC's stakeholders. This prompted a large number of submissions from exporters, commercial banks and insurers, government departments, law firms, non-government organisations and various trade associations and business groups. The overwhelming majority of submissions constituted a strong endorsement of EFIC.

EFIC also provided two detailed submissions outlining EFIC's views and articulating EFIC's concern with some of the commission's preliminary findings and recommendations.

The Productivity Commission's final report was tabled in the Federal Parliament on 28 June 2012. The Minister for Trade and Competitiveness will lead the Government's consideration of and response to the commission's final report, and the outcomes from the review will be announced after that process.

Information on the review, including EFIC's submissions, can be found on the Productivity Commission's website at www.pc.gov.au/projects/inquiry/export-credit.

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Commercial Account and National Interest Account

The EFIC Act provides for EFIC to enter into transactions on both the Commercial Account (Part 4) and the Commonwealth's National Interest Account (Part 5).

EFIC routinely writes transactions on its Commercial Account and the Board and management make decisions to accept eligible business with the risks and financial results of that business allocated to this account.

In comparison, the Minister for Trade and Competitiveness makes the decisions regarding business on the National Interest Account. Transactions are usually referred to the Minister for consideration by the Board where the size or risk exceeds the parameters of the Commercial Account. These transactions are subject to the Minister's consideration as to whether undertaking them would be in the national interest.

EFIC manages the day-to-day operation of National Interest Account business, but the Commonwealth is responsible for the financial consequences of these transactions. EFIC remits to the Commonwealth the revenue from the portfolio for these transactions and the Commonwealth 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 Commonwealth 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 is self-funding and operates on a commercial basis, charging customers fees and premiums and earning interest on loans and investments, including the investment of its cash capital, reserves and working capital.

At 30 June 2012, EFIC's equity, including retained profits, was $418.1 million. In addition, the EFIC Act provides that $200 million of callable capital is available to EFIC from the Commonwealth, which helps underpin its activities in supporting exports and overseas investments. This callable capital has never been called.

The Commonwealth also guarantees our 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 that it may enter into on the Commercial Account, and EFIC operates within these limits.

Part 1: Report of operations

Governance and corporate matters

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Corporate governance

EFIC Board

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

The Minister for Trade and Competitiveness is responsible for EFIC and appoints members of the Board, except for the Managing Director.

The majority of the Board is from the private sector, with the Secretary of the Department of Foreign Affairs and Trade, or his alternate, representing the Australian Government.

Apart from the Managing Director, who is a full-time employee, all Board members are non-executive directors.

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.

EFIC is required to provide the Minister for Trade and Competitiveness with a Statement of Intent in response to the Minister's Statement of Expectations. These statements express and formalise the Minister's expectations of EFIC and the Board's intention to meet these expectations.

The Board met seven times in 2011-12 and its membership is set out on pages 44-49.

Governance

EFIC is a Commonwealth authority and its Board members and employees are subject to various obligations under the *Export Finance and Insurance Corporation Act 1991* (Cth) (EFIC Act) and the *Commonwealth Authorities and Companies Act 1997* (Cth) (CAC Act). EFIC employees are also subject to a Code of Conduct.

EFIC is part of the Australian Government's Foreign Affairs and Trade portfolio and the Minister for Trade and Competitiveness is responsible for EFIC. A key obligation imposed on EFIC by the CAC Act is to produce for each financial year an annual report, which is tabled in the Federal Parliament.

EFIC imposes a strong commercial discipline on governance and risk management through its governance framework.

One of the requirements imposed on Board members and employees by the EFIC Act is to keep information about clients confidential. The EFIC Act permits EFIC to publish a limited amount of information about its transactions.

EFIC is partially exempt from freedom of information legislation. The partial exemption and the strong secrecy obligation imposed on the EFIC Board and employees recognise the need to keep confidential the commercial information EFIC obtains from Australian exporters and investors.

The *Corporate Governance Principles and Recommendations with 2010 Amendments* produced by the Australian Securities Exchange (ASX) Corporate Governance Council 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 its corporate governance complies with the recommendations (some of which are not directly applicable), the following details demonstrate EFIC's commitment to good governance.

Principle 1

Lay solid foundations for management and oversight

1.1 Under the EFIC Act, the Minister for Trade and Competitiveness 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 an 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 them out in its Board Charter, 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 Australian 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 Chairperson is an independent member.
- Different individuals exercise the roles of Chairperson 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 Chairperson, a Board member in the furtherance of his or her duties may seek independent professional advice at EFIC's expense.

2.2 The Board's performance is reviewed, at a minimum, every two years. The most recent evaluation was completed in December 2011 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 review found that the Board operates professionally and effectively.

2.3 The Board holds 'in camera' discussions 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 (tables 1 and 2).

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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 (which is published on EFIC's website), and confidentiality and privacy obligations
- responsibilities to the Australian Government
- responsibilities to EFIC's employees
- responsibilities to the community.

Further details about EFIC's CRP are on page 57. The CRP is also published on EFIC's website.

3.3 EFIC regularly consults entities and groups that have an interest in its operations. These include Commonwealth, State and Territory government departments and agencies, business associations, civil society organisations and community groups.

3.4 EFIC has a policy on diversity that recognises the strategic advantages of a diverse workforce. An assessment of EFIC's Diversity Management Policy is undertaken biennially by the Board.

Principle 4

Safeguard integrity in financial reporting

4.1 EFIC has had a Board Audit Committee since inception. Details of Board Audit Committee members and their qualifications appear on pages 44–49. The Board has set out the accountabilities of the committee in an Audit Committee Charter, available on EFIC's website. The Board Audit Committee has broad responsibilities to the Board regarding risk oversight and management, including:

- overseeing the work of both external and internal auditors
- reviewing the annual and half-yearly financial statements
- overseeing compliance with statutory obligations
- the effective management and control of financial and operational risks.

All three Board Audit Committee members, including the Committee Chair, are independent, non-executive Board members. The Committee Chair is not Chairperson of the Board. The Board Audit Committee met four times in 2011–12. EFIC's risk management system operates under the review of the Board Audit Committee.

4.2 The Managing Director and Chief Financial Officer state in writing to the Board 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 an annual external audit of EFIC. The Auditor-General contracted Ernst & Young to assist with the audit work for 2011–12.

Principle 5

Make timely and balanced disclosure

5.1 EFIC places media releases and its annual report (incorporating the financial statements) on its website. EFIC also reports on its website the types of transactions in accordance with its Policy and Procedure for environmental and social review of transactions.

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

5.3 EFIC also keeps the Minister for Trade and Competitiveness 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 Corporate Responsibility Policy 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 respects the international agreements to which Australia is a party that relate to its business. Among the key agreements for EFIC are the:

- World Trade Organization Agreement on Subsidies and Countervailing Measures
- OECD Arrangement on Officially Supported Export Credits
- OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence
- OECD Council Recommendation on Bribery and Officially Supported Export Credits
- 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
- Berne Union Guiding Principles.

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 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. EFIC's risks are reviewed with a focus on potential new risks on the horizon.

More information about the framework is available on EFIC's website.

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 Board Audit Committee regarding the currency of EFIC's risk profile and the effectiveness of compliance and control measures.

7.4 EFIC contracted Deloitte to carry out the internal audit function within EFIC for 2011–12.

7.5 The internal auditor reports to management and is accountable to the Board Audit Committee. The Board 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 Board Audit Committee has access to the internal auditor without the presence of management.

Principle 8

Remunerate fairly and responsibly

8.1 In accordance with legislative requirements, the Australian 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 employment of EFIC's employees. The remuneration of EFIC's employees is established with reference to market data from the Financial Institutions Remuneration Group. This data is provided twice yearly by the 100-plus financial institutions which are the group's members. EFIC benchmarks each position, comparing relevant experience and skills as well as key accountabilities.

Board membership

Andrew Mohl

BEc (Hons)

Born 1955

Chairman

Terms of Board appointment: 09/12/2008 to 08/12/2011 and 09/12/2011 to 08/12/2014

Board attendance: 7 of 7

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 is also a member of the Board of Governors for the Committee for Economic Development of Australia and the Corporate Council of the European Australian Business Council. Andrew 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 Limited and Deputy Head of Research at the Reserve Bank of Australia.

Sally Pitkin

LLB, LLM, FAICD

Born 1959

Deputy Chair; Audit Committee member

Terms of Board appointment: 16/07/2007 to 15/07/2010 and 01/08/2010 to 31/07/2013

Board attendance: 6 of 7

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 Billabong International Limited, ASC Pty Ltd, UQ Holdings Pty Ltd, the Committee for Economic Development of Australia (CEDA) and Super Retail Group Limited, she is also State President of the Queensland State Advisory Council of CEDA, a State Councillor of the Australian Institute of Company Directors, and a member of the Queensland Competition Authority and the Queensland Sustainable Energy Advisory Council.

Angus Armour

BA (Hons), MBA, FFin, FAICD

Born 1963

Managing Director and Chief Executive Officer

Appointed: 31/10/2003

Board attendance: 7 of 7

Executive member

Angus Armour joined EFIC in 1993 in the project finance area and after a succession of management roles was appointed Managing Director in 2003. Prior to joining EFIC, he worked with Export Development Canada in project and asset finance in Europe, Latin America and the United States, and 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 Advisory Council. He is also a non-executive Board member of the European Australian Business Council and the Historic Houses Trust Foundation of New South Wales, and the Foundation's Finance and Legal Committee. From 2009 through to 2011 he served as President of the Berne Union, the international association of export credit and investment insurance companies that supports approximately $1.4 trillion of trade and investment annually, and he continues to serve on the Management Committee and Finance and Remuneration Committee.

Bruce Brook

BCom, BAcc

Born 1955

Board member; Audit Committee Chair

Term of Board appointment: 01/03/2010 to 28/02/2013

Board attendance: 4 of 7

Board Audit Committee attendance: 4 of 4

Independent Board member

Non-executive member

Bruce Brook has over 30 years' experience in finance across a wide range of public companies, including WMC Resources Limited, ANZ Banking Group Limited and Pacific Dunlop Limited. Now a professional company director, Bruce is Chairman of Programmed Maintenance Services Limited, and a director of Deep Exploration Technologies CRC, CSL Limited, Boart Longyear Limited and Newmont Mining Corporation.

David Evans

BEc

Born 1964

Board member

Terms of Board appointment: 09/12/2008 to 08/12/2011 and 09/12/2011 to 08/12/2014

Board attendance: 7 of 7

Independent Board member

Non-executive member

David Evans is Managing Partner of Evans and Partners Pty Ltd, the investment advisory company he established in June 2007. He has extensive experience in investment banking and stockbroking and worked for 18 years at JB Were & Son and Goldman Sachs JBWere Pty Ltd, where his final role was Managing Director and Chief of Staff. David is Chairman of Essendon Football Club and a director of the Melbourne Stars, The Shane Warne Foundation and Seven West Media Limited.

Nicholas Minogue

BCom, BA, MBA

Born 1955

Board member

Term of Board appointment: 09/12/2011 to 08/12/2014

Board attendance: 4 of 4

Independent Board member

Non-executive member

Nicholas (Nick) Minogue retired from the Macquarie Group in November 2009 after a banking career spanning 32 years. Nick was Head of Risk Management at Macquarie for 10 years and a member of the Executive Committee for nine years immediately prior to his retirement while also previously holding the position of Head of Credit. Nick commenced his career in London where he acquired a grounding in trade and international finance working for the international banking division of a clearing bank. He spent seven years with Standard Chartered Bank in London and Hong Kong in various roles and finally as Senior Manager, Corporate Banking Group Hong Kong prior to joining the Macquarie Group in 1993. Nick is also a Director of Morphic Asset Management Pty Limited.

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Jennifer Seabrook

BCom, ACA, FAICD

Born 1957

Board member; Audit Committee member

Term of Board appointment: 05/04/2011 to 04/04/2014

Board attendance: 6 of 7

Board Audit Committee Attendance: 2 of 2

Independent Board member

Non-executive member

Jennifer Seabrook is currently a Special Advisor to Gresham Partners Limited. She is a non-executive director of Iress Market Technology Limited, Iluka Resources Limited and Bank of Western Australia Limited. Jennifer is also a member of the Australian Securities and Investments Commission's External Advisory Panel. During her career, Jennifer has worked on a variety of mergers, acquisitions, equity capital markets and capital structuring advisory transactions.

Deena Shiff

BSc (Econ) Hons, BA (Law) Hons

Born 1954

Board member

Term of Board appointment: 09/12/2011 to 08/12/2014

Board attendance: 4 of 4

Independent Board member

Non-executive member

Deena Shiff is currently Group Managing Director, Applications & Ventures Group Pty Limited at Telstra Corporation Limited. Between 1995 and 1998 Deena was a partner of law firm Mallesons Stephen Jaques. Deena has subsequently held a number of senior executive positions in Telstra Corporation including Director Regulatory, Group Managing Director, Wholesale, and Group Managing Director, Telstra Business, a division for small business which she established in 2006. Deena previously held non-executive directorships in the telecommunications industry and other industries and was a director of the NSW Government-owned rail operator FreightCorp prior to its privatisation in 2002.

Dennis Richardson

BA (Hons)

Born 1947

Government Board member

Appointed: 15/03/2010

Board attendance: 0 of 7
(see alternate government member)

Represents the Australian Government

Non-executive member

Dennis Richardson is Secretary of the Department of Foreign Affairs and Trade. From June 2005 to December 2009 he was Australian Ambassador to the United States and from 1996 to 2005, Director-General of the Australian Security Intelligence Organisation. Dennis was Deputy Secretary of the Department of Immigration and Multicultural Affairs from 1993 to 1996. Between 1986 and 1991 he held various senior public service roles in the departments of the Prime Minister and Cabinet and Immigration, including Principal Adviser to the Prime Minister from 1990 to 1991.

Alternate government member

Bruce Gosper

BA (Hons), Dip Pub Policy

Born 1957

Appointed: 04/03/2011

Board attendance (as alternate): 7 of 7

Represents the Australian Government as alternate government Board member

Non-executive member

Bruce Gosper is Deputy Secretary of the Department of Foreign Affairs and Trade (DFAT). Prior to that, he was Ambassador and Permanent Representative to the World Trade Organization in Geneva. Bruce has held the roles of First Assistant Secretary, Office of Trade Negotiations at DFAT and Minister (Commercial) at the Australian Embassy in Washington. He has also been Adviser to the Minister for Trade and Assistant Secretary, Agriculture Branch at DFAT. Before joining DFAT, Bruce worked for the Department of Primary Industries and Energy, as Minister-Counsellor (Agriculture) at the Australian Embassy in Tokyo, and for the Department of Trade and Resources.

Members whose term ended in 2011-12

Michael Carapiet

MBA

Born 1958

Deputy Chair

Terms of Board appointment: 28/11/2005 to 27/11/2008 and 09/12/2008 to 08/12/2011

Board attendance: 3 of 3

Independent Board member

Non-executive member

Anthony (Tony) Sherlock

BEc

Born 1941

Board member; Audit Committee Chair

Terms of Board appointment: 28/11/2005 to 27/11/2008 and 09/12/2008 to 08/12/2011

Board attendance: 3 of 3

Board Audit Committee attendance: 2 of 2

Independent Board member

Non-executive member

Board and Audit Committee

During the year, Mr Mohl, as Chairman, and Mr Evans as a member were reappointed to the Board for a second term of three years each. The Board also welcomed the first-term appointments of Mr Minogue and Ms Shiff as the final terms of Mr Carapiet and Mr Sherlock ended. Ms Pitkin was appointed as Deputy Chair, Mr Brook as Chair of the Audit Committee and Ms Seabrook as a member of the Audit Committee.

The Board reviewed its charter during the year and amended it to clarify the Board's function, duties and responsibilities, in particular its work health and safety obligations.

Transactions with Board members and Board member-related entities

The Board members have declared that they do not have 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 22 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 2012.

Mr Richardson and Mr Gosper are Australian Government 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.

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 2011-12.

Our people

Organisational structure

EFIC's organisational structure is outlined in Figure 10.

Figure 10: EFIC's organisational structure

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Staff numbers

Summary figures relating to EFIC's number of employees (in full-time equivalents) are shown in Table 4.

Table 4: Number of full-time equivalent employees

	30 June 2012	30 June 2011
Employees (excluding short-term)	**86.6**	84.4
Short-term contract employees	**0.4**	1.4
Total	**87.0**	85.8

Diversity

In line with our internal principles of integrity, openness and accountability, EFIC is an equal employment opportunity employer that encourages and values a work environment in which all staff are treated with fairness and equity. EFIC recognises that a diverse workforce can lead to strategic advantages through the exchange of skills, experiences and perspectives, which foster creativity and innovation and enhanced problem-solving capability. As a diverse organisation, EFIC supports and encourages the contribution of all people from different cultural backgrounds, age groups and life experiences, regardless of their marital status, sexual orientation, religious beliefs, disability or gender. EFIC has a diversity policy which is published on our staff intranet site.

We foster a positive, inclusive and equitable organisational culture by ensuring that employees are not harassed or 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 equal employment opportunity, anti-discrimination and work health and safety.

EFIC has a formal commitment to reconciliation between Indigenous and non-Indigenous Australians through its Reconciliation Action Plan. Under the plan, EFIC aims to engender a greater awareness and appreciation of Indigenous culture among staff and, in the course of conducting its business with banks and allies including Austrade, to ensure that Indigenous Australian companies involved in exporting are aware of EFIC's services. EFIC has a Reconciliation Committee that meets on a quarterly basis to support the activities outlined in the Reconciliation Action Plan, and a staff intranet section dedicated to highlighting Indigenous achievement, culture and issues. In 2012, we celebrated Reconciliation Week by hosting a staff lunch with film producer David Jowsey from BUNYA Productions, who provided insight into Indigenous film, and discussed why film is such an important medium to raise awareness of Indigenous culture and issues. We are also proud to have supported Indigenous films and television productions through our Producer Offset loans.

The *Equal Employment Opportunity (Commonwealth Authorities) Act 1987* (Cth) promotes equal opportunity in employment for members of designated groups, including women and people from non-English speaking backgrounds. In accordance with the reporting requirements of the Act, statistics on EFIC's workforce profile are shown in Table 5.

Although EFIC employees can be classified by role (for example, managers and administrators, professionals, associated professionals and clerical workers), the statistics in Table 5 are grouped by salary range due to EFIC's size and the generality of role classifications.

Table 5: Workforce diversity profile at 30 June 2012

		Female	Male	NESB	ATSI	PWD	Total staff
Annual FTE salary[a]	Up to $75,000	16	1	10	0	0	17
		94%	6%	59%	0	0	19%
	$75,001 to $150,000	19	18	20	0	0	37
		51%	49%	54%	0	0	41%
	$150,001 and above	8	29	11	0	0	37
		22%	78%	30%	0	0	41%
	Totals	43	48	41	0	0	91
		47%	53%	45%	0%	0%	(87 FTE)

NESB: non-English speaking background (or parents of a non-English speaking background)

ATSI: Aboriginal or Torres Strait Islander

PWD: people with disability

FTE: full-time equivalent

(a) Salary excludes superannuation.

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Training and development

EFIC is committed to ongoing staff training and development. We undertake biannual performance reviews which include an analysis of each staff member's professional development needs. Our training program in 2011-12 focused on meeting those identified development needs, including technical skills and industry specialisation training, management and leadership skills, and executive coaching. All staff and management also completed our annual compliance training program, covering work health and safety, workplace behaviour, anti-money laundering, bribery and corruption, privacy, and competition and consumer protection.

EFIC encourages staff to also undertake further studies through its studies assistance program, which provides financial support and paid leave to staff undertaking approved postgraduate courses.

Work-life balance

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

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

Parental leave: Parental leave of up to 12 months is available, including paid maternity leave for a period of three months. Over the past year, one employee was on maternity leave.

Special leave: Special leave is available to staff for reasons including moving house, emergency or disaster situations, observance of religious holidays, bereavement, blood donations and Defence Force Reserve training, as well as ceremonial leave for Aboriginal and Torres Strait Islander employees.

Carer's leave: As part of our sick leave benefit, staff members can take up to 10 days of their sick leave each year to care for immediate family members who are ill.

Flexible work arrangements: We give employees the opportunity to work flexible hours wherever possible, which includes the opportunity to work part-time. As at 30 June 2012, 12 employees, or 13 per cent of our workforce, work part-time ranging from two to four days per week.

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. Staff can apply for extra annual leave and can purchase extra leave during the financial year.

Salary continuance: We provide a corporate income protection (salary continuance) insurance policy to employees who have completed their probation period (excluding temporary staff).

Commonwealth Disability Strategy

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

- We provide access to EFIC via the internet and to a toll-free telephone service that allows concerns or feedback to be provided on any issue.
- Our Work Health and Safety Committee openly consults with staff.

Making information available in accessible formats to people with disability 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.

Work health and safety

Work Health and Safety Committee

EFIC's Work Health and Safety Committee (WHSC) is a six-member consultative body comprised of two management representatives and four staff representatives, including a Health and Safety Representative. The committee facilitates cooperation between EFIC management and employees in instigating, developing and carrying out measures designed to ensure work health and safety, and assists in developing and reviewing standards, procedures and processes relating to work health and safety. Committee members are responsible for reporting to the committee any worker concerns and consulting with workers on matters discussed in the committee. Workers are also encouraged to put forward agenda items for the WHSC meetings.

To assist our Board in meeting its due diligence requirements under the *Work Health and Safety Act 2011* (Cth) (WHS Act), the WHSC holds a meeting prior to each Board meeting, which at present is seven times per year. The minutes of the WHSC meetings are made available to all staff through EFIC's intranet, and a copy of the minutes is also provided to the Board at the subsequent Board meeting. Additionally, to meet the requirements of the new legislation, the Board Charter was updated and Board reporting extended.

Health and Safety Management Arrangements

EFIC's Health and Safety Management Arrangements set out EFIC's work health and safety management framework, including our consultative mechanisms, the respective responsibilities of the 'person conducting a business or undertaking', 'officers' and 'workers' as defined in the WHS Act, first aid and emergency response procedures, incident notification procedures, risk management framework, dispute resolution, and cessation of unsafe work. The Health and Safety Management Arrangements are reviewed by the WHSC in consultation with workers on an annual basis.

Work health and safety initiatives

EFIC engages regularly with employees to ensure that they are aware of work health and safety arrangements. Formal engagement includes regular employee engagement surveys and staff briefings held by the Managing Director and Executive team, as well as focus group meetings for particular sections of the workforce, such as frequent travellers.

EFIC consults with its workers in the management of health and safety risks. The WHSC consults with workers in the development and maintenance of the Work Health and Safety Risk Control Matrix, including hazard controls, and formally reviews the matrix on an annual basis.

EFIC also consults with its workers on the adequacy of facilities for the welfare of workers, and provides access for staff and their immediate families to an employee assistance program, which is regularly reviewed by the Human Resources department. We have a strong culture of incident notification and investigation, which includes reporting of 'near misses' and workers are encouraged to actively participate in the management of work health and safety.

Workplace inspections are undertaken by a WHSC representative in consultation with workers prior to each WHSC meeting, and the findings are discussed at the meeting. Workplace hazards are prioritised according to the risk they pose to health and safety, and an action plan is developed. Any hazards that can be immediately eliminated are attended to. A copy of the workplace inspection findings are made available to all staff on the intranet.

During the process of EFIC's recent office refurbishment, we broadly consulted with staff on work health and safety matters throughout the planning and rollout phase of the project. We engaged accredited workplace rehabilitation specialists, BRS Consulting, to consult on ergonomic matters in the planning and execution of the office refurbishment, and to conduct workstation assessments for all staff.

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Given the nature of its operations, EFIC has identified travel as a risk that requires specialised monitoring. All frequent travellers have access to an annual full medical check, and staff have the option of taking a satellite phone when travelling to remote destinations. EFIC also engages international travel specialists, International SOS, to provide extensive cultural, security and medical information and assistance to staff members before and during international business trips. EFIC is in the process of implementing a certified traveller program which all staff will be required to complete on an annual basis prior to undertaking any international business travel, as part of our compliance framework.

As part of our commitment to staff welfare, EFIC also provides a corporate income protection (salary continuance) insurance policy to employees who have completed their probation period (excluding temporary staff).

Other initiatives to ensure the health, safety and welfare of workers include the ongoing development of our intranet site to improve communication and access to information across the organisation, and making available flexible work practices to assist employees to meet the demands of their work and personal or family commitments.

Health and safety outcomes

The initiatives outlined above have enabled EFIC to achieve and maintain outstanding work health and safety practices for its workers. No notices were received under the WHS Act during 2011–12.

As part of EFIC's March 2012 employee engagement survey, staff were asked for feedback on workplace safety. Ninety-two per cent of respondents agreed or strongly agreed that 'if I identify a safety issue I know my manager will action it', and 97 per cent agreed or strongly agreed that 'I know what to do when I see a safety issue'. EFIC management will continue to work with the WHSC to improve awareness and consult with workers on work health and safety matters.

Training

All employees undergo annual training on work health and safety, and a building evacuation exercise. Other work health and safety training in 2011–12 included:

- ongoing training to current and new first aid officers
- Comcare training for WHSC members to ensure that the committee is fulfilling its role to best-practice standards
- a training package for Board members and the Executive team on the legislative changes and their obligations as 'officers' under the WHS Act
- a comprehensive training course undertaken by the Health and Safety Representative to ensure that he is able to carry out his role in line with the new legislation.

Accidents or dangerous occurrences

There was one 'notifiable incident' during 2011–12, which was reported to Comcare.

EFIC conducts regular testing and preventative maintenance on its plant and equipment, including air conditioning, and undertakes all reasonable steps to eliminate or minimise risks to staff and visitors to the building.

Investigations and notices

EFIC did not receive any notices under the WHS Act during 2011–12.

EFIC basketball team

The EFIC basketball team is a staff initiative encouraging employees to partake in a weekly sporting activity. All games are played at King George V Recreation Centre in The Rocks, Sydney.

The competition is mixed and a broad representation of EFIC departments make up the squad. Weekly results and match reports are posted on the intranet so the rest of the organisation can enjoy the highs and lows of the team's endeavours.

The basketball team has been a great way for people within the organisation to work together, exercise and have some fun.

EFIC basketball team

Back row (L-R): Tom Tsihlis, Ruth Sutton (team manager), Eric Wang (photographer)
Middle row (L-R): Amelia Joyner, Vinoo Jose (captain), Steven Morrison
Front row (L-R): Paul Andrew, Eric Chaney, Leon Gort
Absent: Rachael Glasson, Rachael Rankin, Mat Hocken, Soci Coligado, Piny Ly

Corporate responsibility

Approach to corporate responsibility

EFIC's Corporate Responsibility Policy (CRP) sets out the principles used to manage our different responsibilities to our various 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 balance between maintaining customer commercial confidentiality and providing transparency into our operations.

The policy sets out our responsibilities to exporters, the Australian Government, our employees and the wider community. Further information about the CRP and related reporting is available on our website.

EFIC has a statutory requirement under section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* (Cth) to report its environmental performance. Our reporting is in two parts: how environmental and social issues are considered in the provision of EFIC's solutions for exporters; and EFIC's direct environmental performance.

Environmental and social review of transactions

EFIC's corporate values include a commitment to uphold best-practice environmental and social standards in the transactions it supports. Our Policy for Environmental and Social Review of Transactions (Policy) sets out the principles EFIC applies to meet its corporate values, and our Procedure for Environmental and Social Review of Transactions (Procedure) describes how we implement the Policy. EFIC's Policy adopts the International Finance Corporation's Performance Standards as its general benchmark for environmental and social review.

The Policy and Procedure define how EFIC integrates the principles of ecologically sustainable development into transaction considerations.

EFIC has voluntarily joined two other initiatives: the United Nations Environment Programme Finance Initiative and the Equator Principles (for information on EFIC's Equator Principles reporting, see page 59). Both initiatives are consistent with EFIC's Policy.

EFIC's Policy includes a screening process that recognises:

- the broad range of potential social and environmental impacts arising from export transactions and overseas investments
- an exporter's or investor's role in a transaction, which can determine their responsibility and ability to manage environmental and/or social impacts
- the different roles that EFIC plays in transactions.

Screening identifies two types of transactions: projects (which are further divided into new and existing projects) and non-projects (where a transaction is not associated with an identified location or operation). New projects are classified according to their potential for environmental and/or social impact as follows:

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

Existing projects and non-projects are further divided into those that have a potential for environmental and/or social impacts and those that do not have a potential for environmental and/or social impacts.

Table 6 summarises the number of EFIC's medium to long-term facilities and their type of environmental review for 2011-12 and includes comparative data for the previous two financial years. The table excludes transactions involving EFIC Headway, transactions dealing only with foreign exchange products and Producer Offset loans (these transactions are considered to have low potential for environmental and social impact).

Table 3 on pages 22-23 shows more information about EFIC's transactions in 2011-12.

EFIC supported two Category A transactions this financial year. These were related to export finance guarantees for Santos Finance Limited and the Wiggins Island Export Coal Terminal.

Five transactions were identified to be associated with Category B projects. One of these was the upgrade of rail infrastructure in Western Australia and a second the development of a dairy farm in Sri Lanka. The other three transactions were associated with a single project, the export of breeding cattle to Russia for the establishment of a cattle breeding and beef production facility.

One non-project was identified to have a potential for environmental and/or social impacts. That transaction involved a risk participation agreement for the export of coking coal. For that transaction EFIC considered the environmental and social risk associated with the industry and companies supported by EFIC.

Table 6: Environmental and social review summary

Year	Environmental / social impact category				
	Category A	Category B	Category C	Existing project and non-project potential impact	
				Yes	No
2011-12					
All facilities	2	5	7	1	13
Project finance	1	0	0	Not applicable	Not applicable
2010-11					
All facilities	0	2	22	0	2
Project finance	0	0	0	Not applicable	Not applicable
2009-10					
All facilities	1	4	13	Not separately considered	Not separately considered
Project finance	1	0	0		

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Equator Principles reporting

Principle 10 of the Equator Principles requires a signatory to report on its implementation of the principles, including the number of project finance transactions screened and their categorisation. Table 6 on page 58 summarises the number of project finance transactions signed over the past three years.

EFIC supported one project finance transaction in 2011-12, the Wiggins Island Coal Export Terminal. Although EFIC's transaction involved an export finance guarantee, EFIC's role and due diligence were effectively undertaken as project finance.

The location, industry type, sector and results of screening and classification for individual projects supported by EFIC (including project finance) are provided in Table 3 on pages 22-23.

Based on experience EFIC will report as 'screened' those projects for which a mandate or equivalent was received by EFIC. Two project finance transactions were screened during the financial year, both associated with Category A projects.

EFIC's operations: environmental performance

EFIC operates from Export House, which is located at 22 Pitt Street, Sydney. EFIC normally occupies three floors but took occupancy of an additional floor to allow refurbishment to progressively take place on its other three floors. EFIC leases the remaining floors to tenants on standard commercial terms.

In managing our environmental performance, we endeavour to minimise the building's environmental footprint. Table 7 summarises the available information on EFIC's energy use, water use, solid waste generation and business travel in 2011-12 and includes comparative data for the previous two financial years.

Given the major refurbishment underway, the energy consumption and water generation figures are not comparable between the years. The year 2009-10 was the last full year prior to refurbishment commencing and will form the base year for comparison once the works are complete.

Table 7: EFIC's environmental performance

Parameter	2009-10	2010-11	2011-12
Energy use			
Electricity, megajoules/m²			
EFIC occupancy[(a)]	975	930	684
Building services (EFIC's share)[(b)]	571	536	538
Green energy, megajoules	0	0	0
Gas, megajoules	0	0	0
Water[(c)]			
Water, kilolitres[(d)]	5,293	5,410	3,132
Solid waste[(e)]			
	Not available	Not available	Not available
Business travel by EFIC employees			
Total domestic (km)	0.67 million	0.74 million	0.73 million
Total international (km)	2.13 million	2.81 million	2.32 million

(a) This figure represents EFIC's energy use only, that is, energy consumed on the floors it occupies. It includes EFIC's computer facilities which, like all computer services, have a high energy demand. Although EFIC occupied four floors during 2011 and 2012, one was effectively empty due to construction work.

(b) Building services are common facilities for all floors of Export House and include lighting to common areas, lifts and air conditioning.

(c) Last year's annual report included data on wastewater generation. EFIC has since determined that its wastewater use is not metered but is simply a proportion of water consumption. Hence that data will no longer be reported.

(d) The water figure represents total usage by Export House. It is not possible to separately identify water use by floor or by tenancy.

(e) Data on the generation of waste could not be collected prior to the refurbishment. Systems have been established to obtain this data and are expected to commence in early 2013.

During the year there was a significant reduction in energy consumption for the EFIC tenancy. This reduction is most likely due to EFIC's use of a fourth floor during the refurbishment which resulted in one of its floors being unoccupied for most of the year. There was also a significant reduction in water use for the whole building. Some of this can be explained by the amenities areas on two floors not being available for most of the year due to the refurbishment. However, some savings are attributable to water saving initiatives implemented as part of the refurbishment.

EFIC employees' international business travel decreased slightly during 2011-12. A majority of this travel is associated with either due diligence for new transactions or the management of existing transactions. EFIC accepts higher risks than its commercial peers in countries across the globe and travel is considered essential to appropriately manage those risks. A part of the office refurbishment includes the provision of video conference capabilities within EFIC's conference rooms. This is expected to reduce the need for some travel.

EFIC's environmental performance at Export House is managed within principles that seek to promote energy efficiency, recycling and other measures to reduce the environmental footprint of the premises. EFIC's refurbishment works have an objective of obtaining a 4.5-star rating under the National Australian Built Environment Rating System.

The renovations commenced in early 2011 and are expected to be complete by early 2013. They included:

- Air conditioning and lighting designs were used to reduce the building's energy use (and associated greenhouse gas emissions). Air conditioning systems use zero refrigerants with ozone depletion potential.
- Each new floor has user-controlled lighting zones and movement sensing controls to save energy by lighting only those areas in use.
- All new bathrooms and kitchens have water-efficient fixtures, including low-flow basins, showers and toilets and 5A-rated dishwashers.
- During the renovations, over 80 per cent of the construction and demolition waste (by weight) was re-used or recycled.
- Workstations, chairs, tables and flooring were selected based on environmental performance. A majority of furniture and flooring items are durable, designed for easy disassembly and re-use and contain eco-preferred content.
- Indoor pollutants were minimised by using paints, carpets, sealants and furniture with low levels of volatile organic compounds, which can have adverse health effects such as eye, nose and skin irritation, headaches and lethargy. Indoor plants are provided on each new floor to assist air pollutant removal and further improve indoor air quality.
- Additional bicycle storage has been provided to encourage building occupants to cycle to work.

Systems to monitor energy and water use and waste generation and assess performance against targets have been installed. There will be a 12-month period following the completion of the renovations to maximise the operational efficiency of all systems that use energy and water.

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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 2011-12, 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 *Competition and Consumer Act 2010* (Cth) in relation to such indemnities.

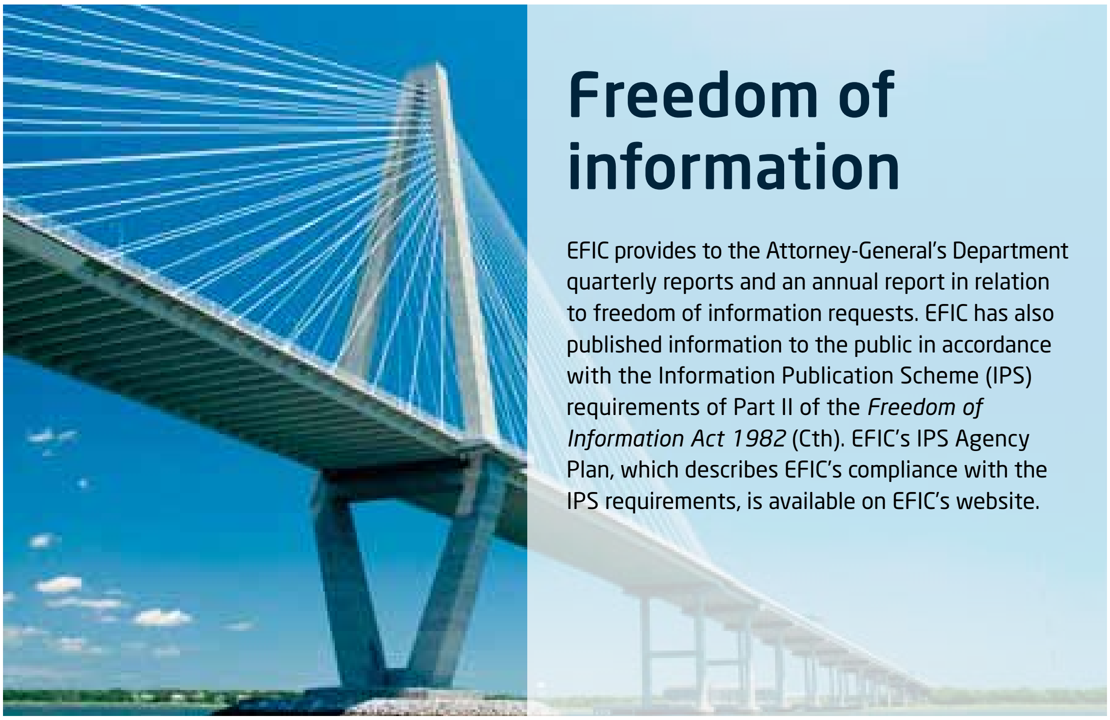
During 2011-12, EFIC did not pay any amount in connection with Board member or employee indemnities.

During the year, EFIC maintained and paid premiums for certain insurance covering its employees and Board members. This included directors and officers liability insurance and professional indemnity insurance (both of which include cover for certain legal costs), for which premiums totalling approximately $196,550 were paid during 2011-12.

Judicial and administrative decisions and reviews

During the financial year ended 30 June 2012, there were no judicial decisions or decisions of administrative tribunals that have had, or are likely to have, a significant impact on our operations.

The Auditor-General provided his annual independent auditor's report on EFIC's financial statements. The report was unmodified.



Freedom of information

EFIC provides to the Attorney-General's Department quarterly reports and an annual report in relation to freedom of information requests. EFIC has also published information to the public in accordance with the Information Publication Scheme (IPS) requirements of Part II of the *Freedom of Information Act 1982* (Cth). EFIC's IPS Agency Plan, which describes EFIC's compliance with the IPS requirements, is available on EFIC's website.

Particulars of directions 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.

EFIC complied with the section 9 directions referred to below during 2011–12. It is not possible to assess the financial effect on EFIC of these directions.

During the year ended 30 June 2012, directions dated 4 July 2007 were in effect in relation to the following matters:

- EFIC's continuing participation in Australian Government negotiations in the Paris Club
- EFIC's compliance with Australia's obligations under the OECD Arrangement on Officially Supported Export Credits
- funding arrangements arising from the 2006 EFIC Review.

Uranium

A section 9 direction dated 1 June 2010 was in effect during the year ended 30 June 2012 in relation to uranium. The direction states that EFIC must not provide assistance for any transaction linked to uranium without specific written agreement from the Australian Government. It also sets out preconditions that must be satisfied before EFIC submits a request seeking agreement from the Australian Government for EFIC to provide assistance.

The preconditions are designed to be consistent with nuclear non-proliferation standards and safeguards applicable to uranium exports from Australia. To further ensure that Australia's non-proliferation objectives are met during EFIC's participation in a project involving uranium, the documentation evidencing EFIC's support for the project must include certain covenants. These include allowing EFIC to withdraw from the transaction in the event that the uranium activities fail to comply with non-proliferation, environmental or social conditions relating to uranium. The documents also require regular reporting on uranium exports from the mine and notification of changes to uranium-related regulations in the producing country.

Iran

A section 9 direction dated 15 October 2008 was in effect during the year ended 30 June 2012 in relation to trade with Iran.

The direction states 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.

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Zimbabwe

A section 9 direction dated 27 May 2009 was in effect during the year ended 30 June 2012 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 the Department of Foreign Affairs and Trade (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.

Democratic People's Republic of Korea

A section 9 direction dated 19 July 2009 was in effect during the year ended 30 June 2012 in relation to the Democratic People's Republic of Korea (DPRK). The direction states 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.

Section 29 EFIC Act directions

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

During the year ended 30 June 2012, a direction dated 4 July 2007 was in effect which set 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.

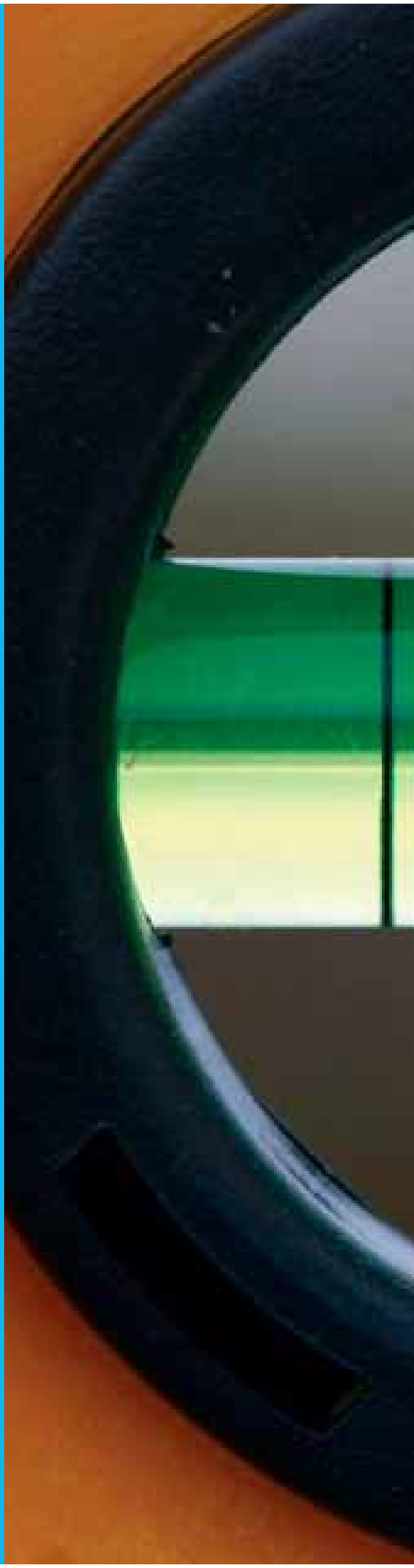
Section 55 EFIC Act directions

Section 55(2) of the EFIC Act permits the Minister to issue directions to EFIC regarding the payment of a dividend to the Commonwealth.

During the year ended 30 June 2012, a direction dated 15 November 2011 was issued requiring EFIC to pay a dividend to the Commonwealth of $30.2 million or 100 per cent of the Commercial Account profit for 2010-11. However, the Minister for Trade and Competitiveness deferred payment of the dividend for 12 months.

Part 1: Report of operations

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 roles and 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, 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 Risk Control Matrix engenders a culture of risk awareness.

Risks are classified depending on their nature: strategic, reputation, credit/country, market and operational/financial. Operational and financial risks are broken down into a number of subcategories: general processes, external regulation, internal policies, domestic and international laws, and events. 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 Risk Control Matrix attempts to capture all of the risks EFIC is managing.

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

Risk appetite

The Board is of the view that risk appetite goes to the heart of how EFIC does business. A clear statement of our risk appetite is important in giving key stakeholders like clients, the Australian Government, employees and regulators an indication of how EFIC will operate from a risk-taking perspective and the type of risk culture that EFIC promotes.

In order to ensure effective monitoring and governance, EFIC's risk appetite incorporates a balanced mix of both quantitative and qualitative measures. These are monitored within well-established risk policies, risk tolerances and operational limits set by the Board, the EFIC Act, the CAC Act and the regulations and orders made under both acts.

Risk appetite is set within a range from 'risk intolerant' to 'risk tolerant'. EFIC willingly accepts risks that are aligned with its risk culture and are consistent with its role of providing services in 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 financially viable Australian exporters and investors.

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

Core principles

EFIC's risk management is built on a foundation that includes:

- awareness and commitment to a single mission, common objectives, shared values and a Code of Conduct that are reviewed and renewed periodically
- a suite of policies and procedures which are supplemented by supportive systems
- human resources practices intended to recruit, train and retain employees with the required specialist skills
- delegation of responsibility throughout EFIC and accountability for outcomes
- control processes including structured management reporting, a system of independent review and Board oversight
- an operational philosophy that seeks to anticipate and mitigate risks before they occur and that reflects on the lessons learned when problems arise.

Roles and responsibilities

The Board is ultimately responsible for setting EFIC's risk appetite and tolerances. The Board Audit Committee 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 teams 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.

The Credit Committee, chaired by EFIC's Chief Credit Officer, examines credit policy and practices in relation to all exposures and potential transactions.

The Risk and Compliance Committee, chaired by EFIC's Compliance Counsel, examines, monitors and regulates compliance risks.

The Treasury Risk Review Committee, chaired by the Treasurer, examines treasury activities, limits, noteworthy transactions and current financial market and risk issues.

An independent internal audit service provider is engaged by the Board to review risk management and internal controls. The internal audit service provider, currently Deloitte, reports to each of the Board, via the Board Audit Committee, and the Executive and has full access to staff and information when conducting its reviews.

The Australian National Audit Office and its appointed agent, currently Ernst & Young, perform an independent review of EFIC's financial statements.

The Chief Financial Officer is responsible for managing the Risk Management Framework, including its periodic review and renewal.

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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. The Basel II guidelines, issued by the Basel Committee on Banking Supervision, refer to such losses as 'expected losses'. The Basel Committee's belief, shared by the Australian Prudential Regulation Authority, is that credit-related provisions should reflect a financial institution's 'expected' credit losses, whereas capital should principally cover any 'unexpected' losses.

Financial institutions view expected losses as a cost component of doing business and manage them by a number of means, including through the pricing of credit exposures and through credit-related provisioning.

The underlying profitability of EFIC in the longer term depends primarily on actual credit losses in the portfolio. However, in the past a major influence in determining EFIC's annual profit result has been the level of expected losses rather than actual credit losses.

Under 'fair value', expected losses are incorporated into the fair-value calculation as an allowance for credit risk. The current model takes into account the magnitude and nature of the exposures, their risk grading, the type of exposure and the maturity. EFIC estimates the magnitude of the losses using external data for losses of similarly graded risks, as its own loss history is too narrow to be statistically sound. The fair-value methodology is based on a whole-of-life portfolio, rather than being event driven, for specific risk characteristics.

Periodically, we review our methodology and results against independent market sources to ensure consistency. We also review the inputs to the model such as probability of default and loss given default each year and run sensitivity scenarios that stress-test the model to take into account deterioration in EFIC's portfolio, including with respect to industry downturns.

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 specific events on our Commercial Account in 2011–12 reduced from $7.4 million to $5.6 million. The reduction was due to the write-off of facilities paid out of $1.6 million and a net movement through the profit and loss account of $0.2 million.

We also wrote back a net amount of $0.2 million and wrote off $1.6 million for specific events in 2011–12, bringing the balance for specific events to $5.6 million.

We do not make any collective provision for losses on National Interest Account facilities as the Commonwealth reimburses EFIC 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, excluding reinsurance, was an EFIC risk score (ERS) of 3.6.

An ERS of 1 is equivalent to a Standard & Poor's rating of AAA through AA- (Moody's: Aaa through Aa3), while an ERS of 7 is the lowest grade before default. An ERS of 4 is the equivalent of BB+/BB- (Ba1/Ba3).

Allowance for derivative risk

The fair value of any financial instrument should reflect the credit risk associated with the instrument.

However, the global financial crisis and more recent uncertainty in financial markets has resulted in ongoing credit downgrades to a significant number of our bank counterparties to below AA–.

Prior to 2008, derivative contracts, unlike physical securities, were perceived not to include a credit risk component as such after the initial transaction, and market convention was to mark derivatives portfolios to market without taking the counterparty risk into account. All cash flows were discounted using the London Interbank Offered Rate (LIBOR) or risk-free curve.

However, following the high-profile defaults of 2008, the market has accepted that the true portfolio value must incorporate the possibility of losses due to counterparty default. The large derivatives dealers also consider the bilateral nature of counterparty credit risk. This means that an institution would calculate a credit value adjustment under the assumption that they, as well as their counterparty, may default.

The credit value adjustment is by definition the difference between the risk-free portfolio and the true portfolio value that takes into account the possibility of a counterparty defaulting. The debt value adjustment reflects an offset to the extent that a defaulting institution 'gains' on any outstanding liabilities that it cannot pay in full. Most banks therefore offset 'losses' from credit value adjustments with 'gains' from debt value adjustments, resulting in a smaller net impact to profitability.

During the year we provided an additional $0.2 million against derivative counterparty risk, bringing the total allowance for derivative risk at 30 June 2012 to $5.5 million.

Residual margin

EFIC applies fair value to its loans and guarantees and uses a discounted cash flow methodology to calculate a valuation on day one for a particular transaction. To the extent that the net present value of the income stream and the allowance for credit risk adjustment on that transaction does not equal the cash flow on day one, this difference is termed 'residual margin'. Residual margin includes other risk factors such as servicing costs and prepayment risk and when these factors are included in the valuation, the day one profit equates to zero. The residual margin is then recognised over the life of the transaction.

During the year our residual margin balance increased to $34.6 million at 30 June 2012 from a $25.3 million balance at 30 June 2011.

Capital adequacy

Under section 56 of the EFIC Act, the Board is required 'to ensure, according to sound commercial principles, that the capital and reserves of EFIC at any time are sufficient' in order to (a) meet the likely liabilities of EFIC and (b) make adequate provision for defaults in loan payments. This requirement relates only to our Commercial Account activities. The Australian Prudential Regulation Authority (APRA) requires banks in Australia to have minimum capital requirements consistent with the Basel II framework. Although EFIC does not have to comply with APRA guidelines, the Board has adopted Basel II principles, in line with best practice, for measuring EFIC's capital adequacy until Basel III guidelines are finalised by APRA.

When making this assessment, the Board is required to include as capital the $200 million of callable capital that is available from the Commonwealth in accordance with the provisions of section 54 of the EFIC Act. The Government has announced that a 'special dividend' of $200 million will be paid by EFIC in 2012–13 from capital and reserves.

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.

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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 on the prudential standards and calculations used for regulating banks. The Board has endorsed a model that takes into account the APRA guidelines and the Basel II framework. 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.

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

The Board reviews the model and calculations annually and is satisfied that, during the year, EFIC's capital, including 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, the demand for our support from both small and medium-sized exporters and large corporates, the special dividend and any further external developments.

Large exposures

EFIC has adopted APRA guidelines in relation to large exposures. Australian banks are required to consult with APRA prior to committing to any aggregate exposures to non-government, non-bank counterparties exceeding 10 per cent of their capital base. APRA has also indicated a maximum exposure per non-bank counterparty (or related group of counterparties) of 25 per cent of capital but has emphasised that this is an upper limit. Only better-rated risks would be contemplated for these levels of exposures.

The Board has endorsed a limit of 25 per cent of capital and reserves (including callable capital) to apply to exposures graded ERS 1 (AAA/AA- or Aaa/Aa3) or ERS 2 (A+/A- or A1/A3), but a 15 per cent target applies for risks graded ERS 3 (BBB+/BBB- or Baa1/Baa3) 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 in the particular transaction.

In any event, under current delegations the Board must approve all transactions that involve commitments over $50 million.

As an exception to this policy, the Board has approved increases in exposure limits to single counterparties under risk transfer arrangements from a maximum of 25 per cent to 37.5 per cent for risk transfer partners rated ERS 1 or 2; and from a maximum of 25 per cent to 50 per cent for risk transfer partners rated ERS 1 from government-backed export credit agencies.

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 authorised deposit-taking institutions under the *Banking Act 1959* (Cth) 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. However, in 2011–12, as bank ratings globally came under pressure, the Board approved exposure limits on the major Australian banks and certain international banks that were in excess of 50 per cent of capital, and exposure limits on other counterparties were reduced by management.

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 56 of the EFIC Act. The large exposure limits will be reviewed in 2012–13 in light of the special dividend and any capital mitigation strategy that is agreed with the Government.

Treasury activities

EFIC's treasury activities are carried out within a control framework approved by the Board and compliant with the EFIC Act, the CAC Act and associated approvals required of the Australian Government. Within this framework, we aim to prudently minimise the cost of funding our loan assets on both the Commercial Account and National Interest Account and to prudently maximise the return on our investments, including funds representing our equity, cash reserves and working capital. In transacting on wholesale markets, our Treasury unit manages credit risk prudently within Board and management approved limits and does not trade speculatively.

EFIC's functions and obligations are set out in the EFIC Act, including the framework for EFIC's funding activities by Treasury. Section 61 of the EFIC Act states that 'EFIC must not borrow or raise money except under sections 58 or 59'. Section 58 allows the Finance Minister to lend money to EFIC, out of money appropriated by the Federal Parliament, and section 59 allows EFIC to borrow or raise money, subject to written approval of the Finance Minister. To date, EFIC has funded its activities under section 59 approvals.

EFIC borrows in the global debt capital markets to fund its lending operations. The core function of EFIC's Treasury is to prudently raise funding at competitive rates and to manage the investment of capital and reserves and the surplus liquidity portfolio. Treasury uses derivative products to minimise currency and interest rate risks arising from EFIC's core businesses and Treasury's funding and investing operations. EFIC's power to enter into derivative transactions derives from its general powers in section 11 of the EFIC Act.

EFIC's management reports the results of its treasury operations regularly to the Board.

The loans we have provided to customers and the rescheduled debts are mostly denominated in foreign currencies. As at 30 June 2012, taking both the National Interest Account and Commercial Account into consideration, 76 per cent were denominated in US dollars and 14 per cent in euro.

EFIC does not take currency exposure on its assets and liabilities – it effectively eliminates this exposure by borrowing in the same currency as the assets or, typically, by borrowing in another currency and using cross-currency swaps and other foreign exchange instruments to remove the foreign exchange exposure.

Similarly, we use interest rate swaps and futures to match the interest rate profiles of our liabilities with those of our loans.

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

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

Borrowings

Under section 62 of the EFIC Act, the Commonwealth guarantees the due payment by EFIC of any money that becomes payable, 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.

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 upon and EFIC is required to pay out the bank. For this reason, we are required to have additional funding capacity available to cover the possibility of borrower defaults and subsequent calls by lending banks

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on EFIC's guarantees. EFIC also maintains a diversified funding capability with spare capacity in order to ensure that it has a flexible and robust funding model that can accommodate a degree of disruption to financial markets and to enable a range of pricing and risk management strategies.

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

We continued to issue short-term euro-commercial paper in US dollars during 2011–12.

New capital market issues under our medium-term note programs in 2011–12 raised $200 million, compared with $632 million in 2010–11. We made one issue in 2011–12, compared with six in 2010–11. All other funding activities for the year were confined to the short-dated commercial paper market and short-term direct loans from banks. During the year, we were consistently able to borrow at sub-LIBOR margins using derivative markets.

The new capital market issue during 2011–12 is shown in Table 8.

Investments and liquidity

At 30 June 2012, the face value of EFIC's investment and liquidity holdings on the Commercial Account was $1.37 billion, comprising cash, bank deposits and investment securities. Of this amount, $425.6 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. While our policy is to hold our investments to maturity, they can be sold if necessary. Assuming no credit defaults, any 'unrealised' gains or losses caused by revaluations will not be realised. The investment approval issued by the Finance Minister under the CAC Act requires our treasury investments to be in entities rated AA- or better or authorised deposit-taking institutions rated BBB- or better.

Table 8: New capital market issue, 2011–12

Arranger	Term (years)	Currency	Amount (million)	US$ equivalent (million)
Citigroup	5	AUD	200	213.7

Reschedulings and debt forgiveness

In previous years, pursuant to Paris Club determinations, EFIC has rescheduled debts owed by the Indonesian, Egyptian and Iraqi governments. The Paris Club is a group of government creditors, the role of which is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. There were no new Paris Club reschedulings during 2011–12.

Indonesia

At 30 June 2012, our loans to the Indonesian Government were $424.5 million on the National Interest Account and $9.8 million on the Commercial Account. The National Interest Account loans were predominantly loans supported by aid grants and approved under the now-discontinued Development Import Finance Facility. 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.

On 8 July 2010, the then Minister for Foreign Affairs and Trade issued a section 31 direction requiring EFIC to cancel up to $75 million in debt service owed to it by the Republic of Indonesia. This cancellation is contingent on the Republic of Indonesia investing in tuberculosis programs approved by the Global Fund to Fight AIDS, Tuberculosis and Malaria. During 2011–12, $8.1 million was cancelled under this program.

Egypt

At 30 June 2012, EFIC was owed $61 million and US$27 million by the Egyptian Government ($20 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 2012, 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 EFIC and the Government from pursuing the 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 mid-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. At 30 June 2012, all rescheduled amounts have been paid on time as per the rescheduling agreements, resulting in $14.4 million being taken up as income on the National Interest Account.

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Dividends

The EFIC Act requires the Board to make a recommendation to the Minister for Trade and Competitiveness on the payment of a dividend to the Commonwealth. The Minister, by written notice to EFIC, either 'approves' the recommendation from the Board or 'directs' the payment of a different specified dividend.

During the year, the Minister for Trade and Competitiveness directed that EFIC pay a dividend of $30.2 million for the year ended 30 June 2011, representing 100 per cent of the Commercial Account profit for that year, but delayed payment for 12 months until December 2012.

At the date of publication, a determination in respect of the dividend for the year ended 30 June 2012 had not been made.

In the 2012-13 Federal Budget, the Treasurer announced that EFIC would be required to pay a 'special dividend' of $200 million during 2012-13. The mechanism to direct how this will be paid is yet to be determined; however, legislative changes to the EFIC Act will be needed to enable payment. The timing of these legislative changes is yet to be finalised; but the Budget requires the dividend to be paid to the Federal Government by 30 June 2013.

Provision of non-commercial services

While EFIC operates as a commercial business, its role is the delivery of export-related financial and insurance services in 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 financially viable 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.

Ten-year financial summary

Table 9: Summary of Commercial Account, 2002-03 to 2011-12

Year ended 30 June	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Commercial Account	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m
Export contracts and overseas investments supported	4,278	3,473	3,561	817	2,219	1,367	605	176	502	1,967
Net interest income	38.1	39.6	38.3	44.5	32.2	23.4	19.3	18.5	17.7	15.3
Premiums and fees (accrual)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.0	16.9	17.3
Fair-value loans and guarantees	32.7	17.5	33.6	14.5	7.2	6.2	21.0	0.0	0.0	0.0
Total premiums and fees	32.7	17.5	33.6	14.5	7.2	6.2	21.0	16.0	16.9	17.3
Effect of reinsurance	(16.2)	(3.0)	(1.6)	(3.5)	(2.6)	2.8	(1.8)	(3.2)	(1.7)	(1.4)
Net premiums and fees	16.5	14.5	32.0	11.0	4.6	9.0	19.2	12.8	15.2	15.9
Fair-value other financial instruments	(4.1)	(6.1)	(7.4)	(4.2)	(1.6)	21.0	0.0	0.0	0.0	0.0
Other income	3.1	3.0	2.6	3.0	2.9	2.4	1.9	2.9	2.7	2.2
Total revenue	53.6	51.0	65.5	54.3	38.1	55.8	40.4	34.2	35.6	33.4
Operating expenses	(26.7)	(24.5)	(23.8)	(20.6)	(18.8)	(15.5)	(12.5)	(11.7)	(9.0)	(7.2)
Realised foreign exchange profit/(loss)	0.0	0.0	0.0	(0.1)	0.0	0.1	(0.2)	(0.1)	0.0	(0.4)
Profit before specific provisions	26.9	26.5	41.7	33.6	19.3	40.4	27.7	22.4	26.6	25.8
(Charge)/credit for sundry allowances	0.1	3.6	(3.4)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0
(Charge)/credit for specific provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.7	(3.2)	2.9
Profit/(loss) from the discontinued credit insurance business	(0.2)	0.1	0.0	0.2	0.4	0.3	1.0	0.3	4.3	(3.2)
Operating profit before tax	26.8	30.2	38.3	33.6	19.7	40.7	28.7	29.4	27.7	25.5
Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit of EFIC	26.8	30.2	38.3	33.6	19.7	40.7	28.7	29.4	27.7	25.5
Dividend (paid in subsequent years)	Not decided	30.2	28.7	16.8	9.8	20.4	14.3	14.7	12.6	12.7
Special dividend	0	0	0	0	0	0	0	0	2.5	0
Equity	418.1	408.1	407.6	376.7	331.2	359.8	321.7	287.5	266.2	253.7
Return on average equity (% pa)	6%	7%	10%	9%	6%	12%	9%	11%	11%	10%
Dividend payout ratio	Not decided	100%	75%	50%	50%	50%	50%	50%	55%	60%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	458	361	342	227	145	120	210	263	274	309
Funded export finance guarantees	101	102	115	55	0	0	0	0	0	0
Guarantees and other off-balance-sheet exposures	513	362	403	514	510	408	464	498	529	611
Exposures reinsured	327	112	87	206	212	103	142	97	82	48
Rescheduled debts	20	24	22	24	25	26	33	37	39	41
Export finance facilities	1,419	961	969	1,026	892	657	849	895	924	1,009
Retained credit insurance exposures	0	0	0	0	0	0	0	0	0	16
Reinsured credit insurance exposures	0	0	0	0	0	0	0	0	0	1,176
Credit insurance facilities	0	0	0	0	0	0	0	0	0	1,192
Total Commercial Account facilities	1,419	961	969	1,026	892	657	849	895	924	2,201

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

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Table 10: Summary of National Interest Account, 2002-03 to 2011-12

Year ended 30 June	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
National Interest Account	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m
Export contracts and overseas investments supported	240	0	2,411	530	18	85	33	39	21	134
Exports supported by Australian content by drawdown	1,005	338	0	0	21	46	21	30	20	108
Net interest income (including grant amortised)	1.2	1.0	2.9	3.0	0.3	9.5	17.7	18.7	24.4	22.9
Premiums and fees (accrual)	5.3	5.1	7.2	2.8	3.4	4.0	4.5	4.6	6.1	7.8
Total premiums and fees	5.3	5.1	7.2	2.8	3.4	4.0	4.5	4.6	6.1	7.8
Effect of reinsurance	0.0	(0.1)	(0.3)	(0.6)	(1.0)	(1.4)	(1.5)	(1.4)	(0.7)	(1.2)
Net premiums and fees	5.3	5.0	6.9	2.2	2.4	2.6	3.0	3.2	5.4	6.6
Fair-value other financial instruments	0.0	0.0	0.0	0.0	0.0	60.6	88.0	0.0	0.0	0.0
Total revenue	6.5	6.0	9.8	5.2	2.7	72.7	108.7	21.9	29.8	29.5
Operating expenses	(1.4)	(1.5)	(2.5)	(2.7)	(1.8)	(3.8)	(4.3)	(4.7)	(4.7)	(5.2)
Realised foreign exchange profit/(loss)	(0.2)	2.5	0.7	(2.9)	2.1	0.1	2.1	(7.9)	(2.3)	(13.6)
Profit before specific provisions	4.9	7.0	8.0	(0.4)	3.0	69.0	106.5	9.3	22.8	10.7
(Charge)/credit for specific provisions	(8.1)	(7.5)	0.1	0.2	1.8	1.4	0.0	2.7	(0.2)	5.8
Profit/(loss) from the discontinued credit insurance business	19.8	8.2	1.3	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)
Operating profit attributable to the Commonwealth	16.6	7.7	9.4	(0.2)	4.8	70.4	106.5	12.0	22.6	16.4
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	590	567	722	898	893	1,066	1,326	1,398	1,715	1,977
Guarantees and other off-balance-sheet exposures	6	0	1	4	8	11	8	7	6	35
Exposures reinsured	10	18	33	45	43	52	61	59	66	31
Rescheduled debts	87	101	101	111	111	121	360	532	607	648
Export finance facilities	693	686	858	1,058	1,055	1,250	1,755	1,996	2,394	2,691
Retained credit insurance exposures	0	0	0	0	0	0	0	0	0	0
Credit insurance facilities	0	0	0	0	0	0	0	0	0	0
Total National Interest Account facilities	693	686	858	1,058	1,055	1,250	1,755	1,996	2,394	2,691

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

Part 2: Financial statements

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Statement by Board members and Chief Financial Officer

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

(a) the accompanying financial statements are drawn up so as to give a true and fair view of the performance of the Corporation for the year ended 30 June 2012 and the financial position of the Corporation at 30 June 2012;

(b) the financial statements give 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 2011) under subsection 48(1) of the *Commonwealth Authorities and Companies Act 1997* (Cth);

(c) the financial statements have been prepared in accordance with Australian Accounting Standards;

(d) the financial statements have 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 Corporation Act 1991* (Cth), 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 & CHIEF EXECUTIVE OFFICER

Stuart Neilson
CHIEF FINANCIAL OFFICER

16 AUGUST 2012

Independent auditor's report

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT
To the Minister for Trade and Competitiveness

Report on the Financial Statements

I have audited the accompanying financial statements of Export Finance and Insurance Corporation ("the Corporation") for the year ended 30 June 2012, which comprise: a Statement by Board Members and Chief Financial Officer; the Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement and Notes to and forming Part of the Financial Statements, including a Summary of Significant Accounting Policies.

Directors' Responsibility for the Financial Statements

The directors of the Corporation are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

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19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation of the financial statements that give a true and fair view 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 the Corporation's internal control. An audit also includes evaluating the appropriateness of the 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.

Independence

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

Opinion

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

(a) have been prepared in accordance with the Finance Minister's Orders made under the Commonwealth Authorities and Companies Act 1997, including the Australian Accounting Standards; 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 2012 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office

Ian Goodwin
Group Executive Director

Delegate of the Auditor-General

Canberra
10 August 2012

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Statement of comprehensive income

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	30 June 2011 $ m
Statement of comprehensive income for the year ended 30 June 2012					
Interest income	3(i)	**243.9**	123.7	**33.9**	38.4
Interest expense	3(ii)	**(205.8)**	(84.1)	**(32.7)**	(37.4)
Net interest income		**38.1**	39.6	**1.2**	1.0
Fair value movement of third-party loans and guarantees	3(iii)	**16.5**	14.5	**-**	-
Fair value movement of other financial instruments	3(iv)	**(4.1)**	(6.1)	**-**	-
Other revenue	3(v)	**3.1**	3.0	**25.1**	13.2
Operating income		**53.6**	51.0	**26.3**	14.2
Operating expenses	3(vi)	**(26.7)**	(24.5)	**(1.4)**	(1.5)
Foreign exchange profit/(loss) on rescheduled credit insurance debts		**(0.2)**	0.1	**(0.2)**	2.5
Profit/(loss) before specific provisions		**26.7**	26.6	**24.7**	15.2
Credit/(charge) to sundry provisions and allowances	3(vii)	**0.1**	3.6	**-**	-
Credit/(charge) to specific provisions	3(viii)	**-**	-	**(8.1)**	(7.5)
Profit/(loss) from ordinary activities		**26.8**	30.2	**16.6**	7.7
National Interest Account attributable directly to the Commonwealth		**-**	-	**(16.6)**	(7.7)
Net profit available to the Commonwealth		**26.8**	30.2	**-**	-
Other comprehensive income					
Revaluation of land and buildings		**10.9**	-	**-**	-
Net gain/(loss) taken to equity on cash flow hedge		**(0.4)**	(1.5)	**-**	-
Net fair value gain on available-for-sale investments		**2.9**	0.5	**-**	-
Total other comprehensive income for the period		**13.4**	(1.0)	**-**	-
Total comprehensive income for the period available to the Commonwealth		**40.2**	29.2	**-**	-

The accompanying notes form an integral part of the financial statements.

Balance sheet

Balance sheet as at 30 June 2012

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m
Assets					
Cash and liquid assets	*1(i)*	**0.6**	0.6	**-**	-
Receivables from other financial institutions	*4, 1(j)*	**552.1**	79.7	**-**	-
Amounts receivable from the Commonwealth	*5*	**-**	-	**10.7**	21.1
Available-for-sale investment securities	*6, 1(k)*	**841.8**	1,268.1	**-**	-
Loans and receivables at amortised cost	*7, 1(l)*	**39.7**	43.4	**611.7**	592.3
Loans and receivables designated at fair value through profit or loss	*8, 1(m)*	**626.7**	480.8	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	*1(n)*	**716.6**	707.5	**-**	-
Derivative financial instruments	*9, 1(o)*	**447.5**	421.6	**-**	-
Property, plant and equipment	*10, 1(p)*	**47.7**	33.1	**-**	-
Other assets	*11*	**1.2**	1.3	**18.3**	20.6
Total assets		**3,273.9**	3,036.1	**640.7**	634.0
Liabilities					
Payables to other financial institutions	*12, 1(q)*	**57.4**	44.0	**-**	-
Borrowings from Commercial Account	*1(r)*	**-**	-	**634.1**	621.1
Borrowings designated at fair value through profit or loss	*13, 1(s)*	**2,603.0**	2,385.0	**-**	-
Guarantees designated at fair value through profit or loss	*14, 1(t)*	**24.5**	25.7	**-**	-
Derivative financial instruments	*9, 1(o)*	**118.2**	150.8	**-**	-
Sundry provisions and allowances	*15*	**33.5**	3.1	**-**	-
Other liabilities	*16*	**19.2**	19.4	**6.6**	12.9
Total liabilities		**2,855.8**	2,628.0	**640.7**	634.0
Net assets		**418.1**	408.1	**-**	-
Equity					
Contributed equity		**6.0**	6.0	**-**	-
Reserves		**109.7**	96.3	**-**	-
Retained profits		**302.4**	305.8	**-**	-
Total equity		**418.1**	408.1	**-**	-

The accompanying notes form an integral part of the financial statements.

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Statement of changes in equity

Statement of changes in equity for the year ended 30 June 2012

	Retained profits $ m	Asset revaluation reserves $ m	Available-for-sale investment reserve $ m	Cash flow hedge reserve (Note 18) $ m	Other reserves $ m	Contributed equity $ m	Total equity $ m
Commercial Account							
Opening balance as at 30 June 2011	**305.8**	**25.7**	**2.1**	**2.3**	**66.2**	**6.0**	**408.1**
Comprehensive income							
Other comprehensive income	-	**10.9**	**2.9**	**(0.4)**	-	-	**13.4**
Profit/(loss) for the period	**26.8**	-	-	-	-	-	**26.8**
Total comprehensive income	**26.8**	**10.9**	**2.9**	**(0.4)**	-	-	**40.2**
Transactions with the Commonwealth							
Dividends payable	**(30.2)**	-	-	-	-	-	**(30.2)**
Closing balance available to the Commonwealth 30 June 2012	**302.4**	**36.6**	**5.0**	**1.9**	**66.2**	**6.0**	**418.1**
Commercial Account							
Opening balance as at 30 June 2010	304.3	25.7	1.6	3.8	66.2	6.0	407.6
Comprehensive income							
Other comprehensive income	-	-	0.5	(1.5)	-	-	(1.0)
Profit/(loss) for the period	30.2	-	-	-	-	-	30.2
Total comprehensive income	30.2	-	0.5	(1.5)	-	-	29.2
Transactions with the Commonwealth							
Dividends paid	(28.7)	-	-	-	-	-	(28.7)
Closing balance available to the Commonwealth 30 June 2011	305.8	25.7	2.1	2.3	66.2	6.0	408.1

The accompanying notes form an integral part of the financial statements.

The above tables are for Commercial Account only as the National Interest Account holds no equity.

In addition to the contributed equity, section 54 of the EFIC Act provides for $200 million callable capital from the Commonwealth, which to date has never been called.

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

Section 55 of the EFIC Act requires the EFIC Board by written notice to the Minister for Trade and Competitiveness (the Minister) to make a recommendation that EFIC pay a specified dividend or not pay a dividend for that financial year. The Minister by written notice to EFIC either approves the recommendation or directs the payment of a different specified dividend. The dividend for this year was based on a direction from the Minister that 100% of prior financial year profit be paid as a dividend, with deferral of payment to December 2012. The dividend paid in December 2010 was based on a direction from the Minister that 75% of the prior financial year profits be paid as a dividend.

Cash flow statement

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m
Cash flow statement for the year ended 30 June 2012					
Cash flows from operating activities					
Inflows:					
Premium and fees received*		**26.9**	26.8	**3.5**	2.9
Interest received	*1(c)*	**223.1**	113.7	**14.6**	16.5
Insurance claim recoveries		**0.1**	0.1	**13.8**	1.4
Guarantees and associated costs recovered		**0.2**	0.6	**-**	-
Sundry income*		**2.6**	2.6	**-**	-
Rescheduled debt repayments		**3.7**	3.4	**15.6**	15.1
Net decrease/(increase) in other debtors and prepayments		**0.1**	(1.9)	**2.5**	-
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(5.9)**	(3.3)	**-**	-
Interest and other costs of finance paid	*1(c)*	**(199.4)**	(76.4)	**(34.1)**	(39.7)
Loan administration management fee		**(0.5)**	(0.6)	**-**	-
Guarantees called and associated costs		**(1.6)**	(0.3)	**-**	-
Net repayments/(disbursements) of loans		**(132.4)**	(110.1)	**(14.1)**	48.9
Payments to creditors and employees*		**(24.8)**	(23.2)	**-**	-
* Grossed up for goods and services tax.					
Net cash from/(used by) operating activities	*23*	**(107.9)**	(68.6)	**1.8**	45.1
Cash flows from investing activities					
Inflows:					
Proceeds from available-for-sale investments		**1,666.1**	1,532.6	**-**	-
Proceeds from sale of property, plant and equipment		**0.1**	-	**-**	-
Outflows:					
Payments for available-for-sale investments		**(1,210.9)**	(1,918.6)	**-**	-
Payments for property, plant and equipment		**(6.3)**	(2.4)	**-**	-
Net cash from/(used by) investing activities		**449.0**	(388.4)	**-**	-

The accompanying notes form an integral part of the financial statements.

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Cash flow statement for the year ended 30 June 2012 (continued)

	Note	COMMERCIAL ACCOUNT **30 June 2012 $ m**	30 June 2011 $ m	NATIONAL INTEREST ACCOUNT **30 June 2012 $ m**	30 June 2011 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		**-**	-	**16.3**	14.4
Receipts from National Interest Account		**1.5**	1.5	**-**	-
Net proceeds/(repayments) of borrowings		**130.3**	499.2	**5.9**	(52.8)
Outflows:					
Dividend payments to the Commonwealth		**-**	(28.7)	**-**	-
Other payments to the Commonwealth		**-**	-	**(22.5)**	(5.2)
Payments to Commercial Account		**-**	-	**(1.5)**	(1.5)
Net cash from/(used by) financing activities		**131.8**	472.0	**(1.8)**	(45.1)
Net increase/(decrease) in cash equivalents held		**472.9**	15.0	**-**	-
Cash equivalents at beginning of financial year		**80.3**	80.5	**-**	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		**(0.5)**	(15.2)	**-**	-
Cash equivalents at end of financial year	*23*	**552.7**	80.3	**-**	-

The accompanying notes form an integral part of the financial statements.

Notes to and forming part of the financial statements for the year ended 30 June 2012

Note 1: Summary of significant accounting policies

The Export Finance and Insurance Corporation (EFIC) is an Australian Government (Commonwealth) controlled entity, established by the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act).

EFIC's mission is overcoming financial barriers for exporters. By providing financial solutions, risk management options and professional advice when the private market lacks capacity or willingness, EFIC creates opportunities for Australian exporters and offshore investors to grow their international business. EFIC operates primarily in that part of the market that is not served by the private market, the 'market gap'. EFIC's business model is to take risks in this market gap that are appropriately and adequately priced for an export credit agency, in order to achieve its mandate and generate a sustainable rate of return for its stakeholders.

The continued existence of EFIC in its present form is dependent on Government policy.

(a) Basis of preparation of the financial statements

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

The financial statements have been prepared in accordance with:

- the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that apply for the reporting period
- Finance Minister's Orders for reporting periods ending on or after 1 July 2011.

The financial statements are presented in Australian dollars and amounts are rounded to the nearest $0.1 million unless otherwise stated.

EFIC operates two separate accounts: (i) the Commercial Account and (ii) the National Interest Account. The results of these accounts are reported separately in the financial statements.

(i) Business undertaken on the Commercial Account

All financial assets and liabilities of the Commercial Account are measured at fair value except where transactions qualify for hedge accounting. Changes in fair value are either taken through profit or loss or through equity.

The Commercial Account operates on a for-profit basis for those business activities undertaken under Part 4 of the EFIC Act.

All risks are borne by EFIC for those activities undertaken on the Commercial Account.

(ii) Business undertaken on the National Interest Account

All financial assets and liabilities of the National Interest Account are measured at amortised cost. EFIC does not enter into derivative financial instruments (e.g. swaps, foreign exchange contracts or borrowings with embedded derivatives) on the National Interest Account.

The National Interest Account operates on an approval or direction from the Minister for Trade and Competitiveness (the Minister) for EFIC to undertake business activities under Part 5 of the EFIC Act which the Minister considers are in the 'national interest'. Such activities 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 directs EFIC to undertake a business activity 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, and EFIC is compensated for this funding risk by retaining on the Commercial Account the difference between the actual borrowing rate and an agreed benchmark rate for funding loans on the National Interest Account. Premium or other income derived from the business activity on the National Interest Account 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.

There is also a provision in the EFIC Act which allows EFIC to share part of a National Interest Account business activity. In such cases income and expenses are apportioned between the two accounts in accordance with the risk participation.

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(b) New Australian Accounting Standards (AAS)

No accounting standard has been adopted earlier than the application date as stated in the standard.

The adoption of new standards and amendments that came into affect for this financial year did not have a significant impact on the financial statements.

Listed below are the standards (including reissued standards) and interpretations introduced by the Australian Accounting Standards Board (AASB) this year that will become effective in the future. Based on an initial assessment at this date the expected impact on the financial statements of adoption of these standards is not significant, other than the requirements of AASB 9 'Financial instruments' which does not come into effect until 2015 and EFIC has not yet determined the impact. EFIC intends to adopt all the standards upon their application date.

Standard	Title	Application date for EFIC
AASB 1048	Interpretation of Standards	1 July 2012
AASB 2011-9	Amendments to AAS - presentation of Items of other comprehensive income	1 July 2012
AASB 2011-13	Amendments to AAS - Improvements to whole of government and general government sector financial reporting	1 July 2012
AASB 10	Consolidated financial statements	1 July 2013
AASB 11	Joint arrangements	1 July 2013
AASB 12	Disclosure of interests in other entities	1 July 2013
AASB 13	Fair value measurement	1 July 2013
AASB 119	Employee benefits	1 July 2013
AASB 127	Separate financial statements	1 July 2013
AASB 128	Investments in associates and joint ventures	1 July 2013
AASB 1053	Application of tiers of AAS	1 July 2013
Interp. 20	Stripping costs in the production phase of a surface mine	1 July 2013
AASB 2011-4	Amendments to AAS to remove individual key management personnel disclosure requirements	1 July 2013
AASB 2011-6	Amendments to AAS - extending relief from consolidation, the equity method and proportionate consolidation - reduced disclosure requirements	1 July 2013
AASB 2011-7	Amendments to AAS arising from the consolidation and joint arrangements standards	1 July 2013
AASB 2011-8	Amendments to AAS arising from fair value measurement standard	1 July 2013
AASB 2011-10	Amendments to AAS arising from employee benefits	1 July 2013
AASB 2011-11	Amendments to employee benefits arising from reduced disclosure requirements	1 July 2013
AASB 2011-12	Amendments to AAS arising from stripping costs in the production phase of a surface mine	1 July 2013
AASB 2012-1	Amendments to AAS - fair value measurement - reduced disclosure requirements	1 July 2013
AASB 2012-2	Amendments to AAS - disclosures - offsetting financial assets and financial liabilities	1 July 2013

Standard	Title	Application date for EFIC
AASB 2012-4	Amendments to AAS - government loans	1 July 2013
AASB 2012-5	Amendments to AAS arising from annual Improvements 2009-2011 cycle	1 July 2013
AASB 2012-3	Amendments to AAS - offsetting financial assets and financial liabilities	1 July 2014
AASB 9	Financial instruments	1 July 2015

(c) Recognition of income and expenses

On the Commercial Account income and expenses are recognised in the financial statements at fair value by applying market rates and using the valuation technique of discounted cash flows. All future income and expense to be received or paid is estimated based on actual disbursements and receipts or EFIC's best estimate of future disbursements and receipts. The future cash flows are discounted to their present value.

Interest income and expense on derivatives financial instruments in this financial year are being shown on a gross basis rather than a net basis as in previous years. Comparatives have not been adjusted.

On the National Interest Account income and expenses are recognised in the financial statements as earned or incurred from the date of attachment of risk and are taken through profit or loss using the effective interest method.

(d) Operating segments

The Corporation operates its export facilitation activities through a single business segment - Export Finance, which incorporates loans, bonds, guarantees and insurance products.

(e) Unamortised grants

Unamortised grants income is comprised of funds previously provided from the Commonwealth's overseas aid appropriations. The Commonwealth 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 using the effective interest method. The unamortised balance is included in the balance sheet of the National Interest Account as an offset to loan assets.

The Commonwealth discontinued the mixed credit scheme in 1996. The balances outstanding on these loans are shown in Note 7.

(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 profit or loss for the year.

The principal exchange rates affecting the balance sheet are the US dollar, the euro and the Japanese yen. The relevant exchange rates used are:

	2012	2011
Average rates during year		
US$/A$	**1.0317**	0.9886
Euro/A$	**0.7712**	0.7249
Yen/A$	**81.1281**	82.0610

	2012	2011
Rates at 30 June		
US$/A$	**1.0189**	1.0737
Euro/A$	**0.8089**	0.7404
Yen/A$	**80.8956**	86.3201

(g) Hedge accounting

Hedge accounting is only applied on transactions where the formal documentation and designation criteria has been met.

Cash flow hedges are used 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 through profit or loss.

Fair value hedges, hedge the exposure to variability in fair value movements that are attributable to future interest cash flows only. The change in the fair value of the hedging instrument is recognised through profit or loss. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recognised as an adjustment to the carrying value of the hedged item and is also recognised through profit or loss.

Hedges are assessed for effectiveness each reporting period both retrospectively and prospectively. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

(h) 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) and fringe benefits tax. 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.

(i) 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 is considered fair value.

(j) Receivables from other financial institutions

Receivables from other financial institutions include overnight deposits and short-term fixed deposits with banks and other financial institutions and are measured at amortised cost using the effective interest method which is equivalent to fair value.

(k) 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, medium-term and long-term government, bank and other debt securities and include bonds, bills of exchange, commercial paper and certificates of deposit. Interest income is taken up using the effective interest method. They are carried at market value with changes in fair value recognised directly in equity unless they are part of a fair value hedge where, in that case, the changes in fair value that are due to future interest cash flows in an effective hedge are taken directly through profit or loss. For more detail on the fair value calculation, refer to Note 19.

(l) Loans and receivables at amortised cost

On the Commercial Account, a floating rate loan to a bank is recorded at amortised cost and is part of a cash flow hedge (which qualifies for hedge accounting).

On the National Interest Account, export finance loans and rescheduled credit insurance debts are carried at amortised cost. The recoverable amount is represented by the gross value of the outstanding balances, adjusted by specific provisions for impairment, deferred income, unearned premium, and unamortised grants – see Note 1(e). Unearned premiums and deferred income received in cash at the start of the loan are brought to income on an effective yield basis over the life of the loan by reducing the carrying amount. Interest income is recognised using the 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.

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(m) Loans and receivables designated at fair value through profit or loss

Export finance loans and rescheduled credit insurance debts held on the Commercial Account are designated at fair value through profit or loss. They are designated at fair value as this designation significantly reduces the accounting mismatch that would otherwise arise from measuring the asset on a different basis from derivatives that have been entered into to hedge the transactions. Interest income through profit or loss is recorded using the effective interest method, which forms part of the fair value calculation. Movement in fair value for premium, reinsurance, residual margin, interest income and credit risk is recorded separately through profit or loss. For more detail on the fair value calculation, refer to Note 19.

(n) Loans to National Interest Account designated at fair value through profit or loss

The Commercial Account funds the loans on the National Interest Account and this funding is recorded in the Commercial Account at fair value through profit or loss. For more detail on the fair value calculation, refer to Note 19.

(o) 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, futures contracts 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 (in the money) and as liabilities when their fair value is negative (out of the money). Any gains and losses arising from changes in the fair value of derivatives, except those that qualify for hedge accounting, are taken through profit or loss. For more detail on the fair value calculation, refer to Note 19.

(p) Property, plant and equipment

Property, plant and equipment are revalued periodically to fair value, as required by Schedule 1 of the Commonwealth Authorities and Companies Orders (financial statements for periods ended on or after 1 July 2011) under subsection 48(1) of the CAC Act.

The valuation of property, comprising land and buildings, is made by an independent registered valuer based on the net present value of future 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 as are follows:

- buildings 6.7% pa
- computer equipment 33.3% pa
- other plant and equipment 10.0% - 22.5% pa

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

(q) Payables to other financial institutions

Payables to other financial institutions are short-term borrowings with banks and other financial institutions and are measured using the effective interest method as this would be equivalent to their fair value. Included in payables to other financial institutions is a floating rate borrowing which qualifies for hedge accounting.

(r) Borrowings from Commercial Account

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 using the effective interest method.

(s) Borrowings designated at fair value through profit or loss

Commercial paper, medium-term notes, bonds and callable bonds (which may have embedded derivatives) are designated at fair value through profit or loss. They are designated at fair value as this designation significantly reduces the accounting mismatch that would otherwise arise from measuring the liability on a different basis from derivatives that have been entered into to hedge the transactions. Interest expense in the profit or loss is recorded using the effective interest method, which forms part of the fair value calculation, and movement in fair value is recorded separately through profit or loss. For more detail on the fair value calculation, refer to Note 19.

(t) Guarantees designated at fair value through profit or loss

Guarantees, medium-term insurance, bonds and political risk insurance transactions are regarded as financial instruments under accounting standards. These are designated at fair value through profit or loss at inception. Subsequently, they are carried at their fair value with any movements transferred through profit or loss. For more detail on the fair value calculation, refer to Note 19.

(u) 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 and discounted using appropriate market yields at balance date.

EFIC makes contributions to the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) 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.

(v) Sundry creditors

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

(w) Cash flows

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

(x) Contingencies and commitments – assets and liabilities

Where, as a result of past events, there is a possible asset or liability whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of EFIC, this will be disclosed as a contingent asset or contingent liability. When the inflow or outflow of economic benefits is virtually certain, EFIC will recognise the contingent asset or liability.

Commitments to provide financial facilities are contractually based. For loans and funded guarantees, EFIC has committed to lend a fixed amount and any undrawn amounts under these facilities are shown as commitments. For guarantees, political risk insurance and bonds, EFIC has committed to cover a fixed exposure and any undrawn amounts under these facilities are shown as commitments.

(y) Events occurring after the balance sheet date

There have been no material events occurring after the balance sheet date that impact these financial statements for the year ending 30 June 2012.

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 the financial statements are outlined below:

Impairment of available-for-sale investment securities

- EFIC holds a number of available-for-sale financial assets. A review of these assets has been undertaken for the year ended 30 June 2012, and it has been determined that no investment is considered to be impaired. On a portfolio basis, there has been an appreciation in the value of the available-for-sale investments since purchase.

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.
- An independent valuation of land and buildings was carried out in June 2012 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 $38,900,000.

Fair value of financial instruments

- Where financial instruments have a price quoted in an active market, this is its fair value.
- Where the fair value of financial instruments cannot be determined from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 18.

Significant accounting events during the year

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

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	30 June 2011 $ m

Note 3: Revenue and expenses

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
(i) Interest income					
Receivables from other financial institutions		**3.0**	1.8	**-**	-
Available-for-sale investment securities		**59.9**	61.5	**-**	-
Loans at amortised cost		**0.3**	0.2	**33.9**	38.4
Loans and receivables designated at fair value through profit or loss		**11.4**	8.2	**-**	-
Loans to National Interest Account designated at fair value through profit or loss		**32.7**	37.4	**-**	-
Derivative financial instruments	*1(c)*	**136.6**	14.6	**-**	-
Total interest income		**243.9**	123.7	**33.9**	38.4
(ii) Interest expense					
Payables to other financial institutions		**(0.3)**	(0.1)	**-**	-
Borrowings from Commercial Account		**-**	-	**(32.7)**	(37.4)
Borrowings at amortised cost		**(0.2)**	(0.2)	**-**	-
Borrowings designated at fair value through profit or loss		**(93.6)**	(83.8)	**-**	-
Derivative financial instruments	*1(c)*	**(111.7)**	-	**-**	-
Total interest expense		**(205.8)**	(84.1)	**(32.7)**	(37.4)
(iii) Fair value movement of third-party loans and guarantees					
Premium and fees		**50.1**	27.3	**-**	-
Reinsurance		**(16.2)**	(3.0)	**-**	-
Residual margin		**(9.4)**	(5.2)	**-**	-
Interest income		**1.8**	(1.3)	**-**	-
Credit risk		**(8.6)**	(6.8)	**-**	-
Specific events		**0.2**	4.5	**-**	-
Foreign exchange profit/(loss) on premium		**(1.4)**	(1.0)	**-**	-
Total fair value movement of third-party loans and guarantees		**16.5**	14.5	**-**	-
(iv) Fair value movement of other financial instruments					
Available-for-sale investment securities		**0.3**	0.1	**-**	-
Loans to National Interest Account designated at fair value through profit or loss		**(2.5)**	(41.5)	**-**	-
Borrowings designated at fair value through profit or loss		**(96.7)**	(9.6)	**-**	-
Derivative financial instruments		**94.8**	44.9	**-**	-
Total fair value movement of other financial instruments		**(4.1)**	(6.1)	**-**	-

	Note	COMMERCIAL ACCOUNT **30 June 2012 $ m**	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT **30 June 2012 $ m**	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m

Note 3: Revenue and expenses (continued)

	Note	Commercial 2012	Commercial 2011	National Interest 2012	National Interest 2011
(v) Other revenue					
Premium and fees		-	-	**5.3**	5.2
Premium ceded to reinsurers		-	-	-	(0.1)
Foreign exchange profit/(loss) on premium		-	-	-	(0.1)
Rental income		**2.3**	2.2	-	-
Sundry income		**0.1**	0.7	-	-
Recoveries from credit insurance		**0.7**	0.1	**19.8**	8.2
Total other revenue		**3.1**	3.0	**25.1**	13.2
(vi) Operating expenses					
Staff costs		**(14.5)**	(13.6)	-	-
Depreciation		**(2.5)**	(2.7)	-	-
Professional fees		**(1.9)**	(1.4)	-	-
Property costs		**(1.7)**	(0.9)	-	-
Travel costs		**(1.5)**	(1.3)	-	-
Advertising and promotional costs		**(1.4)**	(1.5)	-	-
Superannuation costs		**(1.4)**	(1.3)	-	-
Computer and communication costs		**(0.8)**	(0.9)	-	-
Provision for employee entitlements		**(0.5)**	(0.5)	-	-
Credit information		**(0.5)**	(0.4)	-	-
Other expenses		**(1.4)**	(1.5)	-	-
National Interest Account allocation		**1.4**	1.5	**(1.4)**	(1.5)
Total operating expenses		**(26.7)**	(24.5)	**(1.4)**	(1.5)
(vii) Credit/(charge) to sundry allowances					
Allowances for claims and litigation		**0.1**	3.1	-	-
Allowances for unrecoverable costs		-	0.5	-	-
Total credit/(charge) to sundry allowances		**0.1**	3.6	-	-
(viii) Credit/(charge) to specific provisions					
Debt forgiveness		-	-	**(8.1)**	(7.5)
Total credit/(charge) to specific provisions		-	-	**(8.1)**	(7.5)

On 8 July 2010 the Minister for Trade and Competitiveness issued a section 31 direction under the EFIC Act requiring EFIC to cancel up to $75 million in debt owed to it by the Republic of Indonesia. In this financial year $8.1 million (2010–11: $7.5 million) was cancelled and the remainder is available to be cancelled if the Republic of Indonesia continues to invest in approved tuberculosis programs.

	Note	COMMERCIAL ACCOUNT **30 June 2012 $ m**	30 June 2011 $ m	NATIONAL INTEREST ACCOUNT **30 June 2012 $ m**	30 June 2011 $ m

Note 4: Receivables from other financial institutions

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
	1(j)				
Overnight deposits		**28.5**	8.8	-	-
Fixed cash deposits		**523.6**	70.9	-	-
Total receivables from other financial institutions		**552.1**	79.7	-	-
Maturity analysis of receivables from other financial institutions					
At call		**28.5**	8.8	-	-
Due in less than 3 months		**488.8**	47.6	-	-
Due after 3 months to 1 year		**34.8**	23.3	-	-
Total receivables from other financial institutions		**552.1**	79.7	-	-

These receivables are from various authorised deposit-taking institutions or foreign financial institutions all rated AA- or better.

Note 5: Amounts receivable from the Commonwealth

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
Commonwealth opening balance receivable		-	-	**21.1**	42.9
Net (receipts from)/payments to the Commonwealth		-	-	**6.2**	(14.1)
		-	-	**27.3**	28.8
Less: Profit/(loss) for the year on National Interest Account		-	-	**16.6**	7.7
Total amounts receivable from the Commonwealth		-	-	**10.7**	21.1

Note 6: Available-for-sale investment securities

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
	1(k)				
Discount securities		**112.5**	595.1	-	-
Floating rate notes		**427.0**	520.4	-	-
Fixed rate bonds		**302.3**	152.6	-	-
Total available-for-sale investment securities		**841.8**	1,268.1	-	-
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**114.6**	271.3	-	-
Due after 3 months to 1 year		**216.7**	631.8	-	-
Due after 1 year to 5 years		**510.5**	365.0	-	-
Total available-for-sale investment securities		**841.8**	1,268.1	-	-

Refer to Note 18 for further information regarding credit risk and market risk.

Note 7: Loans and receivables at amortised cost

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m
	1(l)				
Gross export finance loans		-	-	599.6	584.4
Gross funded export finance guarantees		39.7	43.4	-	-
Gross rescheduled credit insurance debts		-	-	87.0	101.2
Loans and receivables gross		**39.7**	43.4	**686.6**	685.6
Unearned premiums		-	-	(10.5)	(12.2)
Specific provision for impairment		-	-	(9.7)	(9.7)
Deferred income		-	-	(11.9)	(16.5)
Unamortised grants	*1(e)*	-	-	(42.8)	(54.9)
Total loans and receivables at amortised cost		**39.7**	43.4	**611.7**	592.3
Maturity analysis loans and receivables gross					
Overdue - impaired		-	-	9.7	9.7
Due in 3 months or less		-	-	19.2	19.5
Due after 3 months to 1 year		6.1	5.8	72.4	80.7
Due after 1 year to 5 years		24.4	23.1	297.1	327.5
Due after 5 years		9.2	14.5	288.2	248.2
Total loans and receivables gross		**39.7**	43.4	**686.6**	685.6
Restructured exposures included above		-	-	**245.9**	279.5

Loans and receivables are considered restructured when the original contractual terms are modified. Restructured loans and receivables continue to accrue interest.

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

On the Commercial Account, this is a floating rate loan to a bank rated AA- or better, which is part of a cash flow hedge and qualifies for hedge accounting.

There are no overdue amounts for non-impaired loans.

	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m
Specific provision				
Specific provision opening balance	-	-	9.7	9.7
Charge against profit	-	-	-	-
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	-	-	**0.4**	0.6

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.

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

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	30 June 2011 $ m

Note 8: Loans and receivables designated at fair value through profit or loss

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
	1(m)				
Gross export finance loans		**473.8**	395.5	-	-
Gross funded export finance guarantees		**149.0**	73.9	-	-
Gross rescheduled credit insurance debts		**20.4**	24.1	-	-
Loans and receivables gross		**643.2**	493.5	-	-
Fair value premium and fees		**46.8**	44.9	-	-
Fair value residual margin		**(27.6)**	(25.3)	-	-
Fair value interest income		**1.2**	(1.8)	-	-
Fair value of credit risk		**(31.5)**	(24.8)	-	-
Fair value of specific events		**(5.4)**	(5.7)	-	-
Total loans and receivables at fair value		**626.7**	480.8	-	-
Maturity analysis loans and receivables gross					
Overdue - impaired		**5.4**	5.7	-	-
Overdue		**1.2**	-	-	-
Due in 3 months or less		**13.6**	6.0	-	-
Due after 3 months to 1 year		**81.9**	36.7	-	-
Due after 1 year to 5 years		**231.0**	161.5	-	-
Due after 5 years		**310.1**	283.6	-	-
Total loans and receivables gross		**643.2**	493.5	-	-
Restructured exposures included above		**30.1**	34.4	-	-

Loans and receivables are considered restructured when the original contractual terms are modified. Restructured loans and receivables continue to accrue interest.

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

There is one loan principal instalment overdue by six months (interest has been paid). EFIC and the borrower are currently negotiating the terms and conditions upon which this amount is to be restructured. The restructuring agreement also includes $1.2 million for the July 2012 principal instalment not paid.

Impaired loans				
Impaired loans	**5.4**	5.7	-	-
Fair value of specific events on impaired loan	**(5.4)**	(5.7)	-	-
Carrying fair value of impaired loans	-	-	-	-

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 event will be created for the impairment.

For the impaired loan there is a first-ranked mortgage held over a vessel.

Refer to Note 18 for further information regarding credit risk including maximum exposures and market risk.

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2012 $ m**	30 June 2011 $ m	**30 June 2012 $ m**	30 June 2011 $ m

Note 9: Derivative financial instruments

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
	1(o)				
Derivative financial assets					
Interest rate swaps		**81.5**	21.5	-	-
Cross-currency swaps		**364.5**	398.6	-	-
Forward foreign exchange contracts		**1.5**	1.5	-	-
Total derivative financial assets		**447.5**	421.6	-	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		**132.3**	40.9	-	-
Due after 3 months to 1 year		**97.0**	122.0	-	-
Due after 1 year to 5 years		**191.5**	237.4	-	-
Due after 5 years		**26.7**	21.3	-	-
Total derivative financial assets		**447.5**	421.6	-	-
Derivative financial liabilities					
Interest rate swaps		**78.6**	81.2	-	-
Cross-currency swaps		**35.5**	51.8	-	-
Forward foreign exchange contracts		**4.1**	17.8	-	-
Total derivative financial liabilities		**118.2**	150.8	-	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**6.6**	34.8	-	-
Due after 3 months to 1 year		**18.4**	27.5	-	-
Due after 1 year to 5 years		**83.8**	68.2	-	-
Due after 5 years		**9.4**	20.3	-	-
Total derivative financial liabilities		**118.2**	150.8	-	-

Refer to Note 18 for further information regarding credit risk, liquidity risk and market risk.

Note 10: Property, plant and equipment

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
	1(p)				
Freehold land and building, at valuation		**38.9**	32.8	-	-
Accumulated depreciation		**-**	(3.2)	-	-
Net book value - land and building		**38.9**	29.6	-	-
Plant and equipment, at valuation		**10.4**	4.7	-	-
Accumulated depreciation		**(1.6)**	(1.2)	-	-
Net book value - plant and equipment		**8.8**	3.5	-	-
Total property, plant and equipment		**47.7**	33.1	-	-

Note 10: Property, plant and equipment (continued)

	Land and buildings $ m	Plant and equipment $ m	Total $ m
Gross value			
Balance as at 30 June 2011	32.8	4.7	37.5
Additions	-	6.3	6.3
Write back of accumulated depreciation on revaluation	(4.8)	-	(4.8)
Revaluation increment	10.9	-	10.9
Disposals	-	(0.6)	(0.6)
Balance as at 30 June 2012	**38.9**	**10.4**	**49.3**
Accumulated depreciation			
Balance as at 30 June 2011	(3.2)	(1.2)	(4.4)
Depreciation charged for assets held at 1 July 2011	(1.6)	(0.5)	(2.1)
Depreciation charged for additions	-	(0.3)	(0.3)
Write back on revaluation	4.8	-	4.8
Depreciation recovered on disposals	-	0.4	0.4
Balance as at 30 June 2012	**-**	**(1.6)**	**(1.6)**
Net book value as at 1 July 2011	29.6	3.5	33.1
Net book value as at 30 June 2012	**38.9**	**8.8**	**47.7**

An independent valuation of land and buildings was carried out in June 2012 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 $38,900,000.

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 2012 $ m	30 June 2011 $ m
Freehold land and building, at valuation	**20.8**	18.4
Accumulated depreciation	-	(1.8)
Written-down value	**20.8**	16.6
Depreciation expense	**0.9**	0.9

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m

Note 11: Other assets

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m
Accrued interest receivable		**0.1**	0.1	**6.8**	7.9
Sundry debtors and prepayments		**1.1**	1.2	**11.5**	12.7
Total other assets		**1.2**	1.3	**18.3**	20.6

Note 12: Payables to other financial institutions

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m
	1(q)				
Overnight borrowings		**17.7**	0.6	-	-
Floating rate borrowing*		**39.7**	43.4	-	-
Total payables to other financial institutions		**57.4**	44.0	-	-
Maturity analysis of payables to other financial institutions					
At call		**17.7**	0.6	-	-
Due in less than 3 months		-	-	-	-
Due after 3 months to 1 year		**6.1**	5.8	-	-
Due after 1 year to 5 years		**24.4**	23.1	-	-
Due after 5 years		**9.2**	14.5	-	-
Total payables to other financial institutions		**57.4**	44.0	-	-

*The floating rate borrowing is part of a cash flow hedge.

Note 13: Borrowings designated at fair value through profit or loss

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m
	1(s)				
Borrowings		**2,603.0**	2,385.0	-	-
Total borrowings at fair value		**2,603.0**	2,385.0	-	-
Borrowings designated at fair value through profit or loss					
Structured borrowings					
Australian dollar		**57.8**	55.0	-	-
Japanese yen		**536.4**	581.0	-	-
US dollar		**40.0**	94.6	-	-
Total structured borrowings		**634.2**	730.6	-	-
Non-structured borrowings					
Australian dollar		**1,353.0**	1,134.5	-	-
Euro		**24.8**	36.7	-	-
New Zealand dollar		**103.1**	87.5	-	-
US dollar		**41.6**	83.8	-	-
Total non-structured borrowings		**1,522.5**	1,342.5	-	-

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	30 June 2011 $ m

Note 13: Borrowings designated at fair value through profit or loss (continued)

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
Euro-commercial paper					
US dollar		**446.3**	311.9	**-**	-
Total euro-commercial paper		**446.3**	311.9	**-**	-
Total borrowings at fair value		**2,603.0**	2,385.0	**-**	-
Maturity analysis of borrowings					
Due in 3 months or less		**1,036.4**	405.2	**-**	-
Due after 3 months to 1 year		**345.4**	458.2	**-**	-
Due after 1 year to 5 years		**519.9**	895.9	**-**	-
Due after 5 years		**701.3**	625.7	**-**	-
Total borrowings at fair value		**2,603.0**	2,385.0	**-**	-

Where borrowings are in a different currency from the assets being financed, cross-currency swaps or foreign exchange contracts are entered into for economic hedging purposes.

Refer to Note 18 for further information regarding credit risk, liquidity risk, market risk and contractual amounts.

Note 14: Guarantees designated at fair value through profit or loss

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
	1(t)				
Fair value of credit risk		**29.0**	27.1	**-**	-
Fair value of specific events		**0.2**	1.7	**-**	-
Fair value of net premium receivable		**(4.7)**	(3.1)	**-**	-
Total guarantees designated at fair value through profit or loss		**24.5**	25.7	**-**	-

When it is likely that a guarantee will be called or a claim has been submitted but not yet paid, then a specific event will be recognised for the exposure that may be called or the claim that may be paid.

Refer to Note 18 for further information regarding credit risk, market risk and maximum exposures.

Note 15: Sundry provisions and allowances

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
Employee entitlements	*1(u)*	**3.2**	3.0	**-**	-
Dividend payable		**30.2**	-	**-**	-
Allowances for litigation and claims		**-**	0.1	**-**	-
Allowances for unrecoverable costs		**0.1**	-	**-**	-
Total sundry provisions and allowances		**33.5**	3.1	**-**	-

Note 16: Other liabilities

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
Sundry creditors	*1(v)*	**19.2**	19.4	**0.1**	5.0
Interest payable		**-**	-	**6.5**	7.9
Total other liabilities		**19.2**	19.4	**6.6**	12.9

Note 17: Contingencies and commitments

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m
Contingent liabilities					
Guarantees		**242.7**	242.4	**6.2**	-
Bonds		**185.5**	137.3	**0.1**	0.1
Political risk insurance		**41.4**	36.3	**-**	-
Medium-term insurance		**265.4**	0.4	**-**	-
EFIC Headway guarantees		**1.3**	7.6	**-**	-
Total contingent liabilities		**736.3**	424.0	**6.3**	0.1

These contingent liabilities commit EFIC to make payments should a default occur by a client.

Refer also to Note 20 for details of a special dividend announced in the May 2012 Federal Budget.

Contingent assets					
Potential recoveries of claims paid		**0.7**	0.7	**189.4**	191.3
Total contingent assets		**0.7**	0.7	**189.4**	191.3

Between 1987 and 1992, EFIC paid credit insurance claims, in respect of non-payment by the Iraqi Government for exports from Australia. These credit insurance claims were expensed as paid. The contingent asset relates to potential recoveries from Iraq on these claim payments.

During the year recoveries from Iraq of $14.4 million were taken to income on the National Interest Account.

Commitments to provide financial facilities					
Loans		**4.7**	36.0	**116.8**	200.2
Funded guarantees		**80.0**	67.9	**-**	-
Guarantees*		**338.9**	32.2	**7.1**	-
Political risk insurance		**-**	3.0	**-**	-
Bonds		**205.2**	384.0	**-**	-
Total commitments to provide financial facilities		**628.8**	523.1	**123.9**	200.2

*Guarantees include facilities signed under risk participation agreements.

Commitments to provide financial facilities are contractually based.

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	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	30 June 2011 $ m

Note 17: Contingencies and commitments (continued)

	Note	30 June 2012 $ m	30 June 2011 $ m	30 June 2012 $ m	30 June 2011 $ m
Commitments payable					
Capital commitments					
Due in 1 year or less		**0.8**	3.7	-	-
Operating lease payable					
Due in 1 year or less		**0.4**	0.2	-	-
Due after 1 year to 2 years		**0.1**	0.1	-	-
Due after 2 years to 5 years		**0.1**	0.1	-	-
Total commitments payable		**1.4**	4.1	-	-
Commitments receivable					
Operating lease receivable					
Due in 1 year or less		**1.8**	2.1	-	-
Due after 1 year to 2 years		**1.1**	1.7	-	-
Due after 2 years to 5 years		**1.2**	1.7	-	-
Total commitments receivable		**4.1**	5.5	-	-

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

Note 18: Financial risk management

(i) General

As part of its normal operations, EFIC enters into a variety of transactions in various currencies, including loans, guarantees, medium-term insurance, 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, including funding the National Interest Account. EFIC does not enter into derivative instruments for speculative or trading purposes. 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.

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 2012 $ m	30 June 2011 $ m
Receivables from other financial institutions	*4, 1(j)*	**552.1**	79.7
Available-for-sale investment securities	*6, 1(k)*	**841.8**	1,268.1
Loans and receivables at amortised cost	*7, 1(l)*	**39.7**	43.4
Loans and receivables designated at fair value through profit or loss	*8, 1(m)*	**626.7**	480.8
Derivative financial instruments	*9, 1(o)*	**447.5**	421.6
Total*		**2,507.8**	2,293.6
Contingent liabilities	*17*	**736.3**	424.0
Commitments	*17*	**628.8**	523.1
Total		**1,365.1**	947.1
Total credit risk exposure		**3,872.9**	3,240.7

* Cash and liquid assets, loans to National Interest Account designated at fair value through profit or 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 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 or contracting a counterparty subsequently falls below the minimum credit rating, management evaluates 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 credit support annexures.

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

(i) EFIC can invest surplus money with authorised deposit-taking institutions (ADIs) in Australia rated BBB- or above

(ii) EFIC can invest surplus money in securities issued by or guaranteed by the Commonwealth, a State or Territory

(iii) EFIC can invest surplus money with other entities with credit ratings the equivalent of AA- or better

(iv) the investment of surplus money is limited to deposits with, or securities issued, by the above ADIs

(v) the investment of surplus money is limited to deposits with, or securities issued or guaranteed, by the above entities

(vi) investments in ADIs with a rating lower than A- must not exceed 25% of EFIC's total investments

(vii) investments in ADIs 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

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

Note 18: Financial risk management (continued)

In addition to the CAC Act prudential controls stated above, the EFIC Board has 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

(v) limits relating to individual counterparty exposures and terms.

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

All limits set by the Board are monitored by management. A Treasury report, addressing prudential controls and risk, is submitted to the Board Audit Committee meeting quarterly, which then reports to the Board. A Treasury report to each Board meeting on performance and strategy also addresses risk.

Credit risk on treasury derivative transactions is mitigated by the fact that most of the contracts have a mutual 5-year 'right to break' clause. In addition, some contracts include a clause that allows the contract to be terminated if the counterparty rating falls below an agreed credit rating.

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

Available-for-sale investment securities	*Note*	**30 June 2012 $ m**	30 June 2011 $ m
Authorised deposit-taking institutions in Australia			
AAA		-	10.1
AA		-	291.4
AA-		**276.4**	-
A+		**75.2**	155.7
A		**41.6**	50.6
BBB+		**78.7**	169.8
BBB		-	10.1
Other financial institutions or foreign entities			
AAA		-	122.9
AA+		**56.7**	122.0
AA		**124.1**	38.8
AA-		**127.9**	230.8
A+		**51.1**	25.2
A		-	40.7
A-		**10.1**	-
Exposure to credit risk of available-for-sale investment securities	*6, 1(k)*	**841.8**	1,268.1

Note 18: Financial risk management (continued)

Derivative financial instruments	Note	30 June 2012 $ m	30 June 2011 $ m
Authorised deposit-taking institutions in Australia			
AA		-	127.6
AA-		169.4	-
Other financial institutions or foreign entities			
AAA		55.8	64.8
AA		0.6	85.8
AA-		92.3	74.6
A+		58.5	62.0
A		70.9	6.8
Exposure to credit risk for derivative financial instruments	9, 1(o)	**447.5**	421.6

For Treasury exposures there are no overdue or restructured amounts.

> 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 was $1.6 million (2010-11: nil), although $0.2 million has subsequently been recovered.

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

Gross exposures	Note	30 June 2012 $ m	30 June 2011 $ m
Export finance loans	8, 1(m)	473.8	395.5
Funded export finance guarantees	8, 1(m)	149.0	73.9
Rescheduled credit insurance debts	8, 1(m)	20.4	24.1
Funded export finance guarantees	7	39.7	43.4
Guarantees	17	242.7	242.4
Bonds	17	185.5	137.3
Political risk insurance	17	41.4	36.3
Medium-term insurance	17	265.4	0.4
EFIC Headway guarantees	17	1.3	7.6
Total gross exposures		**1,419.2**	960.9
Reinsured exposures included above		**326.8**	111.7

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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 2012 $ m**	**30 June 2012 % of total**	30 June 2011 $ m	30 June 2011 % of total
Australia*	**402.5**	**28.4**	221.3	23.0
United Arab Emirates	**122.7**	**8.7**	116.4	12.1
China	**103.8**	**7.3**	16.8	1.8
Trinidad and Tobago	**79.7**	**5.6**	87.3	9.1
Indonesia	**70.2**	**4.9**	50.0	5.2
Denmark	**54.4**	**3.8**	64.8	6.7
Turkey	**51.0**	**3.6**	55.3	5.8
Papua New Guinea	**47.7**	**3.4**	45.3	4.7
Sri Lanka	**33.3**	**2.4**	33.2	3.5
United States of America	**32.6**	**2.3**	30.9	3.2
Egypt	**20.4**	**1.4**	24.1	2.5
Spain	**17.6**	**1.2**	27.3	2.8
Vietnam	**17.4**	**1.2**	19.9	2.1
Greece	**14.2**	**1.0**	15.6	1.6
Philippines	**8.2**	**0.6**	12.5	1.3
French Polynesia	**5.4**	**0.4**	5.7	0.6
Russia	**5.2**	**0.4**	2.9	0.3
Ghana	**-**	**-**	7.5	0.8
Other	**6.1**	**0.4**	12.4	1.3
Retained exposures	**1,092.4**	**77.0**	849.2	88.4
Reinsured exposures	**326.8**	**23.0**	111.7	11.6
Total country exposures	**1,419.2**	**100.0**	960.9	100.0

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

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

Allowance for credit risk by product	**30 June 2012 $ m**	30 June 2011 $ m
Export finance loans	**(26.5)**	(21.2)
Funded export finance guarantees	**(5.1)**	(4.4)
Rescheduled credit insurance debts	**(4.9)**	(3.6)
Guarantees	**(20.8)**	(20.1)
Bonds	**(2.0)**	(2.2)
Medium-term insurances	**(1.0)**	-
Political risk insurance	**(0.1)**	(0.2)
EFIC Headway guarantees	**(0.1)**	(0.2)
Allowance for credit risk closing balance	**(60.5)**	(51.9)

Note 18: Financial risk management (continued)

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

Allowance for credit risk for gross exposures	30 June 2012 $ m	30 June 2011 $ m
Allowance for credit risk opening balance	**(51.9)**	(45.2)
New exposures	**(19.3)**	(21.4)
Repayments	**18.1**	9.1
Change in risk grade	**(8.5)**	(6.8)
Change in term	**4.6**	3.5
Change in allowance rates	**(3.2)**	0.8
Exchange rate movements	**(0.3)**	8.1
Allowance for credit risk closing balance	**(60.5)**	(51.9)

EFIC employs a risk grading system 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 nine broad categories of risk grade, with category 1 representing the lowest risk. Within categories 1 to 6 an outlook modifier is used of plus or minus if the counterparty is particularly strong or weak for that risk grade. The equivalent risk, based on Standard and Poor's risk rating, is stated in brackets. The exposure for the Commercial Account before reinsurance under each of the nine broad categories is as follows:

Loans and receivables designated at fair value through profit or loss	*Note*	30 June 2012 $ m	30 June 2011 $ m
Risk category 1 (AA- to AAA)		**37.7**	36.5
Risk category 2 (A- to A+)		**47.1**	51.9
Risk category 3 (BBB- to BBB+)		**322.8**	215.2
Risk category 4 (BB- to BB+)		**6.2**	75.0
Risk category 5 (B- to B+)		**95.0**	42.8
Risk category 6 (CCC+)		**104.1**	59.4
Risk category 7 (C to CCC)		**13.8**	-
Risk category 8 Doubtful		**-**	-
Risk category 9 Impaired		**-**	-
Loans and receivables designated at fair value through profit or loss	*8, 1(m)*	**626.7**	480.8

Note 18: Financial risk management (continued)

As part of its normal operations, EFIC enters into a variety of transactions in various currencies 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. The exposure for the Commercial Account before reinsurance under each of the nine broad categories is as follows:

Contingent liabilities	Note	30 June 2012 $ m	30 June 2011 $ m
Risk category 1 (AA- to AAA)		223.8	3.0
Risk category 2 (A- to A+)		104.3	10.0
Risk category 3 (BBB- to BBB+)		170.4	65.1
Risk category 4 (BB- to BB+)		54.4	107.9
Risk category 5 (B- to B+)		128.4	142.7
Risk category 6 (CCC+)		28.3	85.1
Risk category 7 (C to CCC)		26.4	6.9
Risk category 8 Doubtful		-	-
Risk category 9 Impaired		0.3	3.3
Total contingent liabilities	*17*	**736.3**	424.0

As part of its normal operations, EFIC enters into a variety of transactions in various currencies 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 2012 $ m	30 June 2011 $ m
Risk category 1 (AA- to AAA)		9.8	17.7
Risk category 2 (A- to A+)		114.9	-
Risk category 3 (BBB- to BBB+)		294.8	341.1
Risk category 4 (BB- to BB+)		138.6	58.3
Risk category 5 (B- to B+)		50.0	20.3
Risk category 6 (CCC+)		20.7	85.7
Total commitments	*17*	**628.8**	523.1

Note 18: Financial risk management (continued)

> Retained sector exposure

The sectors that represent more than 15% of EFIC's Commercial Account retained exposure are the construction, sovereign and manufacturing sectors. At 30 June 2012, the exposure to the construction sector accounted for $239.5 million, representing 21.9% of EFIC's total retained exposure (2011: $129.1 million, representing 15% of the total), the exposure to the sovereign sector accounted for $237.7 million, representing 21.8% of EFIC's total retained exposure (2011: $240.6 million, representing 28% of the total), the exposure to the manufacturing sector accounted for $208.8 million, representing 19.1% of EFIC's total retained exposure (2011: $174.2 million, representing 21% of the total).

The retained exposure is based on industry of risk, which may be different from the industry that is being supported. For the ship sector, while the industry of risk is $91.6 million representing 8% of EFIC's retained exposure, a number of ships are sovereign risk due the the debt being with a government-owned entity. The ship sector based on industry of support and not industry of risk would be $256.7 million, representing 24% of EFIC's Commercial Account retained exposure.

> Reinsured exposure

To reduce EFIC's exposure to counterparties in the higher risk categories or to reduce concentration risk, EFIC enters into reinsurance contracts with reinsurers, including other export credit agencies. This will change the exposure from the counterparty in the higher risk categories to an exposure to the reinsurers who will be in lower risk categories. As can be seen from the table below, EFIC has reinsured exposures with counterparties in risk categories 3, 4, 5, 6, and 7 to reinsurers in risk categories 1 or 2.

Reinsurance	*Note*	**30 June 2012 $ m**	30 June 2011 $ m
Reinsured to			
Risk category 1 (AA- to AAA)		**280.7**	83.0
Risk category 2 (A- to A+)		**46.1**	28.7
Reinsured from			
Risk category 2 (A- to A+)		**(176.7)**	-
Risk category 3 (BBB- to BBB+)		**(50.6)**	(35.1)
Risk category 4 (BB- to BB+)		**(16.9)**	(25.8)
Risk category 5 (B- to B+)		**-**	-
Risk category 6 (CCC+)		**(81.4)**	(47.4)
Risk category 7 (C to CCC)		**(1.2)**	(3.4)
Total reinsurance		**-**	-

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 been called and held at year end.

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Note 18: Financial risk management (continued)

(b) National Interest Account exposures

Under the National Interest Account, the exposures for non-project finance loans and rescheduled credit insurance debts are all to overseas governments, or entities owned or guaranteed by overseas governments. Project finance loans are project specific where the loan repayments are solely reliant from income from the project. On the National Interest Account, there was debt forgiveness of $8.1 million during the year (2010-11: $7.5 million).

Gross exposures (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 2012 $ m	30 June 2011 $ m
Export finance loans	7, 1(l)	599.6	584.4
Rescheduled credit insurance debts	7, 1(l)	87.0	101.2
Guarantees	17	6.2	-
Bonds	17	0.1	0.1
Total gross exposures		**692.9**	685.7
Reinsured exposures included above		**9.9**	17.7

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

Country exposures*	2012 $ m	2012 % of total	2011 $ m	2011 % of total
Indonesia	424.5	61.8	492.3	71.8
Egypt	87.0	12.7	101.2	14.8
Papua New Guinea	62.5	9.1	15.8	2.3
United States of America	42.7	6.2	10.8	1.6
China	22.7	3.3	24.6	3.6
Australia**	23.6	2.6	4.4	0.6
Cuba	9.7	1.4	9.7	1.4
Japan	6.0	0.9	1.5	0.2
Philippines	4.2	0.6	7.6	1.1
Other	0.1	-	0.1	-
Retained exposures	683.0	98.6	668.0	97.4
Reinsured exposures	9.9	1.4	17.7	2.6
Total country exposures	**692.9**	**100.0**	685.7	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 rescheduled payments totalled US$21 million on EFIC's Commercial Account and US$93 million and €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 respectively depending on the rescheduling agreement. As at 30 June 2012 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Egypt: EFIC is owed $20 million by Egypt on the Commercial Account and US$27 million and $61 million on the National Interest Account. These debts arose from credit insurance claims in respect of wheat exports in the mid-1980s. 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 30 June 2012 all rescheduled amounts have been paid on time as per the rescheduling agreements.

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 in normal markets 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. Notwithstanding 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 accordingly there is no liquidity risk on the National Interest Account.

The liquidity table below is based on estimated future cash flows for principal and interest and is not their fair value as is shown in the balance sheet. For the Commercial Account the contractual undiscounted amounts comprise principal and interest repayment obligations and are as follows:

	Contractual undiscounted principal and interest			
30 June 2012	3 months or less $ m	3 months to 1 year $ m	1 year to 5 years $ m	Greater than 5 years $ m
Undiscounted financial assets				
Cash and liquid assets	0.6	-	-	-
Receivables from other financial institutions	517.8	34.9	-	-
Available-for-sale investment securities	123.4	238.4	535.0	-
Loans and receivables at amortised cost	-	6.4	25.2	9.3
Loans and receivables designated at fair value through profit or loss	14.3	97.3	304.5	342.4
Loans to National Interest Account designated at fair value through profit or loss	22.7	84.1	347.7	308.9
Derivative financial instruments				
- Contractual amounts receivable	832.4	517.4	829.7	1,005.9
Total undiscounted financial assets	**1,511.2**	**978.5**	**2,042.1**	**1,666.5**
Undiscounted financial liabilities				
Payables to other financial institutions	17.7	6.4	25.2	9.3
Borrowings designated at fair value through profit or loss				
- Euro-commercial paper	387.7	58.9	-	-
- Non-structured borrowings	519.0	40.5	410.9	807.9
- Structured borrowings	136.4	263.5	150.2	108.3
Derivative financial instruments				
- Contractual amounts payable	700.5	417.6	696.3	861.1
Total undiscounted financial liabilities	**1,761.3**	**786.9**	**1,282.6**	**1,786.6**
Net undiscounted financial assets/(liabilities)	**(250.1)**	**191.6**	**759.5**	**(120.1)**

While the above maturity profile shows a refinancing shortfall in the next three months, this is predominately due to the euro-commercial paper borrowing facility which comprises short-term borrowings that are funding longer-term assets. The majority of the euro-commercial paper maturing ($387.7 million) in the next three months will be reissued, which will cover any refinancing shortfall shown in the maturity profile.

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Note 18: Financial risk management (continued)

30 June 2011	3 months or less $ m	3 months to 1 year $ m	1 year to 5 years $ m	Greater than 5 years $ m
	Contractual undiscounted principal and interest			
Undiscounted financial assets				
Cash and liquid assets	0.6	-	-	-
Receivables from other financial institutions	56.4	23.4	-	-
Available-for-sale investment securities	280.9	660.1	384.6	-
Loans and receivables at amortised cost	-	6.0	25.3	15.4
Loans and receivables designated at fair value through profit or loss	6.8	49.4	249.6	358.5
Loans to National Interest Account designated at fair value through profit or loss	23.9	96.2	386.9	284.3
Derivative financial instruments				
- Contractual amounts receivable	346.5	920.3	1,155.3	1,124.1
Total undiscounted financial assets	715.1	1,755.4	2,201.7	1,782.3
Undiscounted financial liabilities				
Payables to other financial institutions	0.6	6.0	25.3	15.4
Borrowings designated at fair value through profit or loss				
- Euro-commercial paper	270.1	41.9	-	-
- Non-structured borrowings	18.1	157.0	714.6	831.0
- Structured borrowings	127.9	302.4	233.6	122.6
Derivative financial instruments				
- Contractual amounts payable	332.1	794.9	959.3	988.9
Total undiscounted financial liabilities	748.8	1,302.2	1,932.8	1,957.9
Net undiscounted financial assets/(liabilities)	(33.7)	453.2	268.9	(175.6)

Note 18: Financial risk management (continued)

(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 until October 2018. The underlying hedged items are loans classified as loans and receivables at amortised cost and borrowings classified as a payable to other financial institutions where the settlement date of interest coincides with the corresponding interest rate swap.

Movement in the cash flow hedge reserve is as follows:

Cash flow hedge reserve	**30 June 2012 $ m**	30 June 2011 $ m
Opening balance cash flow hedge reserve	**2.3**	3.8
Transferred to interest expense	**(0.8)**	(1.0)
Transferred to interest income	**1.5**	1.6
Net unrealised change in cash flow hedges	**(1.1)**	(2.1)
Closing balance cash flow hedge reserve	**1.9**	2.3

Fair value hedges are used to hedge the exposure to variability in fair value movements that are attributable to future interest cash flows only. The financial instruments hedged for interest rate risk are available-for-sale investments. Interest rate swaps are used to hedge the interest rate risk. For the year ended June 2012, a $0.3 million ($0.1 million for 2011) loss was recognised on hedging instruments. The total gain on hedged items attributable to the hedged risks for June 2012 was $0.3 million ($0.1 million for 2011).

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

National Interest Account loans are funded 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.

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Note 18: Financial risk management (continued)

The table below is based on actual or notional principal balances and is not their fair value as is shown in the balance sheet. 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 2012			Contractual undiscounted principal exposure			
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	551.6	-	-	-	-	-
Available-for-sale investment securities	539.5	-	21.8	261.2	-	283.0
Loans and receivables designated at amortised cost	39.7	-	-	-	-	-
Loans and receivables designated at fair value through profit or loss	563.7	-	14.7	57.7	7.0	79.4
Loans to National Interest Account designated at fair value through profit or loss	355.0	-	51.4	146.3	81.4	279.1
Total financial assets	2,050.1	-	87.9	465.2	88.4	641.5
Financial liabilities						
Payables to other financial institutions	57.4	-	-	-	-	-
Derivative financial instruments						
- Cross-currency swaps	37.3	-	(66.6)	(129.7)	(209.2)	(405.5)
- Interest rate swaps*	510.9	-	(248.1)	148.1	(410.9)	(510.9)
Borrowings designated at fair value through profit or loss	1,252.8	-	380.9	213.8	709.2	1,303.9
Other monetary liabilities	7.9	7.2	-	-	-	-
Total financial liabilities	1,866.3	7.2	66.2	232.2	89.1	387.5
Interest exposures	183.8	(7.2)	21.7	233.0	(0.7)	254.0
Capital and reserves portfolio	171.9	-	21.0	232.7	-	253.7
Net interest exposures	11.9	(7.2)	0.7	0.3	(0.7)	0.3

* Notional principal amounts.

Note 18: Financial risk management (continued)

The capital and reserves portfolio is the investment of EFIC's equity. The investment of these funds is exposed to interest rate movements and the tables below in the interest margin section show the sensitivity analysis of these investments to interest rate movements. The net interest exposure after these investments show that there is insignificant interest rate exposure in the rest of EFIC's assets and liabilities.

30 June 2011	Contractual undiscounted principal exposure					
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	79.6	-	-	-	-	-
Available-for-sale investment securities	1,123.7	-	101.2	48.0	-	149.2
Loans and receivables designated at amortised cost	43.4	-	-	-	-	-
Loans and receivables designated at fair value through profit or loss	486.7	-	1.0	4.2	1.6	6.8
Loans to National Interest Account designated at fair value through profit or loss	258.9	-	63.9	189.5	108.8	362.2
Total financial assets	1,992.9	-	166.1	241.7	110.4	518.2
Financial liabilities						
Payables to other financial institutions	44.0	-	-	-	-	-
Derivative financial instruments						
- Cross-currency swaps	19.9	-	(56.7)	(184.8)	(207.4)	(448.9)
- Interest rate swaps*	514.7	-	50.6	(176.5)	(388.8)	(514.7)
Borrowings designated at fair value through profit or loss	1,024.1	-	129.6	581.6	707.4	1,418.6
Other monetary liabilities	2.8	19.0	-	-	-	-
Total financial liabilities	1,605.5	19.0	123.5	220.3	111.2	455.0
Interest exposures	387.4	(19.0)	42.6	21.4	(0.8)	63.2
Capital and reserves portfolio	347.2	-	42.6	21.0	-	63.6
Net interest exposures	40.2	(19.0)	-	0.4	(0.8)	(0.4)

* Notional principal amounts.

> *Interest margin (duration)*

To ensure consistency and a common approach to interest rate sensitivity analysis, EFIC has 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 as the underlying data set. 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 in EFIC'S portfolio materially affected by interest rate movements.

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Note 18: Financial risk management (continued)

2012	Exposure at risk $ m	Increase in basis points Effect on profit $ m	Decrease in basis points Effect on profit $ m	Increase in basis points Effect on equity $ m	Decrease in basis points Effect on equity $ m
Capital and reserve portfolio					
Fixed rate investments	**253.7**				
Change of 140 basis points interest margin		-	-	**(8.8)**	**9.2**
Floating rate investments	**171.9**				
Change of 140 basis points interest margin		**2.1**	**(2.1)**	**(0.3)**	**0.3**
2011					
Capital and reserve portfolio					
Fixed rate investments	63.6				
Change of 140 basis points interest margin		-	-	(0.6)	0.6
Floating rate investments	347.2				
Change of 140 basis points interest margin		4.2	(4.2)	(0.6)	0.6

> 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 quality of the investment counterparty. 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 section 18(3)(d). This approval requires EFIC to only invest its surplus money in Australian Commonwealth and state or territory government securities, on deposit with or in securities issued by authorised deposit-taking institutions rated at least BBB- and on deposit with or in securities of entities with credit ratings the equivalent of AA- or better. However, if after purchase a counterparty subsequently falls below the minimum credit rating, management evaluates 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 credit support annexures.

Notwithstanding such a high level of credit quality required in EFIC's investments, the portfolio is exposed to movements in credit spreads. Recent years, disruptions in world financial markets have impacted all credit classes.

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

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

	Exposure at risk 2012 $ m	Exposure at risk 2011 $ m	**Increase in basis points Effect on equity 2012 $ m**	**Decrease in basis points Effect on equity 2012 $ m**	Increase in basis points Effect on equity 2011 $ m	Decrease in basis points Effect on equity 2011 $ m
Investment portfolio						
Fixed rate investments	**283.0**	149.2				
Change of 50 basis points credit margin			**(3.6)**	**3.6**	(0.7)	0.7
Change of 140 basis points credit margin			**(9.9)**	**10.3**	(2.0)	2.1
Change of 200 basis points credit margin			**(14.0)**	**14.8**	(2.8)	2.9
Floating rate investments	**1,091.1**	1,203.3				
Change of 50 basis points credit margin			**(3.2)**	**3.2**	(4.5)	4.5
Change of 140 basis points credit margin			**(9.1)**	**9.1**	(12.7)	12.7
Change of 200 basis points credit margin			**(13.0)**	**13.0**	(18.2)	18.2

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 allowances and provisions).

The table below does not include any balances that are in Australian dollars as they are not exposed to foreign currency movements. Foreign currency exposures for the Commercial Account in Australian dollar equivalents:

	Foreign currency fair value exposures			
30 June 2012	USD A$ m	EUR A$ m	JPY A$ m	Other A$ m
Financial assets exposure in foreign currencies				
Cash and liquid assets	0.1	-	-	0.1
Receivables from other financial institutions	523.6	-	-	-
Available-for-sale investment securities	79.3	63.5	-	-
Loans at amortised cost	39.7	-	-	-
Loans and receivables designated at fair value through profit or loss	525.1	50.1	-	-
Loans to National Interest Account designated at fair value through profit or loss	508.0	146.4	-	-
Derivative financial instruments	709.0	-	549.1	103.1
Total financial assets exposure in foreign currencies	2,384.8	260.0	549.1	103.2
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	54.4	3.0	-	-
Borrowings designated at fair value through profit or loss	527.9	24.7	536.4	103.1
Guarantees designated at fair value through profit or loss	11.5	10.4	0.7	0.3
Derivative financial instruments	1,791.1	242.1	12.7	-
Other liabilities	-	-	-	-
Total financial liabilities exposure in foreign currencies	2,384.9	280.2	549.8	103.4
Net foreign exchange exposures in foreign currencies	(0.1)	(20.2)	(0.7)	(0.2)

As shown by the above table, the net foreign exchange exposure as at 30 June 2012 is minimal in value for all currencies other than the euro and as such there is no material impact on profit for all currencies other than the euro. The euro variance is largely due to credit risk comprising an allowance for credit risk of $10.7 million on guarantees and an allowance for credit risk of $9.2 million on loans.

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Note 18: Financial risk management (continued)

30 June 2011	Foreign currency fair value exposures USD A$ m	EUR A$ m	JPY A$ m	Other A$ m
Financial assets exposure in foreign currencies				
Cash and liquid assets	0.1	0.1	-	0.1
Receivables from other financial institutions	71.9	-	-	-
Available-for-sale investment securities	46.9	47.3	-	29.1
Loans at amortised cost	43.4	-	-	-
Loans and receivables designated at fair value through profit or loss	396.7	65.1	-	-
Loans to National Interest Account designated at fair value through profit or loss	439.9	193.9	-	-
Derivative financial instruments	1,144.2	1.2	593.0	87.5
Total financial assets exposure in foreign currencies	2,143.1	307.6	593.0	116.7
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	43.4	0.6	-	-
Borrowings designated at fair value through profit or loss	447.0	36.7	581.0	87.5
Guarantees designated at fair value through profit or loss	12.2	8.3	1.5	0.5
Derivative financial instruments	1,637.6	273.6	12.0	29.1
Other liabilities	3.5	-	-	-
Total financial liabilities exposure in foreign currencies	2,143.7	319.2	594.5	117.1
Net foreign exchange exposures in foreign currencies	(0.6)	(11.6)	(1.5)	(0.4)

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 foreign currencies

(ii) an asset of future risk premiums and other residual components taken to income in foreign currencies

(iii) a liability for allowance for credit risk which is held in Australian dollars against loans predominantly in foreign currencies.

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 (FX) rate %	**Exposure at risk 2012 A$ m**	**Increase in FX rate Effect on profit 2012 A$ m**	**Decrease in FX rate Effect on profit 2012 A$ m**	Exposure at risk 2011 A$ m	Increase in FX rate Effect on profit 2011 A$ m	Decrease in FX rate Effect on profit 2011 A$ m
Exposure to USD	**15**	**(0.1)**	**-**	**-**	(0.6)	0.1	(0.1)
Exposure to EUR	**15**	**(20.2)**	**2.6**	**(3.6)**	(11.6)	1.5	(2.0)
Exposure to JPY	**15**	**(0.7)**	**0.1**	**(0.1)**	(1.5)	0.2	(0.3)

Note 18: Financial risk management (continued)

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

	USD 30 June 2012 A$ m	EUR 30 June 2012 A$ m	USD 30 June 2011 A$ m	EUR 30 June 2011 A$ m
Financial assets exposure				
Loans and receivables	437.7	132.4	368.6	176.3
Total financial assets exposure	437.7	132.4	368.6	176.3
Financial liabilities exposure				
Borrowings from Commercial Account	440.8	132.4	372.9	176.3
Total financial liabilities exposure	440.8	132.4	372.9	176.3
Net foreign exchange exposures	(3.1)	-	(4.3)	-

The exposure relates to the US dollar amount to be funded by the Australian Government through the National Interest Account in respect of 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 (FX) rate %	Exposure at risk 2012 A$ m	Increase in FX rate Effect on profit 2012 A$ m	Decrease in FX rate Effect on profit 2012 A$ m	Exposure at risk 2011 A$m	Increase in FX rate Effect on profit 2011 A$ m	Decrease in FX rate Effect on profit 2011 A$ m
Exposure to USD	15	(3.1)	0.4	(0.6)	(4.3)	0.6	(0.8)

Note 19: Fair value of financial instruments

(i) Determination of fair value hierarchy

EFIC uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs significantly affecting the recorded fair value are observable, either directly or indirectly.

Level 3: techniques for which inputs significantly affecting the recorded fair value are not based on observable market data.

The following table shows an analysis of financial instruments in the Commercial Account recorded at fair value by level of the fair value hierarchy:

	Fair value exposures by hierarchy			
30 June 2012	**Level 1 $ m**	**Level 2 $ m**	**Level 3 $ m**	**Total $ m**
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	626.7	626.7
Loans to National Interest Account designated at fair value through profit or loss	-	716.6	-	716.6
Interest rate swaps	-	81.5	-	81.5
Cross-currency swaps	-	214.2	150.3	364.5
Forward foreign exchange contracts	-	1.5	-	1.5
Available-for-sale financial assets				
Discount securities	-	112.5	-	112.5
Floating rate notes	-	312.7	114.3	427.0
Fixed rate bonds	-	302.3	-	302.3
Total	-	1,741.3	891.3	2,632.6
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	(1,968.8)	(568.3)	(2,537.1)
Guarantees designated at fair value through profit or loss	-	-	(24.5)	(24.5)
Interest rate swaps	-	(78.6)	-	(78.6)
Cross-currency swaps	-	(28.5)	(7.0)	(35.5)
Forward foreign exchange contracts	-	(4.1)	-	(4.1)
Total	-	(2,080.0)	(599.8)	(2,679.8)

Note 19: Fair value of financial instruments (continued)

30 June 2011	Fair value exposures by hierarchy Level 1 $ m	Level 2 $ m	Level 3 $ m	Total $ m
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	480.8	480.8
Loans to National Interest Account designated at fair value through profit or loss	-	707.5	-	707.5
Interest rate swaps	-	21.5	-	21.5
Cross-currency swaps	-	251.2	147.4	398.6
Forward foreign exchange contracts	-	1.5	-	1.5
Available-for-sale financial assets				
Discount securities	-	595.1	-	595.1
Floating rate notes	-	430.2	90.2	520.4
Fixed rate bonds	-	123.5	29.1	152.6
Total	-	2,130.5	747.5	2,878.0
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	(1,720.6)	(664.4)	(2,385.0)
Guarantees designated at fair value through profit or loss	-	-	(25.7)	(25.7)
Interest rate swaps	-	(81.2)	-	(81.2)
Cross-currency swaps	-	(44.7)	(7.1)	(51.8)
Forward foreign exchange contracts	-	(17.8)	-	(17.8)
Total	-	(1,864.3)	(697.2)	(2,561.5)

Note 19: Fair value of financial instruments (continued)

The following table shows an analysis of movement in level 3 fair value hierarchy on the Commercial Account:

Movement in level 3 fair value exposures

	At 1 July 2011 $ m	New deals $ m	Repayments $ m	Foreign exchange $ m	Gain/(loss) through equity $ m	Profit/(loss) deals matured $ m	Profit/(loss) deals existing $ m	At 30 June 2012 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	480.8	195.4	(70.4)	23.6	-	-	(2.7)	626.7
Cross-currency swaps	147.4	-	(41.2)	14.9	-	7.4	21.8	150.3
Available-for-sale financial assets								
Floating rate notes	90.2	91.0	(68.6)	1.6	0.1	-	-	114.3
Fixed rate bonds	29.1	-	(30.2)	1.0	-	0.1	-	-
	747.5	286.4	(210.4)	41.1	0.1	7.5	19.1	891.3
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(664.4)	-	161.0	(36.0)	-	(8.0)	(20.9)	(568.3)
Guarantees designated at fair value through profit or loss*	(25.7)	-	-	-	-	-	1.2	(24.5)
Cross-currency swaps	(7.1)	-	(1.7)	0.2	-	-	1.6	(7.0)
	(697.2)	-	159.3	(35.8)	-	(8.0)	(18.1)	(599.8)
Total net level 3	50.3	286.4	(51.1)	5.3	0.1	(0.5)	1.0	291.5

* Guarantees are notional and so the face value is not held on the balance sheet.

Movement in level 3 fair value exposures

	At 1 July 2010 $ m	New deals $ m	Repayments $ m	Foreign exchange $ m	Gain/(loss) through equity $ m	Profit/(loss) deals matured $ m	Profit/(loss) deals existing $ m	At 30 June 2011 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	411.0	206.2	(42.5)	(92.8)	-	-	(1.1)	480.8
Cross-currency swaps	144.2	0.9	(29.3)	24.9	-	6.1	0.6	147.4
Available-for-sale financial assets								
Floating rate notes	-	93.1	-	(3.3)	0.1	-	0.3	90.2
Fixed rate bonds	-	27.7	-	0.9	-	-	0.5	29.1
	555.2	327.9	(71.8)	(70.3)	0.1	6.1	0.3	747.5
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(807.4)	(98.9)	164.0	82.0	-	(4.7)	0.6	(664.4)
Guarantees designated at fair value through profit or loss*	(27.5)	-	-	-	-	-	1.8	(25.7)
Cross-currency swaps	(9.2)	-	0.7	0.1	-	-	1.3	(7.1)
	(844.1)	(98.9)	164.7	82.1	-	(4.7)	3.7	(697.2)
Total net level 3	(288.9)	229.0	92.9	11.8	0.1	1.4	4.0	50.3

* Guarantees are notional and so the face value is not held on the balance sheet.

Note 19: Fair value of financial instruments (continued)

The profit or loss on the above level 3 financial assets and liabilities are recorded in the statement of comprehensive income in either the category fair value of third-party loans and guarantees or the category fair value of other financial instruments. The fair value movement on available-for-sale investments is shown through equity.

The following table shows sensitivity of level 3 fair value exposures on the Commercial Account:

	Sensitivity of level 3 fair value exposures			
	At 30 June 2012 $ m	**Effect of reasonable alternative assumptions $ m**	At 30 June 2011 $ m	Effect of reasonable alternative assumptions $ m
Level 3 Financial assets				
Loans and receivables designated at fair value through profit or loss	**626.7**	**(9.1)**	480.8	(7.8)
Cross-currency swaps	**150.3**	**0.6**	147.4	0.9
Available-for-sale financial assets				
Floating rate notes	**114.3**	**(0.2)**	90.2	(0.1)
Fixed rate bonds	-	-	29.1	-
Level 3 Financial liabilities				
Borrowings designated at fair value through profit or loss	**(568.3)**	**(2.0)**	(664.4)	(2.1)
Guarantees designated at fair value through profit or loss	**(24.5)**	**(5.7)**	(25.7)	(6.0)
Cross-currency swaps	**(7.0)**	-	(7.1)	-

In order to determine reasonable alternative assumptions, the following model inputs were adjusted:

For both loans and receivables designated at fair value through profit or loss, and guarantees designated at fair value through profit or loss, the credit risk assumptions were adjusted. This involved adjusting the ratings modifier down by one notch (eg. risk category 5 flat to 5 negative) across the entire portfolio, which is considered a reasonable alternative assumption.

Private placements, classified as available-for-sale investments, do not have a quoted market price; however, a market rate is determined by calculating a yield. The yield includes an estimation for credit spreads which are determined by comparing the private issue to public issues of similar entities. The credit spreads were adjusted by 10% as a reasonable alternative assumption.

For borrowings designated at fair value through profit or loss and cross-currency swaps, the discount rate assumption was adjusted by 5 basis points, which is considered a reasonable alternative assumption.

(ii) Determination of fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques.

Available-for-sale investment securities

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. 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).

Commercial Account loans and receivables designated at fair value through profit or loss

The fair value on day one is the transaction price, and subsequent 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 or receivable. A residual margin covering prepayment risks, other risks and servicing costs is also included in the fair value of each loan or receivable. 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.

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Note 19: Fair value of financial instruments (continued)

Loans to National Interest Account designated at fair value through profit or loss

Fair value is determined by applying market rates and using the valuation techniques of discounted cash flows.

Derivative financial instruments

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 coupon 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 counterparty would choose the date that has the lowest cost (or greatest profit) on a net present value basis.

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 of derivatives.

Commercial Account borrowings designated at fair value through profit or 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 coupon 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 counterparty would choose the date that has the lowest cost (or greatest profit) on a net present value basis. The inputs to the models are from independent market sources.

Guarantees designated at fair value through profit or loss

The fair value on day one is the transaction price, and subsequent 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. A residual margin covering prepayment risks, other risks and servicing costs is also included in the fair value of the 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.

Note 20: Capital

	Note	COMMERCIAL ACCOUNT 30 June 2012 $ m	COMMERCIAL ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2012 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m
Capital available					
Equity at start of period		**408.1**	407.6	-	-
Profit		**26.8**	30.2	-	-
Revaluation of land and buildings		**10.9**	-	-	-
Net gain on cash flow hedges		**(0.4)**	(1.5)	-	-
Net gain/(loss) on available-for-sale investments		**2.9**	0.5	-	-
Dividend payable/paid		**(30.2)**	(28.7)	-	-
Equity at end of period		**418.1**	408.1	-	-
Eligible allowance for credit risk in capital		**12.2**	10.7	-	-
EFIC capital		**430.3**	418.8	-	-
Callable capital		**200.0**	200.0	-	-
Capital available (including callable capital)		**630.3**	618.8	-	-
Capital required					
Export finance		**102.1**	81.8	-	-
Treasury		**42.0**	44.4	-	-
Other assets		**3.9**	2.7	-	-
Operational capital		**6.1**	6.5	-	-
Capital before concentration capital		**154.1**	135.4	-	-
Concentration capital		**200.4**	135.6	-	-
Dividend payable (subject to Board and Minister approval)*		**-**	30.2	-	-
Total capital required		**354.5**	301.2	-	-
Capital ratios					
Risk-weighted assets		**2,033.9**	1,787.5	-	-
Capital adequacy ratio (excluding callable capital)		**21.2%**	23.4%	-	-
Capital adequacy ratio (including callable capital)		**31.0%**	34.6%	-	-

* While the Board makes a recommendation to the Minister for Trade and Competitiveness, the Minister may direct EFIC to pay any amount up to $26.8 million. Depending on the direction, the capital required could be increased from $354.5 million to a maximum of $381.3 million.

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'. This requirement relates only to our Commercial Account activities. The Australian Prudential Regulation Authority (APRA) requires banks in Australia to have minimum capital requirements consistent with the Basel II framework. Although EFIC does not have to comply with APRA guidelines, the Board has adopted Basel II principles, in line with best practice, for measuring capital adequacy within EFIC until Basel III guidelines are released by APRA.

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

EFIC's management provides 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.

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Note 20: Capital (continued)

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:

The Prudential Standards and Prudential Practice Guides from APRA are generally aligned to the Basel II guidelines but differ in some areas which may impact the methodology adopted by EFIC for calculating capital adequacy.

The model EFIC has adopted for capital adequacy may be summarised as follows:

- EFIC adopts the foundation internal ratings-based (IRB) approach (as allowed by APRA and Basel II) to measure capital required for credit risk for export finance facilities. EFIC also uses the supervisory slotting approach for specialised lending.
- EFIC adopts the standardised approach to measure capital required for credit risk for Treasury facilities.
- EFIC adopts the standardised approach to measure capital required for operational risk which uses an asset indicator as the proxy for the scale of business risk, and thus the likely scale of operational risk.
- EFIC has not allocated any capital for market risk such as interest rate and currency risk, as these risks are minimal or fully hedged. EFIC does not have a trading book, although small positions are allowed by the Board to manage liquidity within defined limits. Instead, EFIC has replaced market risk with counterparty risk which is incorporated into our credit risk calculations for treasury. 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 has defined concentration risk on large exposures as other risks in our model and carries concentration capital (less the capital allocated on a risk-weighted basis to that risk) based on the highest of:
  - 100% of the largest individual maximum exposure; or
  - 50% of the largest maximum country exposure (excluding internal credit rating 1 and 2); or
  - 50% of the largest maximum industry exposure (except reinsurance and central or local governments).
- EFIC requires a minimum capital adequacy ratio of 16% as set by the Board, which includes the callable capital of $200 million, and a ratio of 8% excluding the callable capital.

Special dividend

The Treasurer announced in the May 2012 Federal Budget that EFIC would be required to pay a 'special dividend' of $200 million during the 2012–13 year. The mechanism to direct how the special dividend is to be paid is yet to be determined; however, to enable the payment there will need to be legislative changes to the EFIC Act. The timing of these changes is unknown at this stage.

This payment would significantly impact EFIC's capital adequacy ratio and the amount of exposure that EFIC can retain on its balance sheet. Based on 30 June 2012, assuming the $200 million is treated as paid, the available capital falls to $430.3 million giving a cash capital adequacy ratio of 11.3% from 21.2% and a capital adequacy ratio including callable capital of 21.2% from 31.0%. This would leave, in risk-weighted terms, an additional $659 million of assets available for growth.

If EFIC was required to pay a dividend this financial year beyond the special dividend, it could potentially be up to the profit result of $26.8 million depending on the direction from the Minister for Trade and Competitiveness. This would further impact EFIC's capital adequacy ratio and the amount of exposure that EFIC can retain on its balance sheet. Based on 30 June 2012, assuming the $26.8 million was paid, the available capital falls to $403.5 million giving a cash capital adequacy ratio of 10.0% from 11.3% and a capital adequacy ratio including callable capital of 19.8% from 21.2%. This would leave, in risk-weighted terms, an additional $495 million of assets available for growth.

	Note	COMMERCIAL ACCOUNT **30 June 2012 $ m**	30 June 2011 $ m	NATIONAL INTEREST ACCOUNT **30 June 2012 $ m**	30 June 2011 $ m

Note 21: Remuneration of external auditors

Audit and other assurance services				
Audit services	**232,727**	202,389	-	-
Other assurance services	-	7,700	-	-
Total audit and other assurance services	**232,727**	210,089	-	-

Note 22: Related party disclosures

Senior Executive remuneration expenses for the reporting period

Total remuneration received and receivable by Senior executive personnel for the year. Remuneration includes all cash remuneration, superannuation and any non-cash benefits (including applicable fringe benefits tax).

Short-term employee benefits	**2,390,941**	2,564,433	-	-
Long-term employee benefits	-	-	-	-
Post-employment benefits	**192,193**	222,280	-	-
Termination benefits	**141,115**	-	-	-
Total remuneration	**2,724,249**	2,786,713	-	-

Average annual reportable remuneration paid to substantive Senior Executives during the reportable period

2012 Commercial Account	**Senior Executives no.**	**Reportable salary**	**Contributed super**	**Bonus paid**	**Total**
Total remuneration					
less than $150,000	**2**	**93,993**	**17,599**	**16,778**	**128,370**
$150,000 to $179,999	**1**	**125,070**	**3,454**	**50,000**	**178,524**
$240,000 to $269,999	**1**	**235,310**	**21,178**	-	**256,488**
$330,000 to $359,999	**1**	**292,722**	**25,000**	**37,519**	**355,241**
$360,000 to $389,999	**1**	**283,171**	**34,435**	**61,299**	**378,905**
$390,000 to $419,999	**1**	**317,115**	**28,397**	**57,550**	**403,062**
$420,000 to $449,999	**1**	**344,991**	**47,482**	**56,636**	**449,109**
$630,000 to $659,999	**1**	**408,834**	**47,323**	**197,302**	**653,459**
Total	**9**				

2011 Commercial Account	Senior Executives no.	Reportable salary	Contributed super	Bonus paid	Total
Total remuneration					
$300,000 to $329,999	1	186,733	77,039	41,922	305,694
$330,000 to $359,999	3	261,277	34,259	48,973	344,509
$360,000 to $389,999	1	298,326	26,814	49,935	375,075
$420,000 to $449,999	1	323,587	50,000	68,349	441,936
$630,000 to $659,999	1	391,423	49,443	187,359	628,225
Total	7				

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Note 22: Related party disclosures (continued)

Average annual reportable remuneration paid to other highly paid staff

2012 Commercial Account	Staff no.	Reportable salary	Contributed super	Bonus paid	Total
Total remuneration					
$150,000 to $179,999	**9**	**137,969**	**20,163**	**8,570**	**166,702**
$180,000 to $209,999	**11**	**155,292**	**22,438**	**18,917**	**196,647**
$210,000 to $239,999	**7**	**171,289**	**32,688**	**20,846**	**224,823**
$240,000 to $269,999	**6**	**214,002**	**19,088**	**17,659**	**250,749**
$300,000 to $329,999	**2**	**232,511**	**53,041**	**30,260**	**315,812**
Total	**35**				

2011 Commercial Account	Staff no.	Reportable salary	Contributed super	Bonus paid	Total
Total remuneration					
$150,000 to $179,999	12	135,535	17,855	14,832	168,222
$180,000 to $209,999	9	147,899	25,599	20,697	194,195
$210,000 to $239,999	6	180,614	24,490	20,427	225,531
$240,000 to $269,999	2	194,641	25,779	26,897	247,317
$270,000 to $299,999	3	234,008	23,703	25,137	282,848
$300,000 to $329,999	1	188,762	76,870	42,078	307,710
Total	**33**				

	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
Non-executive Board members	**30 June 2012 No.**	30 June 2011 No.	**30 June 2012 No.**	30 June 2011 No.
$0 to $29,999	**5**	3	**-**	-
$30,000 to $59,999	**3**	4	**-**	-
$60,000 to $89,999	**1**	1	**-**	-
Total	**9**	8	**-**	-
Total remuneration received or receivable by non-executive Board members of EFIC	**289,595**	261,594	**-**	-

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

Mr A Mohl, Ms S Pitkin, Mr A Armour, Mr B Brook, Mr M Carapiet, Mr D Evans, Mr B Gosper, Mr N Minogue, Mr D Richardson, Ms J Seabrook, Mr A Sherlock, and Ms D Shiff.

Changes in Board membership during the year:

8 December 2011	Mr M Carapiet	Appointed ended
8 December 2011	Mr A Sherlock	Appointed ended
9 December 2011	Mr A Mohl	Reappointed
9 December 2011	Mr D Evans	Reappointed
9 December 2011	Mr N Minogue	Appointed
9 December 2011	Ms D Shiff	Appointed

Note 22: Related party disclosures (continued)

Transactions with Board members and Board member-related entities

EFIC has not entered into any transactions with a Board member.

A number of transactions are entered into with Board member-related entities in the normal course of business and are on an arm's length basis. These include normal transactional banking facilities, loans and guarantees. These transactions generate interest and fees between EFIC and these Board member-related entities.

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.

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

Note 23: Reconciliation of operating profit to net cash flows from operating activities

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2012 $ m**	30 June 2011 $ m	**30 June 2012 $ m**	30 June 2011 $ m
Operating profit from ordinary activities		**26.8**	30.2	**16.6**	7.7
Reclassification on non-cash items					
Depreciation		**2.5**	2.7	**-**	-
Employee entitlements		**0.5**	0.5	**-**	-
Amortisation of deferred income		**-**	-	**(18.0)**	(21.3)
Credit risk movement		**8.6**	6.8	**-**	-
Foreign exchange (gains)/losses		**1.6**	0.9	**0.2**	(2.4)
Unearned premium		**-**	-	**(1.8)**	(2.3)
Fair value movement		**(1.5)**	2.0	**-**	-
Specific provision		**(0.2)**	(4.5)	**8.1**	7.5
Other		**(0.4)**	(0.5)	**(0.3)**	0.2
Reclassification on cash items					
Net movement in receivables/payables		**(17.1)**	-	**(4.5)**	(8.3)
Net repayments of loan balances		**(132.4)**	(110.1)	**(14.1)**	48.9
Rescheduled debt repayments		**3.7**	3.4	**15.6**	15.1
Net cash inflows/(outflows) from operating activities		**(107.9)**	(68.6)	**1.8**	45.1
Reconciliation of cash					
Cash at end of financial year is reconciled to the related items in the balance sheet as follows:					
Cash		**0.6**	0.6	**-**	-
Receivables from other financial institutions		**552.1**	79.7	**-**	-
Cash (including liquid funds) at end of financial year		**552.7**	80.3	**-**	-
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	**-**	-

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Index of statutory reporting requirements

EFIC reports in accordance with the requirements of the various acts and statutory instruments as set out in Table 11.

Table 11: Index of statutory reporting requirements

Part A: CAC Act, Commonwealth Authorities (Annual Reporting) Orders 2011

Section	Subject	Location	Page
Commonwealth Authorities and Companies Act 1997			
s.9(1)	Directors must prepare annual report in accordance with Schedule 1	Report of operations – Summary and statement by the Board	8-9
sch.1(a)	Report of operations	Report of operations	1-75
sch.1(b)	Financial statements	Financial statements	76-128
sch.1(c)	Auditor-General's report on financial statements	Financial statements – Independent auditor's report	79-80
sch.2(3)	Directors' statement	Financial statements – Statement by Board members and Chief Financial Officer	78
sch.3(1)	Auditor's general statement	Financial statements – Independent auditor's report	79-80
Commonwealth Authorities (Annual Reporting) Orders 2011			
6	Report of operations must be signed by a director and include details of how and when approval was given	Report of operations – Summary and statement by the Board	8-9
10	Enabling legislation, objectives and functions	Report of operations – Overview of EFIC's role	31-32
11	Responsible Minister	Report of operations – Accountability	32
12a	Ministerial directions	Report of operations – Particulars of directions by the Minister	62-63
12b	General policies notified under section 28 of the CAC Act (as in force before 1 July 2008)	Not applicable	n.a.
12c	General Policy Orders issued under section 48A of the CAC Act	Not applicable	n.a.
12	Other legislation	Refer to Part B of this table	130
13	Information about directors	Report of operations – Board membership	44-49
14	Organisational structure	Report of operations – Figure 10: EFIC's organisational structure	50-51

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Section	Subject	Location	Page
14	Statement on governance	Report of operations – Corporate governance – Board membership – Risk Management Framework	 39-43 44-49 65-66
15	Related entity transactions	Not applicable	n.a.
16	Key activities and changes affecting the authority	Report of operations – Performance against principal objectives – The year in review – New business and exports supported	 4-5 10-11 12-29
17	Judicial decisions and reviews by outside bodies	Report of operations – Judicial and administrative decisions and reviews	61
18	Obtaining information from subsidiaries	Not applicable	n.a.
19	Indemnities and insurance premiums for officers	Report of operations – Indemnities and insurance	61
20	Disclosure requirements for government business enterprises	Not applicable	n.a.
21	Index of annual report requirements	Index of statutory reporting requirements	129-130

Part B - Other legislation

Section	Subject	Location	Page
Environment Protection and Biodiversity Conservation Act 1999			
s.516A (3)(6)	Ecologically sustainable development and environmental performance	Report of operations – Corporate responsibility	57-60
Export Finance and Insurance Corporation Act 1991			
s.9(4)	Particulars of Ministerial directions issued under section 9(2)	Report of operations – Particulars of directions by the Minister	62-63
s.70(2)	Financial effect on the operations of EFIC of each Ministerial direction issued under section 9(2)	Report of operations – Particulars of directions by the Minister	62-63
s.85(2(a)	Particulars of Ministerial directions issued under section 9(2)	Report of operations – Particulars of directions by the Minister	62-63
s.85(2)(b)	Statement of principal objectives	Report of operations – EFIC's mission and values – Performance against principal objectives	 2-3 4-5
s.85(2)(c)	Assessment of principal objectives achieved	Report of operations – Performance against principal objectives	4-5
Work Health and Safety Act 2011			
Sch2, Pt 4, Clause 4(2)	Work health and safety initiatives, outcomes, statistics and investigations	Report of operations – Our people	54-55

Abbreviations and acronyms

ADB	Asian Development Bank
ADI	authorised deposit-taking institution
APRA	Australian Prudential Regulation Authority
ASX	Australian Securities Exchange
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CEDA	Committee for Economic Development of Australia
CRP	Corporate Responsibility Policy
DCG	documentary credit guarantee
DFAT	Department of Foreign Affairs and Trade
DPRK	Democratic People's Republic of Korea
ECA	export credit agency
EFG	export finance guarantee
EFIC	Export Finance and Insurance Corporation
EFIC Act	*Export Finance and Insurance Corporation Act 1991*
ERS	EFIC risk score
EWCG	export working capital guarantee
FXG	foreign exchange facility guarantee
IMF	International Monetary Fund
IPS	Information Publication Scheme
LIBOR	London Interbank Offered Rate
LNG	liquefied natural gas
MTI	medium-term (export payments) insurance
OECD	Organisation for Economic Co-operation and Development
PNG	Papua New Guinea
RPA	risk participation agreement
SME	small or medium-sized enterprise
US	United States (of America)
WHS Act	*Work Health and Safety Act 2011*
WHSC	Work Health and Safety Committee

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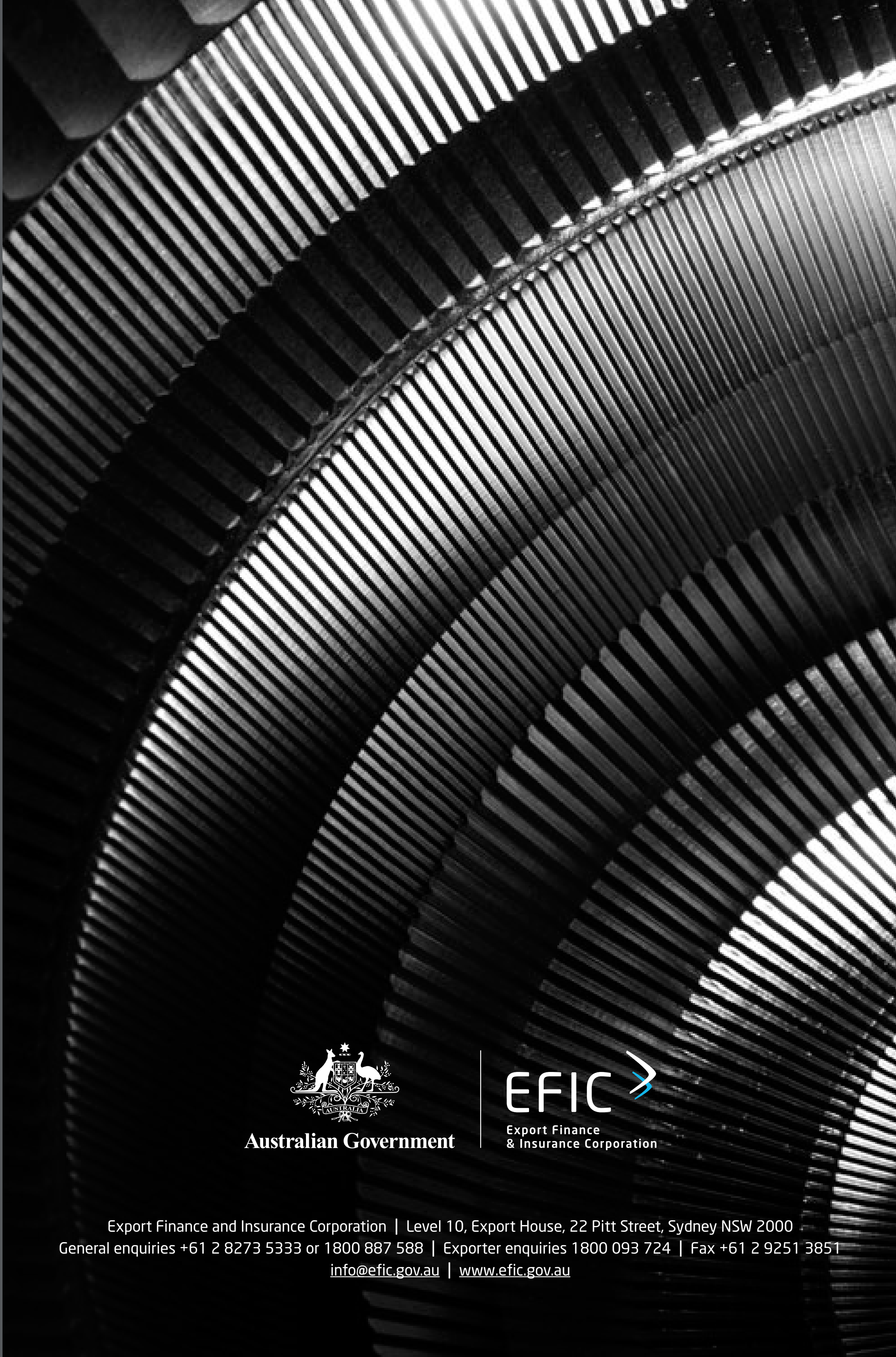

Australian Government

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