

CREDIT OPINION

28 September 2021

New Issue

✓ Rate this Research

RATINGS

Export Finance Australia

Domicile	Sydney, New South Wales, Australia
Long Term Rating	Aaa
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Export Finance Australia

New issuer - Commonwealth guarantee underpins ratings

Summary

Export Finance Australia (EFA), also known as the Export Finance and Insurance Corporation (EFIC), is rated Aaa for long-term senior unsecured obligations and Prime-1 on the basis of a legislative guarantee provided by the [Australian](#) government (Aaa stable).

EFA, a corporate Commonwealth entity, is Australia's official export credit agency. The corporation's mandate is to promote Australia's exports by providing a range of financial services such as loans, bonds, guarantees and insurance to businesses involved directly or indirectly in export trade.

Credit strengths

- » Legislative guarantee on all obligations provided by the Australian government
- » Wholly owned by the Commonwealth of Australia

Credit challenges

- » Same as those for the Government of Australia
 - High household debt leaves economy and banks vulnerable to shocks
 - A large external liability position

Rating outlook

EFA's stable outlook is aligned with that of Australia, reflecting its government guarantee.

Factors that could lead to an upgrade

EFA carries Moody's highest ratings of Aaa/P-1; there are no opportunities to raise the ratings.

Factors that could lead to a downgrade

EFA's ratings are based on those of the guarantee from the Commonwealth of Australia. The loss of that guarantee or the downgrading of the Australian sovereign rating would, therefore, have a negative impact on EFA's ratings.

Profile

EFA is Australia's export credit agency and was established under the Export Finance and Insurance Corporation Act 1991 as a statutory corporation wholly owned by the Commonwealth of Australia. Reporting to the Minister for Trade, Tourism and Investment, EFA's role is to promote Australia's exports by providing a range of financial services such as loans, bonds, guarantees and insurance to businesses involved directly or indirectly in export

trade. Specifically, EFA supports customers in circumstances where they have been unable to source adequate finance from the private sector.

The company has two major lines of business:

Export Financing – EFA provides loans to exporters of Australian goods and services. It also provides loan guarantees to banks that lend to Australian exporters

Export Insurance – EFA provides insurance and bonding to Australian exporters. With respect to insurance, EFA protects exporters of goods and services, with export contracts that have a payment period of more than two years, from the risk of non-payment due to defined commercial and political events. With respect to bonding, EFA provides a range of options to protect buyers should exporters of good and services not meet their contractual obligations.

Australia

Australia's Aaa government bond rating reflects "aa1" economic strength, "aa1" institutions and governance strength, "aa3" fiscal strength, and "a" susceptibility to event risk. Please see our [credit opinion](#) for the Government of Australia for further details on these rating drivers.

Detailed credit considerations

EFA's ratings reflect the Australian government's guarantee

EFA's Aaa rating is underpinned by a guarantee provided by the Australian government (Aaa stable). As referenced under section 62 of the Export Finance and Insurance Corporation Act 1991 (EFIC Act), the Commonwealth of Australia explicitly guarantees the due payment by EFA of any money that becomes payable.

In addition, Moody's believes that there are strong incentives for the Australian government to provide support to EFA, if required. These include EFA's position as a wholly owned government entity and its importance to the government's role in supporting Australian exports, a sector essential to Australia's economic health. Evidence of such support is demonstrated by the Australian government's AUD1.2 billion callable capital facility, which it has provided to EFA to access during times of stress.

As a Commonwealth entity, EFA is governed under the Public Governance and Accountability Act 2013 (PGPA Act) which, under section 91, requires EFA to provide regular updates and reporting to the responsible Minister. The EFIC Act also requires a government representative on the board. Moody's believes this will ensure that the government will be provided with adequate information and sufficient notice to avoid any delay in repaying EFA's debt, in the event the guarantee is triggered.

Governance and management

EFA's corporate governance structure is set out in the Export Finance and Insurance Corporation Act 1991 and the Public Governance and Accountability Act 2013. Members of the board are appointed by the Minister for Trade, Tourism and Investment who is also consulted prior to the appointment of the Managing Director.

EFA operates through its Commercial Account (CA) and/or the Government's National Interest Account (NIA). Under the CA, EFA operates as a for-profit corporation and retains all income and bears all risks and losses. Under the NIA the Minister for Trade, Tourism and Investment can direct EFA to support transactions that are in deemed to be in the national interest. While such transactions will be managed by EFA, the Australian government will receive all income and bear all risks. EFA's intent is to assess a transaction's eligibility for the CA first and only consider the NIA when CA criteria are not met. Typically, transactions on the NIA are outside the risk appetite of the CA as determined by the board. At 30 June 2020, EFA's total exposures under the CA was AUD1.8 billion compared to AUD992 million for the NIA.

ESG considerations

We take account of the impact of environmental (E), social (S) and governance (G) factors when assessing sovereign issuers' economic, institutions and governance and fiscal strength and their susceptibility to event risk. Australia's ESG Credit Impact Score is neutral to

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low (CIS-2). This reflects a moderate exposure to environmental risk, mitigated by very strong governance and a robust government balance sheet that mitigates the sovereign's susceptibility to these risks. Social attributes are credit positive.

The E issuer profile score is moderately negative (E-3), with moderately negative exposure to both physical climate risk and carbon transition. Climate-change related natural disasters in particular water stress and bushfires can cause material economic disruptions. Moreover, with around 18% of exports accounted for by hydrocarbons, the economy and public finances are somewhat exposed to a global shift away from coal as a source of energy.

We assess its S issuer profile score as positive (S-1). Australia is among the few sovereigns for which social attributes support the rating, reflecting in particular, access to high quality education, housing, healthcare and basic services. Strong population growth has also supported the economy and public finances in the past.

Australia's very strong institutions and governance profile support its rating, as captured by a positive G issuer profile score (G-1) with a strong institutional structure and policy credibility and effectiveness.

Please see our [credit opinion](#) for the Government of Australia for further details on our ESG assessment. Our approach to ESG is explained in our report on how the [scores depict varied and largely credit-negative impact of ESG factors](#) and our cross-sector methodology [General Principles for Assessing Environmental, Social and Governance Risks Methodology](#).

Ratings

Exhibit 1

Category	Moody's Rating
EXPORT FINANCE AUSTRALIA	
Outlook	Stable
Issuer Rating	Aaa
Bkd Sr Unsec MTN	(P)Aaa
ST Issuer Rating	P-1
Bkd Other Short Term	(P)P-1

Source: Moody's Investors Service

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