Efic

Finance for Australian Exporters

We are building the partnerships that build Australia.

Annual Report
2014 - 2015

Efic is a specialist financier that delivers simple and creative solutions to Australian companies to enable them to win business, grow internationally and achieve export success.

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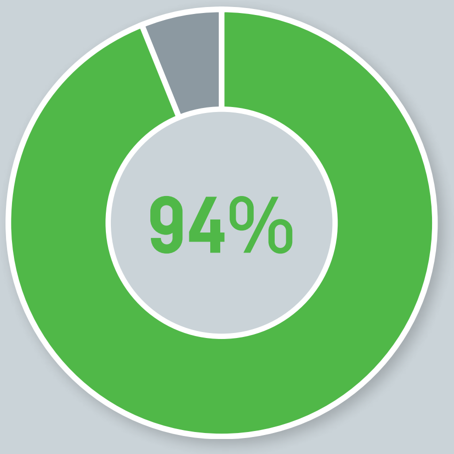
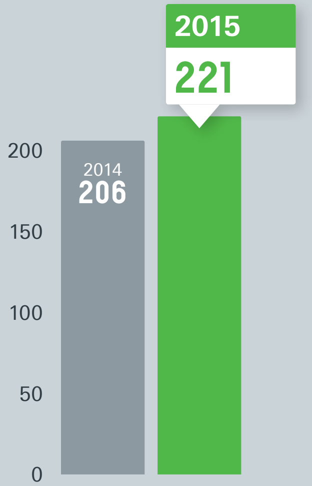
SME transactions by number

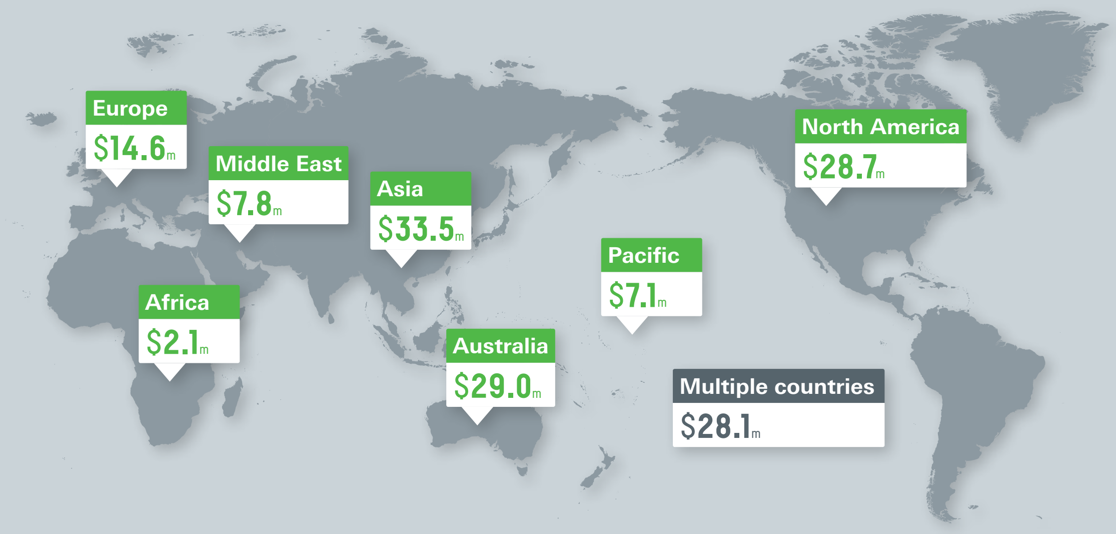


of transactions by number were for SMEs

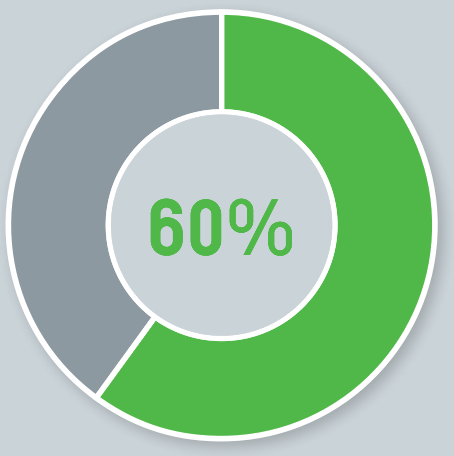


SME transactions by number

Maximum exposure for SME clients (excluding reinsurance) by region



SME transactions by value



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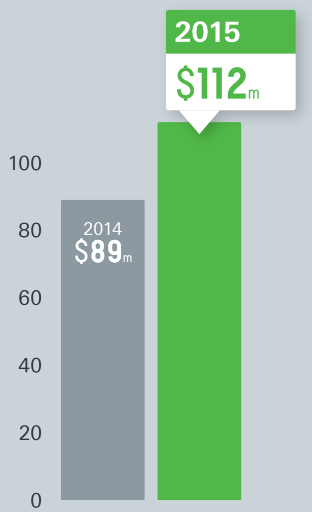
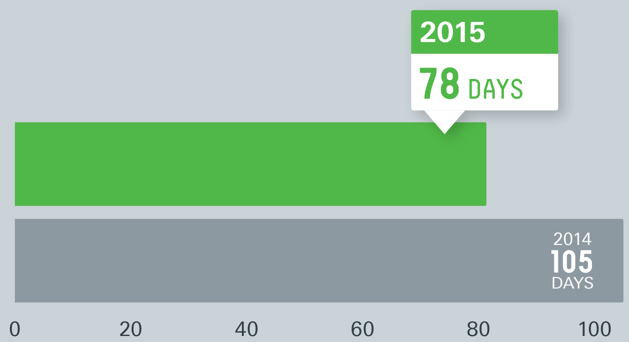


SME transactions by value

Average turnaround time for SME transactions



Performance against principal objectives

Objective 1:
Support Australian exports and overseas investments 2014-15

Table 1: Our support for small and medium enterprises (SMEs)

Performance measure	2014-15 Plan	2014-15 Outcome
Number of transactions provided	230	**221***
Value of transactions signed	$94 million	**$112 million**
Value of exports and overseas investments supported	$660 million	**$575 million**

*221 transactions supporting 103 export contracts through 100 facilities.

Table 2: Our support for larger exporters and overseas projects with Australian content

Performance measure	2014-15 Plan	2014-15 Outcome
Number of transactions provided	10	**13***
Value of facilities signed	$350 million	**$67 million**
Value of exports and overseas investments supported	$1,050 million	**$248 million**

*13 transactions supporting 8 export contracts through 4 facilities.

In total, we provided 234 transactions (230 in 2013-14) during the year, valued at $179 million, which supported over $800 million of export contracts and overseas investments.

The number of transactions that we provided for SMEs during 2014-15 was slightly below plan, but more than last year, consistent with our focus.

Here we provided 221 transactions (206 in 2013-14) valued at $112 million, supporting 103 export contracts worth $575 million. SMEs now account for well over 90 per cent of all facilities by number of transactions.

SME signings by value exceeded support for larger exporters and projects in 2014-15. This mostly reflects Efic's focus on SMEs as well as private financiers' increased appetite for emerging market risk, which has closed the 'market gap'.

There were no transactions entered into on the National Interest Account during the year.

Objective 2:
Generate sustainable profit within the market gap mandate

Table 3: Our financial performance for 2014-15

Performance measure	2014-15 Plan	2014-15 Outcome
Profit on the Commercial Account	$22.9 million	**$18.2 million**
Capital adequacy ratio	Above 16 per cent of risk-weighted assets, including callable capital and 8 per cent on a cash capital basis.	**30.5 per cent of risk-weighted assets, including callable capital and 21.1 per cent on a cash capital basis.**
Manage our overall portfolio risk within the market gap	Weighted average risk grade over the business cycle of between 3.5 and 4.5, where 3 is equivalent to a rating of BBB/Baa, 4 is equivalent to a rating of BB/Ba and 5 is equivalent to B/B.	**Weighted average risk grade during the year between 3.4 and 3.5 (3.4 at June 2015).**

Our annual profit was $18.2 million on the Commercial Account, down from $24.2 million in 2014, and behind our budgeted profit of $22.9 million. This was due mainly to unrealised foreign exchange losses of $5.4 million arising from the fall of the AUD/USD exchange rate from the budget rate of $0.94 to the actual end of June exchange rate of $0.77.

Approximately 96% (2014: 94%) of our Commercial Account facilities are denominated in foreign currencies (USD 90%, Euro 4%, other 2%). When the AUD exchange rate falls, the unearned premium, fees and interest margins on these facilities are converted from foreign currency to AUD at the spot rate and this results in additional revenue of $19.2 million.

However, offsetting this benefit is the impact of various risk allowances and provisions which increase the expense by $24.6 million because the AUD equivalent of the foreign currency exposure is now greater, notwithstanding the foreign currency exposure is unchanged.

Our results were helped by the increase in the number of transactions provided, especially for SME exporters and those part of a global supply chain. A steady flow of income from previous long tenor corporate, sovereign and project finance transactions also helped to underpin our profit.

The average margin on the facilities signed during the year was around 4 per cent, with an average tenor of less than 12 months.

It's important to note that our success is not always reflected by an increase in profitability or the number of facilities provided. When we take part in a transaction, our involvement often encourages other financiers to participate, which is consistent with our mandate to 'crowd in' the private sector.

As we don't compete with the private sector, if our early involvement means our client's needs may be met at a later stage by the private sector, then we have been successful, even though this is not reflected in our financial results.

Chairman's report

In 2014/15 Efic continued with its core focus of helping SME exporters and those in export supply chains access the finance they need to succeed overseas.

We provided 234 transactions to Australian companies worth $179 million during the year, 94 per cent of them to SMEs. Over 60 per cent of Efic's financial support by value was committed to SMEs in 2014/15, again confirming Efic's commitment to supporting SMEs grow their businesses internationally.

Since joining the Board as its Chairman last December, I have been very impressed with how Efic approaches the task given to it by the Government, especially the focus Efic's expert management team has on developing new products and services to meet the ongoing financing needs of Australian SME exporters.

The 234 facilities provided during the year supported export contracts worth $823 million, compared with our annual budget of $1,710 million. The shortfall in the value of signings from budget reflect Efic's 'non-compete' mandate – in particular there was a rise in private financier's risk appetite for country risk – and our renewed focus on SMEs where the value of export contracts is lower.

Most importantly though, Efic provided 221 facilities to SMEs and those in export supply chains during the year, supporting export contracts worth $575 million, up from 206 facilities last year. Our profit on the Commercial Account was $18.2 million, down from $24.2 million last year, and less than our full year budget of $22.9 million.

The underlying business performed well, with our SME business ahead of forecast and an ongoing focus on efficiency contributing to saving $1 million in budgeted costs. However, the fall in the Australian dollar from $0.94 to $0.77 during the year reduced our profit by $5.4m, given all loan provisions are held predominantly in US dollars. Our rigorous credit review process and active management of exposures in arrears ensured there were no loan impairment charges during the year.

The profit on the National Interest Account was $16.0 million, which was in-line with last year and with budget. Again, this result was driven by existing exposures, as there was no new business written during the year.

Our capital base remains strong at $649.6 million (including callable (non-cash) capital). This includes our Commercial Account profit and a dividend payment of $18.2 million (based on 75 per cent of the 2013-14 profit of $24.2 million) paid to the Government during the year. The credit quality of our portfolio was equivalent to between BBB and BB.

Our new lending flexibility

The Government's amendments to the Efic Act in March 2015 mean we can now lend directly for the export of all goods, not just 'capital goods'. These changes are consistent with the Government's focus on having us help more small and medium-sized Australian exporters and will help to increase the number of SMEs, particularly smaller businesses, which can now access our products and services more cost-effectively.

" The underlying business performed well, with our SME business ahead of forecast and an ongoing focus on efficiency contributing to saving $1 million in budgeted costs"

James M. Millar AM
Chairman

There is no change, however, to our 'market gap' mandate and we will continue to provide financial solutions to SMEs only when the private market is unable or unwilling to help.

We will continue to participate in the financing of projects in emerging markets when viable projects face financial gaps. However, finance will only be provided if these projects contain significant Australian content relative to the size of Efic's financing, including by Australian SMEs.

The Government's amendments to the Efic Act are a further endorsement of our role in helping more Australian SME exporters and those in an export supply chain. To ensure our new lending flexibility does not bring us into direct competition with the commercial market, the Government will apply competitive neutrality principles to our operations.

Our renewed focus on SMEs

Our research continues to show that, while the SME export community remains optimistic, access to finance continues to prove difficult.

A lower Australian dollar has improved the export environment as have the free trade agreements with Japan, South Korea and China. With these factors expected to provide more export opportunities in the growing Asian market, our role of operating in the 'market gap' continues to be important.

As with all of the companies that we support, our aim is that they grow to the point where their bank can approve the finance they need to succeed overseas.

The growth in SME signings achieved this year can be attributed to the manner in which our Board and management team have worked together to deliver on our SME strategy. Our strong risk management framework continues to ensure we have had no notable risk or compliance breaches, prudential issues or credit losses during the year.

Our Board

During the year, I was appointed Chairman of the Board, replacing Mr Andrew Mohl, while Mr Nick Minogue was promoted to Deputy Chair, replacing Ms Deena Shiff. Ms Denise Goldsworthy, Ms Laura McBain and Mr Rick Sawers were also appointed to the Board during the year.

The expertise of the new Board members around small business, banking, professional services and leadership complements Mr Bruce Brook, Mr Nick Minogue, Ms Annabelle Chaplain and Alternate Government Member Ms Jan Adams very well.

The Board, on behalf of everyone at Efic, would like to thank Mr Mohl, Ms Shiff and Mr Evans for fulfilling their roles alongside the continuing Board members with such passion and enthusiasm, and we wish them well for the future.

This report has been prepared in accordance with the requirements of the Export Finance & Insurance Corporation Act 1991 (Cth) and in accordance with section 46 of the Public Governance, Performance and Accountability Act 2013 and with the requirements of section 7AB of the Public Governance, Performance and Accountability (Consequential and Transitional Provisions) Rule 2014 (CTP Rule).

Thank you to our Board and all Efic employees for all their hard work during the year.

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

James M. Millar AM
Chairman

27 August 2015

Managing Director's report

This is the first full year of delivering on our SME strategy and the impact of our simplified documentation, our accelerated execution process and new lending flexibility are all showing through in our results.

With a lower Australian dollar contributing to an improving export environment, our focus has been on providing a platform that delivers simple and creative solutions for Australian companies to enable them to win business, grow internationally and achieve export success.

Helping even more SMEs

In 2014/15 we continued to focus on helping more Australian SME exporters, with 221 transactions completed on the Commercial Account (worth $112 million), up from 206 last year (worth $89 million).

More than 60 per cent of our financial support by value was allocated to SMEs during the year and 94 per cent of our transactions by number were for SMEs, up from 90 per cent last year.

We again hosted national roadshows, presenting to over 600 attendees across five states, with a keynote speaker and panel of SME exporters at each venue.

Our experience with Australian exporters is that they are creative, courageous and optimistic, and one panel member in Perth was no exception. They gave an interesting account of their first step towards developing a leading export business. One of their main concerns around exporting perishables was the risk of spoilt product, however after a freight company gave them the confidence to try a shipment to Dubai, they have never looked back.

Another highlight for me, this time in Melbourne, was hearing about The Creature Technology Company's work in creating an animatronic character for a US-based theme park – an SME that is truly competitive with the very best in the world in what they do.

We also launched our new Export Contract Loan at these roadshows, a product that we developed in response to our new lending flexibility. The market's response to this product has been very positive, with one client describing it as 'a real game changer'.

With two clients signed up within days of these legislative amendments receiving Royal Assent, it became clear that our new lending flexibility would allow us to help SME exporters across all industry sectors more efficiently, particularly small exporters.

As at 30 June, we had closed 13 Export Contract Loan transactions from a standing start in an average of 56 days, compared to 100 days for an average export working capital guarantee. There were a further five Export Contract Loan transactions, making a total of 18, which converted from an export working capital guarantee when our flexible lending practices were introduced, ensuring the exporters received the working capital they required to fulfil their export order.

> " More than 60 per cent of our financial support by value was allocated to SMEs during the year and 94 per cent of our transactions by number were for SMEs, up from 90 per cent last year."
>
> Andrew Hunter
> Managing Director and CEO

It was great to see several smaller SMEs, like Microtec Engineering Group and RA Cosmetics, receive the finance they needed via this new product – finance they would not have received with an export working capital guarantee, due to the small nature of their finance requirement.

Our banking referral partners have also viewed this new product positively, as it provides them with another option to help their SME exporter clients receive the finance they need.

And nothing highlights the importance of our 'market gap' role more than when we see the banks of Efic clients like United World Enterprises, Ferra Engineering and DownUnder GeoSolutions now providing the finance these companies need without our involvement.

A continued focus on efficiency and productivity

Our more pragmatic approach to structuring transactions has helped to reduce delays and allow our clients to receive the finance they need more quickly. The average transaction turnaround time is now 78 days, down from 105 last year.

We also introduced easier-to-understand standard documentation, which has been well-received by our clients, while creating one execution and origination team has helped drive further process improvements.

Our ongoing work to limit printing has continued to reduce our environmental footprint, while our move to an agile workplace will help us to improve productivity, increase collaboration and provide greater flexibility right across our business.

Marketing and client initiatives

We launched our new website late last year, which puts the client at the centre of everything we do. There has been a 57 per cent increase in website visitors during the year. The increased use of video content and client case studies has been particularly successful, as these bring our clients' stories to life and highlight the expertise that we have within our business.

From a brand perspective, the unprompted awareness of Efic among our target market increased by 5.6 per cent during the year – a pleasing outcome.

Since January 2015, we have increased our use of social media to build our brand and engage with more SME exporters, with our number of LinkedIn and Twitter followers more than doubling.

A particular highlight of this year's marketing efforts for me was that the first three clients for our new Export Contract Loan came via our dedicated call centre and website – opportunities that would have most likely gone unrealised just two years ago.

A bright future for Australia's exporters

I continue to be impressed by the mix of creativity, confidence and optimism found in many Australian exporters.

And with many SMEs being successful on the world stage against much larger global competitors, the new free trade agreements with Japan, South Korea and China should open up even more export opportunities.

We believe that demand for our products and services will also continue to grow and are looking forward to helping even more Australian exporters access the finance they need.

Thank you to the Board, my Executive team and all of our employees for their hard work and commitment in what has been a good year for Efic.

Andrew Hunter
Managing Director and CEO

27 August 2015

Our clients

We have helped a record number of small and medium enterprises (SMEs) this financial year, supporting 95 clients with transactions worth $112 million, which support export contracts worth $575 million.

Efic's key points of differentiation from private financiers, chiefly banks, is that our main bonding and working capital products are provided on unsecured terms, and that Efic is more willing to take country and technology risk.

A broad mix of clients

Our new Export Contract Loan was very well received by the SME exporter market and we were able to provide finance to SMEs from a broad range of industries, including:

- **PFP Solutions** in Canning Vale, Queensland, a specialist fire protection firm that delivered fire proofing services for an oil refinery in Vietnam.
- **Microtec Engineering Group** in Lane Cove, Sydney, an engineering company specialising in starch and glucose production lines that provided a gluten dryer to a company in Romania.
- **STI Engineering** in Malaga, Western Australia, a designer and manufacturer of communications devices that supplied emergency transmitter substations to a buyer in Belgium.

We continued to work closely with banks to help their clients receive the finance they need to fulfil new export contracts, such as:

- **AOM Group** in Elong Elong, New South Wales, an organic meat producer that required working capital to export its high quality meat products to Asia, the Middle East and the United States.
- **Limestone Coast Wines** in Padthaway, South Australia, a wine business that was able to fulfil two contracts to supply bulk wine for sale in supermarkets in the UK and Asia.
- **Clinical Genomics** in North Ryde, Sydney, a health care company that specialises in screening solutions for the early detection and prevention of cancer that was able to smooth out manufacturing costs and inventory levels for a $20 million export contract.

There was also strong demand for bonding facilities from subcontractors in global supply chains, and during the year we helped companies like:

- **Gold Peg International** in Black Rock, Victoria, a designer/manufacturer of industrial food processing equipment that won a new export contract to India.
- **Ramu Gateway Joint Venture** in Perth, Western Australia, a civil engineering, road construction and consulting firm that completed a highway scoping project in Papua New Guinea.
- **FCT Flames** in Thebarton, South Australia, a combustion and process engineering company that won the contract to supply the cauldron for the 2015 South East Asian games in Singapore.

"We continued to refine our accelerated execution process for smaller transactions, with our average turnaround now 77 days, down from 100 days last year."

Andrew Watson
Executive Director,
Export Finance

Client successes

It was again very pleasing to have some of our previous clients recognised for major awards during the year.

In the Australian Export Awards, **GP Graders** won the Australian Exporter of the Year and, for the third year running, the Export Award for Manufacturing.

TTG Environment Solutions won the Export Award for Environment Solutions for the second year running, while **The Creature Technology Company** won the Innovative Excellence Export Award.

At Auspack 2015, the biennial exhibition of the Australian Packaging and Processing Machinery Association, **HMPS** won the Export Achievement Award and the Best New Design Award.

More efficient support for SMEs

We continued to refine our accelerated execution process for smaller transactions, with our average turnaround now 77 days, down from 100 days last year.

The lessons from the accelerated execution process have been adopted for more complex transactions, where turnaround time has been reduced to 80 days, down from 140 days last year, with all of these improvements allowing our clients to receive the finance they need far more quickly.

We signed a partnership agreement with Scottish Pacific, a leading national working capital provider, the first non-bank that we have approved. This arrangement will allow us to offer solutions to those SMEs that may lack traditional banking relationships.

Our SME Information Series, a series of eBooks that we developed as follow up to our SME roadshow, were also very successful and a key driver of our social media content.

Reaching more SME exporters

We continued to focus on increasing the awareness of our products and services among SME exporters through working closely with groups including Austrade, the Export Council of Australia, the NSW Business Chamber and the Australian Industry Group.

We also worked to improve referral generation by collaborating with Austrade and other Government departments and agencies on a number of marketing campaigns.

The insights and trends from our quarterly SME Exporter Sentiment Index helped us to engage with the SME exporter market in a meaningful way, as did our sponsorship of the Australian Export Awards and corresponding state-based awards.

We supported the 2015 Australian International Business Survey, alongside the Export Council of Australia, Austrade and the University of Sydney, which is one of Australia's largest and most in-depth surveys of internationally-active businesses.

We also participated in FTA events around the country, many of which were in regional areas, and used these to improve the understanding of our products and services among those SME exporters looking to take advantage of new export opportunities in Asia created by the FTAs.

The future looks bright

It has been a good year for Efic, given we have been able to support so many passionate Australian SMEs.

We will continue to deliver on our SME strategy and look forward to helping even more SME exporters win business, grow internationally and achieve export success.

Andrew Watson
Executive Director, Export Finance

27 August 2015

Case study

The Creature Technology Company

The Creature Technology Company is a Melbourne-based company that produces large-scale animatronic puppets for theme parks, exhibitions, stage shows and events around the world.

Unique in its industry, The Creature Technology Company delivers all of the different disciplines that are required to make large complex puppetry – everything from mechanical engineering and electronic software to sculpting and painting.

The Creature Technology Company has created large scale life-like animatronic characters for the arena show Walking with Dinosaurs – involving 16 realistic, life-size dinosaurs – the stage show King Kong and the 2014 Winter Olympic Opening and Closing Ceremonies.

Early ambitions

The company started out as an exporter, with their very first project, Walking with Dinosaurs, being an international success. With most of their clients residing overseas, export represents approximately 95 per cent of their business.

The US is their primary market given the size of its entertainment industry, where most of the demand for their products comes from. China is also increasingly looking promising as a growing export market, particularly as the country is investing heavily in a range of new theme parks.

The Creature Technology Company won a significant and exciting multi-million dollar contract to design and build a highly sophisticated life-size animatronic figure for a theme park ride.

The project was a huge win for The Creature Technology Company and represented an important turning point and potential game-changer in their rapidly growing business.

Providing security

Given the significant size of the contract, The Creature Technology Company's client required a performance bond for the value of the contract, to provide surety that the project would be delivered on time and to specification.

Without a bond, the company would have been unable to secure the contract.

This is where Efic was able to help, by providing a performance bond to support the contract's delivery.

The project was a huge win for The Creature Technology Company and represented an important turning point in their rapidly growing business.

" Efic has been terrific to work with. Without the help from Efic, there would have been doubts about us securing the export contract."

Sonny Tilders
Creative Director and CEO, The Creature Technology Company

Industry:
Manufacturing

Country:
US

Product:
Performance bond

Efic support:
A$7.4 million

Our clients

Our two accounts

Commercial Account

Our Commercial Account exposures of $2.04 billion (including reinsurance) comprises loans, export finance guarantees (EFGs) including funded EFGs, medium-term insurances, bonds, political risk insurances and rescheduled credit insurance debts.

The average remaining maturity of all facilities outstanding at 30 June 2015 was 1.7 years, and 7.1 years on a weighted average basis.

Figure 1: Commercial Account at 30 June 2015 – exposures by region of risk

Region	Value ($m)	Value (%)
Australia	641.3	31%
Asia	378.1	19%
Europe	300.9	15%
Northern America	268.9	13%
South America	170.9	8%
Middle East	152.0	8%
Pacific	130.3	6%

Figure 2: Commercial Account at 30 June 2015 – exposures by industry sector

Sector	Value ($m)	Value (%)
Reinsurance	601.4	29%
Mining LNG	398.6	20%
Manufacturing	226.8	11%
Public Administration and Safety	204.2	10%
Financial and Insurance Services	170.6	8%
Transport, Postal and Warehousing	156.3	8%
Mining Commodities	113.9	6%
Construction	101.0	5%
Other	69.6	3%

National Interest Account

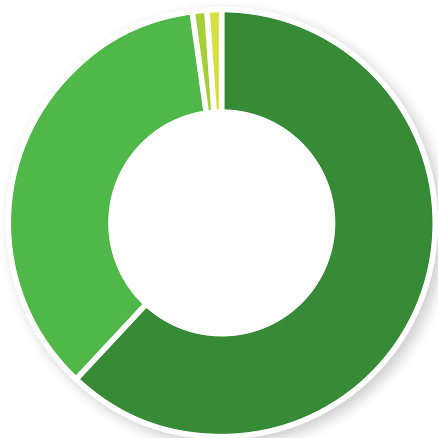
The National Interest Account exposure of $914.9 million largely comprises loans to sovereign countries or their agencies, and loans to natural resource projects in emerging markets.

The largest exposure at present is to the PNG LNG project, with exposure of US$248.8 million at 30 June 2015. The initial funding of US$250 million has reduced following loan repayments that commenced in June 2015.

Figure 3: National Interest Account at 30 June 2015 – exposures by region of risk

Region	Value ($m)	Value (%)
Asia	331.8	36%
Pacific	323.9	36%
Middle East	238.0	26%
Australia	11.5	1%
South America	9.7	1%

Figure 4: National Interest Account at 30 June 2015 – exposure by industry sector



Sector	Value ($m)	Value (%)
Public Administration and Safety	569.8	62%
Mining LNG	323.9	36%
Manufacturing	11.5	1%
Financial and Insurance Services	9.7	1%

Our clients

Facilities signed

Table 4: Our transactions for 2014-15

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / Transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Adelaide Control Engineering Pty Ltd	Manufacturing	Drying and packaging plant	Namibia	Bond x 2	1	2.7	Potential impacts - note 1
Quickstep Holdings Ltd	Manufacturing	System for large composite flat parts, composite aircraft parts	Various	Bond x 1, EWCG x 1	1	6.8	Low potential - note 1
E.P.C. International Pty Ltd	Manufacturing	Power transformers	Fiji	Bond x 1	1	0.4	Low potential - note 1
FFF Australia Pty Ltd	Manufacturing	Heat exchanger tubes	Australia (integral to ESC)	EWCG x 1	1	0.5	Low potential - note 1
Evolution Commercial Pty Ltd	Manufacturing	Aluminium catamarans	Denmark	Bond x 2	Existing facility	0.9	Low potential - note 1
Lean Field Developments Pty Ltd	Mining	Construction works	Australia (integral to ESC)	Bond x 4	1	0.2	Low potential - note 1
NewLease Pty Ltd	Information Media and Telecommunications	Telecommunications software	Various	Bond x 1	1	1	Low potential - note 1
Electro Optic Systems Pty Ltd	Manufacturing	Satellite laser ranging & adaptive optic imaging system	Korea, Republic of	Bond x 1	1	0.7	Low potential - note 1
UON Pty Ltd	Mining	Power utility	Australia (integral to ESC)	Bond x 2	1	1	Low potential - note 1
Kosmea Australia Pty Ltd	Manufacturing	Cosmetics	Asia, Canada	EWCG x 1	1	0.2	Low potential - note 1
Radlink Pty Ltd	Mining	Communication equipment	Australia (integral to ESC)	EWCG x 1	1	1	Low potential - note 1
Advanced Technology Products Pty Ltd	Professional, Scientific and Technical Services	Safety and security systems	Australia (integral to ESC)	Bond x 1	1	0.6	Low potential - note 1
Overflow Industrial Pty Ltd	Construction	Electrical engineering, design and construction services	Australia (integral to ESC)	Bond x 1, EWCG x 1	2	0.4	Low potential - note 1
Industrial Equipment Pty Ltd (trading as Minetek)	Manufacturing	Water treatment facility	Australia (integral to ESC)	Bond x 7	2	1.8	Low potential - note 1
Ellton Conveyors Pty Ltd	Manufacturing	Conveyors and related equipment	Australia (integral to ESC)	EWCG x 2	2	2.9	Low potential - note 1
Fibre King Pty Ltd	Manufacturing	Packing systems	Malaysia, United Arab Emirates, Ireland	Bond x 5, EWCG x 1	4	4.9	Low potential - note 1
InterSystems (Asia Pacific) Pty Ltd	Professional, Scientific and Technical Services	Software products for airports	United States of America	Bond x 1	1	0.5	Low potential - note 1
United Wool Company Pty Ltd	Wholesale Trade	Wool	Europe	EWCG x 1	1	1	Low potential - note 1
DownUnder GeoSolutions Pty Ltd	Professional, Scientific and Technical Services	Exploration and production services	Various	ODI x 1, EWCG x 1*	1	9.6	Low potential - note 1, *Category C
Clinical Genomics Technologies Pty Ltd	Manufacturing	Medical testing equipment	United States of America	EWCG x 1	1	0.7	Low potential - note 1
Matilda Equipment Pty Ltd	Mining	Heavy earth moving and civil/construction equipment	Papua New Guinea	EWCG x 1	1	2.4	Low potential - note 1
Baltec IES Pty Ltd	Professional, Scientific and Technical Services	Gas turbine exhaust systems	Uzbekistan, Iraq, Saudi Arabia	Bond x 7	2	1.9	Low potential - note 1
Precision Catering and Equipment Pty Ltd	Mining	Civil works for Roy Hill mine	Australia (integral to ESC)	EWCG x 1	1	1.5	Low potential - note 1
Access Innovation Holdings Pty Ltd	Professional, Scientific and Technical Services	Captioning services	Asia	ODI x 1	1	2	Category C
Martinus Rail Pty Ltd	Manufacturing	Rail infrastructure and turnout systems	Australia (integral to ESC)	Bond x 4	1	0.5	Low potential - note 1
Gold Peg International Pty Ltd	Manufacturing	Food processing equipment	India	Bond x 1	1	0.7	Low potential - note 1
The Spurs Wine Company Pty Ltd	Wholesale Trade	Wine	Sweden	EWCG x 1	1	0.6	Low potential - note 1
TMM Group Pty Ltd	Mining	Mine site preparation	Australia (integral to ESC)	Bond x 1	1	1.5	Low potential - note 1

Our clients

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / Transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Whittens Pty Ltd	Mining	Civil concrete construction for Roy Hill mine	Australia (integral to ESC)	Bond x 2, EWCG X 1*	1	5.2	Low potential - note 1, *Category C
Liddy Design Pty Ltd	Wholesale Trade	Dinner and kitchenware	United States of America	EWCG X 1	1	0.7	Low potential - note 1
Ocean & Earth Australia Pty Ltd	Wholesale Trade	Surf-related products and clothing	Various	EWCG X 1	1	0.7	Low potential - note 1
South State Food & Beverage Pty Ltd	Wholesale Trade	Alcoholic beverages	United States of America	EWCG X 1	1	0.2	Low potential - note 1
ANCA Pty Ltd	Manufacturing	Grinding machines	Hong Kong	EWCG X 1	1	3.8	Low potential - note 1
Kookaburra Pacific (Aust) Pty Ltd	Wholesale Trade	Liquorice	United States of America	EWCG X 2	1	0.4	Low potential - note 1
Compumedics Pty Ltd	Manufacturing	Sleep apnoea products	Asia, Middle East, Europe	EWCG x 1	1	1.2	Low potential - note 1
CCB Envico Pty Ltd	Electricity, Gas, Water & Waste Services	Waste water treatment	Kiribati Republic, Micronesia	Bond x 4	1	6.4	Low potential - note 1
MCA Engineering Group Pty Ltd	Mining	Construction services	Australia (integral to ESC)	Bond x 2	Existing facility	0.2	Low potential - note 1
The Creature Technology Company Pty Ltd	Manufacturing	Large robotic puppets	United States of America	Bond x 1	1	7.4	Low potential - note 1
Sterling Pumps Pty Ltd	Manufacturing	Seawater pumps	Korea, Republic of	Bond x 3	1	0.6	Low potential - note 1
Boost Media Holdings Pty Ltd	Information Media and Telecommunications	Media brokerage services	Asia, US, Middle East	EWCG x 1	1	1.5	Low potential - note 1
Gemtree Vineyards Pty Ltd	Manufacturing	Wine	United States of America	EWCG x 1	1	1.8	Low potential - note 1
PolyPacific Pty Ltd	Manufacturing	Polypropylene compounds	Ethiopia	DCG x 1	1	0.3	Low potential - note 1
Maicon Engineering Pty Ltd	Construction	Structural, mechanical and piping work	Australia (integral to ESC)	Bond x 2	1	0.5	Low potential - note 1

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / Transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Ramu Gateway Joint Venture	Professional, Scientific and Technical Services	Civil engineering and road construction	Papua New Guinea	Bond x 1	1	0.3	Low potential - note 1
Bio Processing Australia Pty Ltd	Manufacturing	Specialised yeast products	China	EWCG x 1	1	0.6	Low potential - note 1
Steele Environment Solutions Pty Ltd	Professional, Scientific and Technical Services	Consulting on nuclear waste management	United Kingdom	ECL x 1	1	0.3	Low potential - note 1
Unison Joints Pty Ltd	Construction	Expansion joints	Saudi Arabia	ECL x 1	1	0.5	Low potential - note 1
JPD Media & Design Pty Ltd	Wholesale Trade	Furniture design and supply	United States of America	ECL x 1	1	0.1	Potential impacts - note 1
Crestnut Products Pty Ltd (t/as Nutworks)	Wholesale Trade	Macadamia nuts	China	EWCG x 1	1	0.7	Low potential - note 1
Limestone Coast Wines Pty Ltd	Manufacturing	Wine	United Kingdom, Asia	EWCG x 1	1	0.7	Low potential - note 1
Cassegrain Wines Pty Ltd	Manufacturing	Wine	China, Japan	ECL x 1	1	0.5	Low potential - note 1
Oz Nature Pty Ltd	Wholesale Trade	Meat	Korea, Republic of	ECL x 1	1	0.3	Low potential - note 1
FCT Flames Pty Ltd	Professional, Scientific and Technical Services	Cauldron flame	Singapore	Bond x 2	1	0.3	Low potential - note 1
RA Cosmetics Pty Ltd	Manufacturing	Cosmetics	United Kingdom	ECL x 1	1	0.1	Low potential - note 1
J.R.B Engineering Pty Ltd	Professional, Scientific and Technical Services	Installation of railway management system	United Kingdom	ECL x 1	1	0.6	Category C
Microtec Engineering Group Pty Ltd	Manufacturing	Gluten dryer	Romania	ECL x 1	1	0.1	Low potential - note 1
Mack Valves Pty Ltd	Manufacturing	Valves	India	EWCG x 1	1	0.3	Low potential - note 1
CarePlus Australia Pty Ltd	Retail Trade	Health products	China	EWCG x 1	1	0.3	Low potential - note 1

Our clients

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / Transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Agri Direct Australia Pty Ltd	Agriculture, Forestry and Fishing	Chickpeas & lentils	Bangladesh	EWCG x 1	1	0.3	Low potential - note 1
Down Under Enterprises International Pty Ltd	Wholesale Trade	Essential oils	United States of America	ECL x 1	1	0.2	Low potential - note 1
SGL Systems International Pty Ltd	Manufacturing	HVAC Systems	Angola	Bond x 1	1	0.4	Potential impacts - note 1
AOM Group Pty Ltd	Wholesale Trade	Organic beef	United States of America, Middle East, Asia	EWCG x 1	1	0.5	Low potential - note 1
Reed Pacific Media Pty Ltd	Wholesale Trade	Scented advertising material	Various	ECL x 1	1	0.4	Low potential - note 1
CPT Global Ltd	Professional, Scientific and Technical Services	IT consulting	United States of America	ECL x 1	1	1.5	Low potential - note 1
Gourmet Lovers Pty Ltd	Manufacturing	Olive oil	North America, United Kingdom	ECL x 1	1	0.3	Low potential - note 1
Epichem Pty Ltd	Manufacturing	Pharmaceutical products and research	United States of America	ECL x 1	1	0.8	Low potential - note 1
Audio Visual Imagenation Pty Ltd	Manufacturing	Manufacture of network systems	United States of America	ECL x 1	1	0.2	Low potential - note 1
PFP Solutions Pty Ltd	Construction	Fireproofing services	Vietnam	ECL x 1	1	0.7	Category C
Stackla Pty Ltd	Information Media and Telecommunications	Digital marketing services	Various	ECL x 1	1	0.4	Low potential - note 1
Electro Optic Systems Pty Ltd	Manufacturing	Sensor units and parts	Korea, Republic of	Bond x 2	1	4.8	Low potential - note 1
Aushang International Pty Ltd	Wholesale Trade	Timber	China	EWCG x 1	1	0.5	Low potential - note 1
Guma ICRG Pty Ltd	Mining	Civil construction and maintenance	Australia (integral to ESC)	Bond x 2	1	0.4	Low potential - note 1
Minprovise International Pty Ltd	Construction	Crushing equipment	Australia (integral to ESC)	Bond x 1	1	0.3	Low potential - note 1
Ingeneus Pty Ltd	Manufacturing	Medical equipment	Germany	ECL x 1	1	0.2	Low potential - note 1
STI Engineering Pty Ltd	Information Media and Telecommunications	Radio frequency communication system	Belgium	ECL x 1	1	0.4	Low potential - note 1
Foreign Exchange Facility Guarantee clients	Various	Various	Various	FXG x 7	7	1.1	Low potential - note 2
Producer Offset Loan clients	Information Media and Telecommunications	Film and television producers	Various	POL x 11	10	5.2	Low potential - note 2
Asian Development Bank	Wholesale Trade	Various	Pakistan, Sri Lanka, Vietnam, Bangladesh	RPA x 93	5	26	Low potential - note 2
McConnell Dowell Corporation Ltd	Construction	Heavy and civil engineering construction	Thailand, Indonesia	Bond x 2	Existing facility	15.1	Potential impacts - note 1
Australian Rural Exports Pty Ltd	Agriculture, Forestry and Fishing	Dairy cattle	China	EWCG x 1	1	3.8	Low potential - note 1
Wellard Rural Exports Pty Ltd	Agriculture, Forestry and Fishing	Dairy cattle and associated infrastructure	Sri Lanka	FEFG x 1	1	21.4	Category B
Outotec Pty Ltd	Electricity, Gas, Water and Waste Services	Water treatment and distribution project	Sri Lanka	FEFG x 1	Existing facility	9.8	Reported 2009-10 (Category B)
Total				**234**	**104**	**179.1**	

DCG: documentary credit guarantee
ECL: export contract loan
EFG: export finance guarantee
ESC: export supply chain
EWCG: export working capital guarantee
FEFG: funded export finance guarantee
FXG: foreign exchange facility guarantee
ODI: overseas direct investment
POL: producer offset loan
RPA: risk participation agreement

Notes 1: Transaction associated with either a non-project or bond. Under a facility there may be more than one destination project.
Notes 2: Assessed under a general facility review.

(a) An explanation of our three categories (A, B, C) for classifying potential environmental and/or social impacts associated with new projects is on page 45.

DownUnder GeoSolutions

Case study

DownUnder GeoSolutions (DUG) is a Western Australian geosciences company that provides integrated geology and geophysics services, and interpretation software, to facilitate exploration and production in the oil and gas industry.

Established in 2003, DUG's advanced cutting-edge services, integrated workflow and proprietary interpretation software have all been developed in Australia, and are now used by clients around the world.

DUG has experienced strong growth since inception, and now has over 200 employees in seven international offices, which are located close to major international oil and gas hubs.

An expansion strategy

One of DUG's key strategic growth objectives was to form an alliance with a marine seismic acquisition company, as a way of gaining access to large 3D onshore processing projects.

This was achieved in June 2014, when DUG was awarded a contract by Polarcus, a Dubai-based geophysical marine data acquisition company.

The contract involved the installation of sophisticated computer hardware and DUG's proprietary software onto the Polarcus fleet of six seismic vessels, as well as one land-based location, allowing Polarcus to deliver high quality onboard fast-track data processing.

While contracts like this have ensured DUG's business has grown around the world, so too has the need for it to provide state-of-the-art high performance computing centres in every office.

DUG needed additional capital to finance the hardware element of the Polarcus contract and expand their overseas operations.

The global nature of the business presented challenges when DUG sought finance from its bank, and so it contacted us for support.

How we helped

We provided DUG's bank with a A$6.7 million export working capital guarantee, which allowed its bank to approve the funds needed for the installation of computer hardware.

Our A$2.9 million overseas direct investment guarantee also allowed DUG to receive the finance it needed to upgrade its seven overseas offices.

Helping DUG to capitalise on these opportunities will allow it to accelerate its growth strategy, create additional employment and enhance its ability to win significant global service contracts.

" The help from Efic has allowed us to expand much more rapidly than we would have been able to without its support."

Matthew Lamont
Managing Director,
DownUnder
GeoSolutions

Industry:
Professional, Scientific and Technical Services

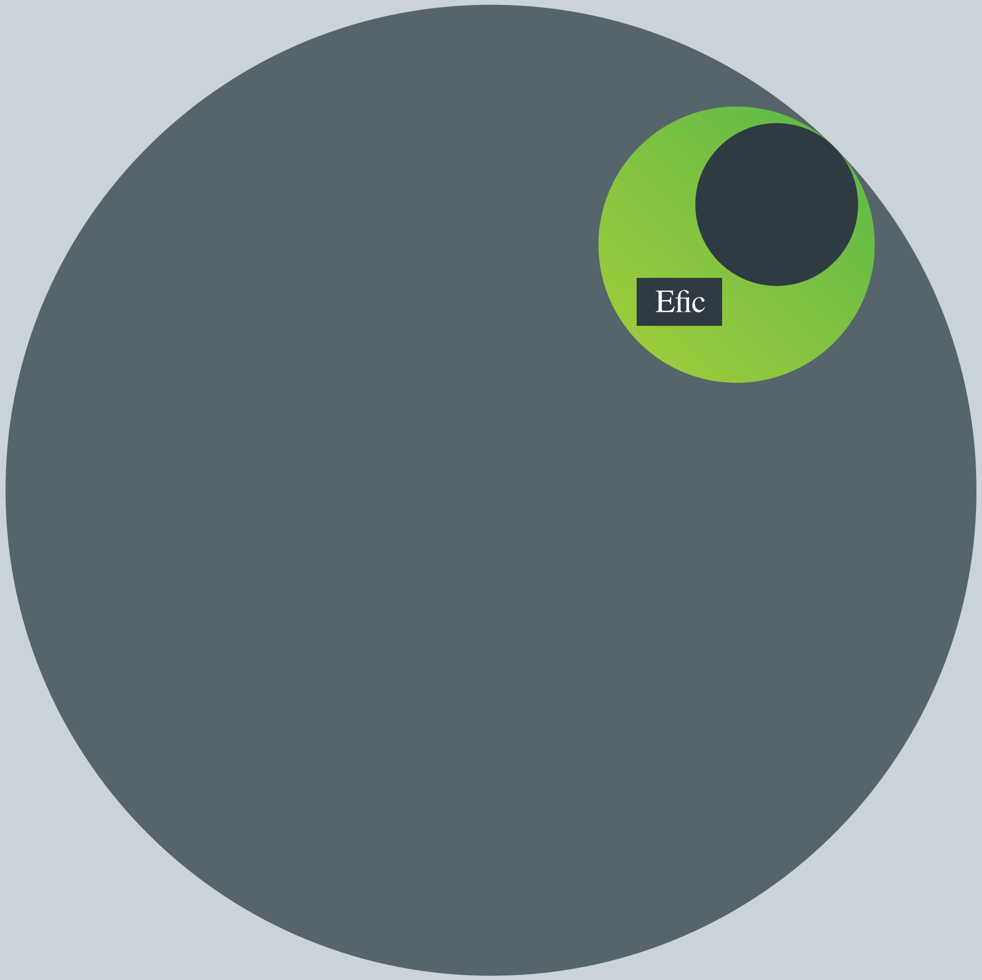
Country:
UAE, UK, USA and Malaysia

Product:
Overseas direct investment guarantee and export working capital guarantee

Efic support:
A$9.6 million

Purpose and principles

Australian export finance environment



Commercial market
Most exporters receive finance from the commercial market such as banks, insurers and other financial institutions.

Non-viable
Exporters' finance needs are not always viable, due to risk, environmental, social or governance issues.

Market gap
This is where Efic provides finance to viable exporters when the commercial market is unable or unwilling to do so.

Purpose

Efic provides financial support to Australian-based companies that are exporting, in a global supply chain or seeking to grow internationally.

Efic's primary purpose is to facilitate and encourage Australian export trade on a commercial basis.

We assist clients such as:

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

We assist these clients specifically by providing financial services in circumstances where they have been unable to source adequate finance from the private sector. We do not compete with the private sector.

We encourage banks and other financial institutions in Australia to support Australian businesses internationally.

Efic also assists the Federal Government by providing financial services to Australian exporters considered by the Government to be in the national interest.

Principles

Provide products and services as efficiently and economically as possible

Efic operates on a commercial and transparent basis. We seek to support clients in an efficient and cost effective manner. Our Board and management seek to manage Efic prudently to ensure its long term viability.

Fulfilment of our people

Efic supports all employees to reach their full potential and to achieve an appropriate balance between personal and professional priorities as well as diversity in our workplace. We encourage accountability amongst our employees in their respective roles.

Operate within a risk framework consistent with our primary purpose

Efic's Board supervises the affairs of Efic, including determining our policies and a risk framework that is consistent with our purpose and resources. Our people conduct our business within this framework.

Uphold best-practice environmental, social and governance standards

Efic's Board, management and our people are committed to uphold best-practice environmental, social and governance standards.

Constructive and supportive relationship with the Government

Efic seeks to have an open, constructive and transparent relationship with the Commonwealth Government and key departments. Regular and effective communication enables Efic to understand the priorities of Government across trade and investment, treasury, finance, small business and employment.

Our business

About us

At Efic, we are committed to unlocking finance for export success.

We are a specialist financier that delivers simple and creative solutions for Australian companies to enable them to win business, grow internationally and achieve export success.

As Australia's export credit agency, we operate on a commercial basis and partner with banks to provide financial solutions for:

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

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

Accountability

We are part of the Australian Government's Foreign Affairs and Trade portfolio. Efic is the responsibility of the Minister for Trade and Investment (Minister).

The current Minister is the Hon Mr Andrew Robb AO (Minister), who was appointed on 18 September 2013.

The Minister has a number of powers in relation to us, as set out in the Efic Act. The Minister may give written directions to Efic relating to how we perform our functions or exercise our powers, if satisfied these directions are in the public's best interest.

The Minister may also approve or direct entry into transactions on the National Interest Account (see page 27). We are not required to obtain such approval or direction for transactions on the Commercial Account. Details of ministerial directions are set out on pages 51 and 52.

We provide the Minister with a Statement of Intent in response to the Minister's Statement of Expectations. These statements express and formalise the Minister's expectations of us and our Board's intention to meet those expectations. Both are available on the Efic website.

As a corporate Commonwealth entity under the PGPA Act, we are also required to notify the Minister of certain significant events, such as the acquisition or disposal of interests in companies or other ventures.

Our Board must also keep the Minister informed about our operations and provide any information required by the Minister or the Minister for Finance.

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

Efic Act

Efic, as Australia's export credit agency, has performed its role within various statutory frameworks since 1957.

We were established in our 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.

We have four key functions under the Efic Act:

- 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 are still outstanding under it)
- to provide information and advice regarding insurance and financial arrangements to support Australian exports.

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.

The Commonwealth also guarantees our creditors the payment of all monies payable by Efic. 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.

This legislation provides for two distinct platforms from which Australian exports can be supported; the Commercial Account (under Part 4 of the Efic Act) and the National Interest Account (under Part 5 of the Efic Act).

Commercial Account

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

We have accumulated profits of $554.7 million since 1991, with normal dividends paid to the Australian Government of $275.5 million.

National Interest Account

In the case of the National Interest Account, the Minister can direct us to enter into a facility, or give approval for us to enter into a facility, if the Minister believes it is in the 'national interest' to do so.

National interest transactions tend to involve:

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

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

Our business

PGPA Act

Efic is a corporate Commonwealth entity and is subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and to the rules and other instruments made under it.

The PGPA Act sets out the requirements in relation to aspects of Efic's corporate governance, reporting and accountability which are additional to those in the Efic Act.

Whole of government support

In line with a 'whole of Government' approach, we worked closely with DFAT, Austrade and other Government departments and agencies to help us support exporters more efficiently and effectively.

Information on overseas markets, export opportunities and activities is regularly shared between agencies and departments.

We partnered with Austrade to conduct educational and information events to support exporters. This included our support for the North Asia Free Trade Agreements (FTAs) Information Seminars, which are designed to educate Australian businesses on how to take advantage of the practical benefits FTAs offer.

We also supported the Australian International Business Survey, conducted by the Export Council of Australia and the University of Sydney, and continued our SME Exporter Sentiment Index.

With Efic staff located in Austrade interstate offices, we continued to build our 'on-the-ground' presence in all parts of the country. This helped us reach more SMEs and ensured a steady a flow of information with Austrade, state-based trade agencies and other business support providers.

Our financial operations

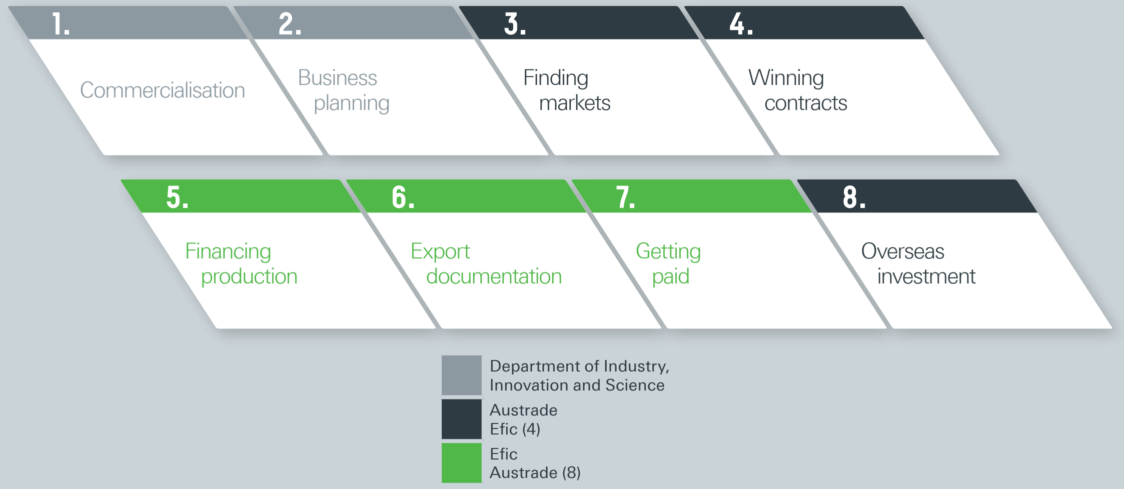
We are self-funding and operate on a commercial basis, receiving fees and risk premiums from clients and earning interest on loans and investments that reflect risk. This includes the investment of our cash capital, reserves and working capital.

The Commonwealth also guarantees that all our creditors will receive payment from us, a guarantee that has never been called.

We operate within limits set out in the Efic Act and Regulations in relation to maximum contingent liability for guarantees and insurance contracts and the total amount of loans into which we can enter.

A Debt Neutrality charge of 10 bps and a Tax Equivalent charge of 30 per cent on accounting profit, in addition to an equivalent 'state tax' that covers payroll and land tax, has been agreed with Government to start effective 1 July 2015.

The client journey



Our governing principles

Corporate governance

Our Board is responsible for our corporate governance, managing our affairs and overseeing our operations. This includes establishing our corporate governance strategy, defining our risk appetite, monitoring our performance, making decisions on capital usage and dividend recommendations to the Minister.

The Minister is represented on the Board by the Secretary of the Department of Foreign Affairs (or their alternate).

Also sitting on the Board are seven non-executive directors, appointed by the Minister and our Managing Director – who is a full-time employee at Efic.

We impose a strong commercial discipline on governance and risk management through our governance framework.

As a corporate Commonwealth entity, our Board and our employees are governed by the Efic Act and, as of 1 July 2014, the PGPA Act. We are required to produce a four-year corporate plan that must be published by 31 August and an annual report for each financial year, which must be tabled in Federal Parliament. Both the corporate plan and annual report are public documents.

Efic is partially exempt from freedom of information legislation. The partial exemption and the strong secrecy obligation imposed on us recognises the need to keep confidential the commercial information we obtain from Australian exporters and investors.

Our employees are subject to a Code of Conduct and are required to keep information about clients confidential. This confidentiality requirement also applies to our Board.

The Efic Act allows us to publish only a limited amount of information about client transactions.

To the extent that they are applicable, we follow the Corporate Governance Principles and Recommendations 3rd Edition (Recommendations) produced by the Australian Securities Exchange Corporate Governance Council (ASX).

A copy of these recommendations can be found at the ASX's website at www.asx.com.au/regulation/corporate-governance-council.htm

Our Board met six times in 2014-15 and its membership is set out on pages 32-37.

CCB Envico

Case study

"Efic was a breath of fresh air – its understanding and commitment to make things happen really helped us secure these two important projects."

Simon Gorman
Director, CCB Envico

CCB Envico is a specialist building contractor that designs and builds facilities for government and private industry in Australia and overseas, with a particular focus on Asia Pacific.

Established in 2003 with a core focus on water and wastewater infrastructure, CCB has recently undertaken a range of process facility works including food-manufacturing plants, defence infrastructure and manufacturing.

After successfully completing the Pohnpei project in Micronesia, CCB was awarded two further contracts in the region:

- The rehabilitation of a conventional sewerage system and provision of a reliable pumping and treatment system as part of the Weno Waste Treatment Project in Chuuk State.
- The repair and upgrade to the saltwater intake as part of the Kiribati Waste Water Sanitation project in the Republic of Kiribati.

While CCB's bank was very supportive of these contracts, it didn't have the product capability and risk appetite to increase CCB's exposure to Micronesia and Kiribati.

We provided CCB with an advance payment bond and a performance bond, along with a surety bond issued by a third-party provider on our behalf.

With the Asian Development Bank's involvement, there is a strong pipeline of projects planned for Micronesia and Kiribati.

CCB's ongoing experience and strong performance in the region ensures it is well-placed to secure these new opportunities.

Industry:
Electricity, gas, water and waste services

Country:
Micronesia and Kiribati

Product:
Advance payment and performance bond

Efic support:
A$6.4 million

Our Board

Peter Varghese | Laura McBain | Annabelle Chaplain | Nicholas Minogue | James M. Millar AM | Andrew Hunter | Bruce Brook | Denise Goldsworthy | Rick Sawers | Jan Adams

Our Board

James M. Millar AM

BCom, FCA, FAICD
Born 1952
Chairman
Term of appointment: 09/12/2014 to 08/12/2017
Board attendance: 3 of 3
Independent, Non-executive member

James Millar is the former CEO and Area Managing Partner of Ernst & Young in the Oceania region, and was a Director of the Ernst & Young Global Board. His career prior to his leadership roles at Ernst & Young was as a corporate reconstruction professional for large and small businesses both within Australia and globally. James is Chairman of The Smith Family and Forestry Corporation of NSW, and a director of Mirvac Limited, Mirvac Funds Limited, Fairfax Media Limited, Helloworld Limited and Macquarie Radio Network Limited. He is a member of the advisory boards of both Grant Samuel and the University of NSW School of Business, and a trustee of the Australian Cancer Research Foundation and the Vincent Fairfax Family Foundation.

Nicholas Minogue

MA, MBA
Born 1955
Deputy Chairman, Audit Committee member
Terms of appointment: 09/12/2011 to 08/12/2014 and 09/12/2014 to 08/12/2017
Board attendance: 6 of 6
Audit Committee attendance: 4 of 4
Independent, Non-executive member

Nicholas Minogue retired from Macquarie Group in 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. Nick worked in trade finance and corporate banking in London and Hong Kong before joining Macquarie. Nick is also Chairman of Morphic Asset Management Pty Ltd, Director of Social Enterprise Finance Australia, President of the Kangaroo Valley Arts Festival and a member of the NSW Aboriginal Land Council Economic Development Advisory Committee.

Andrew Hunter

BEc
Born 1968
Managing Director and Chief Executive Officer
Appointed: 01/09/2013
Board attendance: 6 of 6
Executive member

Andrew Hunter has had a career of more than 20 years in financial services. Before joining Efic, Andrew held senior positions within Macquarie Group Ltd. From 2008 to 2010, he was Macquarie Group London Office Head and Head of Macquarie Group Europe, following a move to London in 2003 as head of Macquarie's corporate advisory business. From 2011 to mid 2012, Andrew was Co-Head of Macquarie's Financial Institutions Group in Australia. Andrew originally joined Macquarie as part of the bank's acquisition of Bankers Trust Australia in 1999 and focussed on debt financings, including arranging finance for infrastructure assets such as Sydney Airport. In his 10 years at BT, Andrew worked in Australia and Hong Kong in credit and risk management, structured finance and debt origination.

Bruce Brook

BCom, BAcc
Born 1955
Board member, Chair of Audit Committee
Terms of appointment: 01/03/2010 to 28/02/2013 and 01/03/2013 to 29/02/2016
Board attendance: 6 of 6
Audit Committee attendance: 4 of 4
Independent, Non-executive member

Bruce Brook has over 30 years' experience in finance across a wide range of public companies, including WMC Resources Ltd, ANZ Banking Group Limited and Pacific Dunlop Ltd. Now a professional company director, Bruce is Chairman of Programmed Maintenance Services Ltd, and a Director of Deep Exploration Technologies CRC, CSL Limited and Newmont Mining Corporation, and is a member of the ASIC Director Advisory Panel and the Anaesthesia and Pain Management Board of Governors.

Annabelle Chaplain

BA, MBA FAICD
Born 1958
Board member, Audit Committee member
Term of appointment: 01/08/2013 to 31/07/2016
Board attendance: 4 of 6
Audit Committee attendance: 4 of 4
Independent, Non-executive member

Annabelle Chaplain is an experienced company director of publicly listed and private companies. She spent her executive career as an investment banker working on a variety of transactions for public sector and large corporate clients. Annabelle is the Chairman of Queensland Airports Ltd and Canstar Pty Ltd, a financial services research and ratings company. She is non-executive Director of Downer-EDI Ltd and Chairman of KDR Gold Coast, the operator of the light rail on the Gold Coast and a Director of Yarra Trams. In the not-for-profit sector, she serves as a Councillor of the Institute of Company Directors, Qld Division and is a member of the Finance and Audit Committee for the Gold Coast 2018 Commonwealth Games.

Denise Goldsworthy

BMet (Hons + Uni medal), FTSE, FAIM, GAICD
Born 1964
Board member
Term of appointment: 05/11/2014 to 04/11/2017
Board attendance: 4 of 4
Independent, Non-executive member

Denise is the founder of Alternate Futures Pty Ltd, a company that connects solutions to problems by addressing knowledge, cultural and system barriers. In practice this means connecting Australia's research organisations, tech start-ups and industry. Prior to this, Denise worked as an executive for Rio Tinto, with roles including CCO Autonomous Haul Trucks, Managing Director of Dampier Salt and Managing Director HIsmelt. Denise started her career at BHP Steel Newcastle. Denise is also Chairman of ChemCentre WA and, until recently, an Independent NED for Aquila Resources, a member of Council at Edith Cowan University and a trustee for the Navy Clearance Diver's Trust. Among Denise's honours is being named the 2010 Telstra Australian Business Woman of the Year.

Laura McBain

BCom
Born 1977
Board member
Term of appointment: 09/12/2014 to 08/12/2017
Board attendance: 3 of 3
Independent, Non-executive member

Laura has overseen significant change, innovation and business growth since her appointment as General Manager of Bellamy's in 2006, and subsequent appointment as Chief Executive Officer (CEO) in 2011 and Managing Director and CEO in 2014. Laura has been a driving force in the company's substantial growth and subsequent listing on the Australian Securities Exchange in August 2014. Laura's time at the helm has overseen expansion into Asia via the setup of offices in Shanghai and Singapore. Prior to joining Bellamy's, Laura practised as an accountant and specialised in the areas of providing business advisory and taxation services. Laura was named the Telstra Tasmanian Business Woman of the Year 2013 and she went on to be named the Telstra Australian Business Woman of the Year 2013 (Private and Corporate).

Rick Sawers

Born 1954
Board member
Term of appointment: 09/12/2014 to 08/12/2017
Board attendance: 3 of 3
Independent, Non-executive member

Rick has over 43 years of commercial and international banking experience leading large frontline businesses in Australia, Japan, United Kingdom, Hong Kong and the USA, and has served on NAB's Group Executive Committee since 2009. He has deep experience in risk governance, financial markets (including capital markets, funding, liquidity and fixed income, money markets, FX and interest rate risk management), trading, sales and treasury functions. Rick is the Chairman and Director of Great Western Bancorp, Inc. Rick is also a member of the NAB Group Risk and Return Management Committee, and a Director of National Australia Group (Europe) Limited and Clydesdale Bank PLC. He is also a Board member (and former Chairman) of the Australian Financial Markets Association, a fellow of the Financial Services Institute of Australia, a graduate member of the Australian Institute of Company Directors and a life member of the Financial Markets Foundation for Children.

Government member

Peter Varghese, AO

BA (Hons)
Born 1956
Government Board member
Appointed: 11/02/2013
Board attendance: 1 of 6 (see alternate Government member)
Represents the Australian Government
Non-executive director

Peter Varghese is Secretary of the Department of Foreign Affairs and Trade (DFAT). Prior to that, he has held the positions of Australia's High Commissioner to India and was the Director-General of the Office of National Assessments. Mr Varghese has also previously held the roles of Senior Advisor (International) to the Prime Minister, Australia's High Commissioner to Malaysia and has served overseas in Tokyo, Washington and Vienna. Mr Varghese was appointed an Officer in the Order of Australia (AO) in 2010 for distinguished service to public administration, particularly leading reform in the Australian intelligence community and as an adviser in areas of foreign policy and international security.

Alternate Government member

Jan Adams

BEc (Hons), LLB (Hons)
Born 1963
Appointed: 07/05/2013
Board attendance (as alternate): 3 of 6
Represents the Australian Government as alternate Government Board member
Non-executive member

Ms Adams was appointed Deputy Secretary of the Department of Foreign Affairs and Trade (DFAT) in April 2013. Prior to that, Jan was First Assistant Secretary of the DFAT, Free Trade Agreement Division (from March 2009) and Australia's lead negotiator for China, Japan, Korea and India bilateral FTA negotiations. Between 2005 and 2008, Jan served as Ambassador for the Environment and Ambassador for Climate Change. Between 1993 and 1996, she worked as an Advisor to the then Minister for Trade and Minister for Industry, Science and Technology, Senator Peter Cook. Jan joined DFAT in 1999 as Assistant Secretary, APEC Branch. Overseas, Jan has served as Minister Counsellor (Trade) in Washington (2000 – 2004) and has also worked in the Environment and Trade Directorates of the OECD in Paris.

Members whose term ended in 2014-15

Andrew Mohl

BEc (Hons)
Chairman,
Non-executive member
Appointed: 09/12/2008 to 08/12/2011 and 09/12/2011 to 08/12/2014
Board attendance: 3 of 3

Deena Shiff

BSc Econ (Hons), LLB (Hons)
Deputy Chair,
Non-executive director
Appointed: 09/12/2011 to 08/12/2014
Board attendance: 3 of 3

David Evans

BEc
Board member,
Non-executive director
Appointed: 09/12/2008 to 08/12/2011 and 09/12/2011 to 08/12/2014
Board attendance: 2 of 3

Board and Audit Committee

During the year, Mr Millar was appointed Chairman replacing Mr Mohl whose appointments ended on 8 December 2014. Ms Goldsworthy, Ms McBain and Mr Sawers were all appointed to the Board replacing Ms Seabrook (whose appointment ended on 4 April 2014), Ms Shiff and Mr Evans respectively. Mr Minogue was appointed as Deputy Chair replacing Ms Shiff whose appointment ended on 8 December 2014.

Transactions with Board members and related entities of Board members

All Board members have declared that they do not have any interest in contracts, transactions, arrangements or agreements with us.

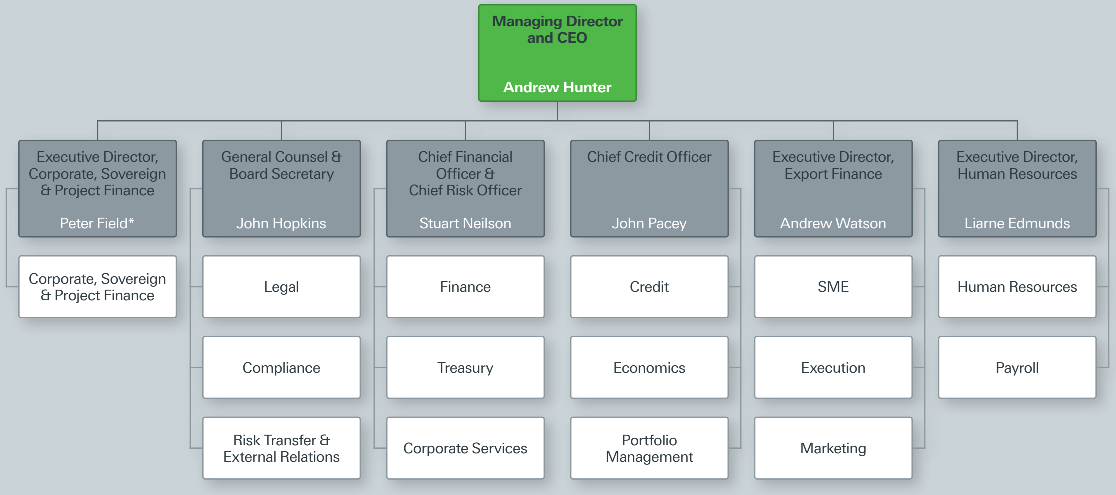
Declared conflicts and potential conflicts of interest

Our Board always ensures that a Board member does not participate in discussions where there is, or may be, a conflict between their own interests, those of Efic or one of our clients. We maintain a register updated with the disclosed interests of all Board Members.

Our executive team

Our executive team

Figure 5: Our organisational structure



*Peter Field retired on 30 April 2015.

Peter Field | John Hopkins | Stuart Neilson | Andrew Hunter | John Pacey | Andrew Watson | Liarne Edmunds

CarePlus

Case study

> "Efic was extremely fast and efficient in providing support to us – it understands our business deeply and has provided some great advice."

Patrick Liu
Founder and CEO, CarePlus

CarePlus is a Sydney-based online exporter of Australian food products and health supplements to China.

Founded in 2011, CarePlus was established as an export business to satisfy the demand for premium Australian health products from the increasingly affluent Chinese middle class.

The company exports vitamins and supplements, baby formula and personal care products sourced from well-known Australian suppliers.

As an online exporter with limited presence in the market, strong customer service throughout the order and delivery process is critical to customer satisfaction.

With a significant proportion of cash flow tied up in inventory, as well as suppliers often requiring payment in advance of goods being dispatched, CarePlus had a need for additional working capital to fulfil its growing orders.

While CarePlus' bank was supportive of the company's future growth plans, the bank was unable to approve further finance but suggested that CarePlus talk to us to find a solution.

We were able to provide a A$300,000 export working capital guarantee to CarePlus' bank, allowing the bank to approve the funds CarePlus needed to fund its expansion.

This facility will allow CarePlus to prepay stock and freight costs associated with its rapidly increasing pipeline of orders.

Industry:
Retail trade

Country:
China

Product:
Export working capital guarantee

Efic support:
A$300,000

Our people

Our people are our greatest asset and we pride ourselves on supporting our employees through their employment at Efic and individual career aspirations, while aligning to our business strategy.

As our Human Resources function evolves to support continued cultural change and client needs, our focus remains on attracting and retaining the best talent through reward and recognition, learning and development, diversity and inclusion, and work, health and safety.

Workforce demographics

The number of our employees (as full-time equivalents) increased during the year, in line with our growing SME business (see Table 5).

Table 5: Number of full-time equivalent employees (as at 30 June 2015)

	30 June 2014	30 June 2015
Employees (excluding short-term)	**91.6**	94.8
Short-term contract employees	**1.0**	4.6
Total	**92.6**	**99.4**

Diversity and inclusion

We recognise that a diverse workforce can lead to strategic advantages through the exchange of skills, experiences and perspectives, which foster creativity, innovation and enhanced problem-solving capability.

We value the contribution that our employees make in support of our strategic objectives and we celebrate our diversity across age groups and life experiences, cultural backgrounds, religious beliefs, gender, gender identity, transgender, intersex status, sexual orientation, marital status and disability.

We foster a positive, inclusive and equitable organisational culture to provide a workplace that is free of bullying, harassment and discrimination.

We provide equal opportunity in all aspects of employment, including conditions of employment, recruitment and selection, remuneration, training, and development and promotion. All of these are supported by formal policies, including equal employment opportunity (EEO) and diversity policies, procedures and practices that encourage fairness and equity.

We regularly review our policies and practices, and educate all employees and management on workplace behaviour, anti-discrimination, and work health and safety.

We are committed to supporting Aboriginal and Torres Strait Islander Australians by promoting awareness of indigenous culture and issues among our employees, and taking steps to support the reconciliation effort.

Efic is in the process of developing a Reconciliation Action Plan and is consulting with various bodies throughout the different stages of development.

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 this Act, statistics on our workforce profile are shown in Table 6. For the purpose of this report, we have classified our workforce by role level and function.

Table 6: Workforce diversity profile at 30 June 2015

Classification	Female		Male		NESB		ATSI		PWD		Total Staff	
Support	15	88%	2	12%	8	47%	0	Nil	0	Nil	17	**16%**
Technical	17	53%	15	47%	21	66%	0	Nil	0	Nil	32	**30%**
Senior Technical	9	29%	22	71%	14	45%	0	Nil	0	Nil	31	**30%**
Leadership	8	32%	17	68%	4	16%	0	Nil	0	0%	25	**24%**
Totals	**49**	**47%**	**56**	**53%**	**47**	**45%**	**0**	**0%**	**0**	**0%**	**105**	**(99.4 FTE)**

ATSI: Aboriginal or Torres Strait Islander
FTE: full-time equivalent
NESB: non–English speaking background (or parents of a non–English speaking background)
PWD: people with disability

We continue to have a culturally diverse workforce with 45 per cent of employees from a non–English speaking background. In the last 12 months, there has been an increase of female representation in Efic's Leadership, from 24 per cent to 32 per cent.

Learning and development

We are committed to investing in our people and striving for continual improvement. All employees are given access to internal, external and on-the-job learning opportunities to support their development. Training attendance throughout the year has been equally split between male and female employees.

As part of our performance management framework, our employees have career discussions with their managers and put in place development objectives for the year ahead. This incorporates opportunities to develop and broaden skills through project work and secondments to other teams.

We also undertake targeted training and encourage our employees to attend seminars and conferences relevant to their area of expertise to ensure they remain up-to-date.

We are a corporate member of Women in Banking and Finance (WiBF), which is a professional industry association that actively promotes development and networking opportunities to its female membership, in order to help in their career endeavours and advancement.

In 2014-15, 12 people participated in mentoring or coaching programmes to develop leadership skills, of which 8 (or 67 per cent) were female. This includes two of our high potential female employees who participated in the Women in Banking and Finance mentoring program, in support of our diversity objectives to increase female representation in leadership positions.

We also encourage employees to undertake further studies through our study assistance program, which provides financial support and paid leave to those undertaking approved postgraduate courses.

Work/life balance

We understand the pressures that balancing working life and family/personal commitments can bring.

We provide a family-friendly work environment, which resulted in a 100 per cent return rate from parental leave during the year.

We also offer flexible work arrangements where operational requirements permit, with 16 per cent of our workforce currently working part time. In addition we are moving towards an agile working environment to increase flexibility to our people, including facilitating ways for our people to work from home.

Our employee assistance program continues to provide support to all employees and their immediate families when needed, through access to a free counselling service. In addition, our people have access to paid special leave to assist in managing individual personal circumstances such as moving house, attending graduation, managing an emergency situation and partner leave for the birth of a child.

We also provide a corporate income protection (salary continuance) insurance policy to all employees who have completed their probation period.

Work health and safety

Consultation

We take our responsibilities of providing a safe and healthy work environment seriously, and engage with our employees on all work health and safety matters.

Our primary mechanism for consultation is through our Work Health and Safety Committee (WHSC), which works with management and employees to enhance our working environment. This includes consultation with our interstate employees.

The committee includes two management representatives, including a member of Efic's Executive, and four employee representatives, including a Health and Safety Representative.

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 (six to seven times per year).

The minutes of these meetings are made available to all employees on our intranet, with a report, copy of the minutes and workplace inspection, and performance indicators being tabled at the subsequent Board meeting.

Our Board Charter describes our due diligence requirements under the WHS Act.

The Health and Safety Representative undertakes a workplace inspection prior to each WHSC meeting. The findings are reviewed by the Committee and an action plan put in place to address any issues.

Workplace hazards are prioritised according to the risk they pose to health and safety, and any hazards that can be immediately eliminated are attended to first.

WHSC minutes and the findings of workplace inspections are made available to all employees on our intranet.

Our Health and Safety Management Arrangements set out our work health and safety management framework, which is reviewed annually by the WHSC.

We also consult with our employees on the adequacy of our facilities and take steps to ensure a positive, risk-free work environment, which include information sessions with employees that travel overseas.

Risk management

Our WHSC consults with workers when developing and maintaining our Work Health and Safety Risk Control Matrix, which includes hazard controls and a formal review each year.

Given the nature of our operations, we have identified travel as a risk that requires specialised monitoring. Frequent travellers have access to a full annual medical check and have the option of taking a satellite phone when travelling to remote destinations.

They are also supported by international travel specialists, International SOS, who provides extensive cultural, security and medical information, and assistance before and during international business trips.

We have a certified traveller program that all business travellers are required to complete each year before travelling overseas. The Travel Coordinator is also a member of the WHSC and ensures all important travel-related issues are discussed, and employees have an opportunity to raise any concerns regarding travel through this forum.

We have a strong culture of incident notification and investigation, which includes reporting of 'near misses'.

Employees are also encouraged to take part in the management of work health and safety.

The move to an agile working environment will promote mobility throughout the office, to reduce sedentary work, and provide collaborative spaces to better facilitate discussion and allow employees from different departments to work together. The agile working environment will also provide spaces where employees can access sit and stand work desks.

Our flexible work environment helps employees meet the demands of their work and personal/family commitments. We also provide training on workplace behaviour, and ongoing training to current and new first aid officers.

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

Health and safety outcomes

Our rigorous approach to risk management allows us to achieve and maintain outstanding work health and safety practices for our employees. We monitor and respond to our operating environment to ensure work health and safety is managed to a high standard.

An indicator of our safety performance is in our workers' compensation claims, with no new claims being lodged in the past 12 months.

We have not been investigated, or received any notices, and there were no 'notifiable incidents', under the WHS Act during 2014-15.

Corporate responsibility

Our approach to corporate responsibility

At Efic, we are committed to supporting the growth of Australian businesses internationally – in a way that is ethically, environmentally and socially responsible.

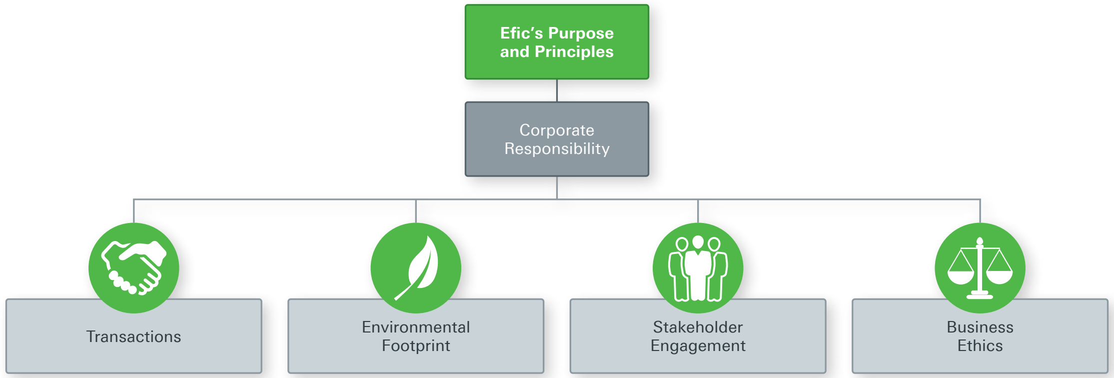
We are committed to our stakeholders: our clients, employees, the Australian Government as our shareholder and the wider community. We take our responsibilities to these stakeholders seriously.

Our corporate responsibility strategy outlines the ways in which we fulfill these responsibilities.

The key components of our corporate responsibility strategy are:

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

Figure 6: Our approach to corporate responsibility



Employees from across our operations make up our corporate responsibility working group.

The working group advises the Executive team and the Board on the implementation of our corporate responsibility strategy and how to conduct our business in a sustainable and responsible way.

As external sustainability benchmarks evolve, our working group will recommend improvements in the way we manage our business.

In the past financial year, the working group focused on various sustainability-related initiatives including:

- the roll-out of a matching donations policy
- moving towards a paperless environment
- sourcing some of our energy needs from green power
- reducing our use of water, energy and consumables
- reviewing our Reconciliation Action Plan
- examining the rationale for developing our current public human rights position (associated with our transaction due diligence) into a broader policy position statement.

You can find more information about our corporate responsibility strategy on our website.

EPBC Act

We have a statutory obligation under section 516A of the *Environment Protection and Biodiversity Conservation Act 1999 (Cth)* to report our environmental performance and the below sections on transactions and environmental footprint are our response to that requirement.

Transactions

Our Policy for environmental and social review of transactions (Policy) sets out the principles that we apply in meeting our commitment to uphold best-practice environmental and social standards in the transactions that we support.

Our Procedure for environmental and social review of transactions (Procedure) describes how we implement the Policy.

You can read the Policy and Procedure on our website.

Our Policy adopts the International Finance Corporation's Performance Standards as its general benchmark for environmental and social review.

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

Our 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 we play in transactions.

This screening process identifies two types of transactions:

- those associated with projects, which are further divided into new and existing projects
- non-projects, where a transaction is either not associated with an identified location or operation, or is a bond.

New projects are classified according to their potential for environmental and/or social impacts 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 7 summarises the number of our facilities and their type of environmental review for 2014-15, and includes comparative data for the previous two financial years.

This table excludes transactions dealing only with foreign exchange products, Producer Offset loans and risk participation agreements associated with multilateral institutions, as these transactions are considered to always have low potential for environmental and social impact.

Table 7: 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
2014-15					
All facilities	0	2	5	5	80
Project finance	0	0	0	Not applicable	Not applicable
Project related corporate loans	0	0	0	Not applicable	Not applicable
2013-14					
All facilities	0	0	4	5	34
Project finance	0	0	0	Not applicable	Not applicable
Project related corporate loans	0	0	0	Not applicable	Not applicable
2012–13					
All facilities	1	1	6	2	27
Project finance	1	0	0	Not applicable	Not applicable
Project related corporate loans	0	0	0	Not applicable	Not applicable

Table 4 on pages 16-21 has more information about our transactions in 2014–15, including location, industry type, sector and results of screening and classification.

We didn't enter into any transactions associated with Category A projects this financial year.

We completed two Category B transactions this year. One was an extension to a transaction associated with a project originally reported in our 2010 Annual Report (a water treatment and distribution system in Sri Lanka).

The other Category B project was also located in Sri Lanka and involved the redevelopment of an existing farm into a dairy farm and was assessed as described in our Procedure section 2.2.

Five transactions associated with non-projects and bonds were identified to have a potential for environmental and/or social impacts.

These were:

- bonds provided to two SME clients for projects located in Angola and Namibia
- bonds for the McConnell Dowell Corporation for projects located in Indonesia and Thailand
- an export contract loan (ECL) for an SME client sourcing goods from several Asian countries.

The potential environmental and social issues associated with these transactions were examined as described in section 2.3 of our Procedure, which is available on our website.

The ECL transaction identified above involved a non-project. For this type of transaction we examine the issues associated with the industry or client. The four transactions involving bonds were associated with projects and so we examined project-related issues.

Our conclusions were that all transactions satisfied the requirements of our Policy and Procedure.

We made a commitment to have the application of our Policy and Procedure audited by an independent firm every two years.

The most recent audit was completed by Net Balance Management Group Pty Ltd in September 2014 and you can read its report on our website. It concluded that we complied with our Policy and Procedure commitments and that our transaction reviews were properly completed and presented fairly in all material respects.

Equator Principles reporting

As a signatory of the Equator Principles, we are required to report on our implementation of these Principles and the number of project finance and project-related corporate loan transactions that have reached financial close.

Table 7 summarises the project finance transactions and the project-related corporate loans signed over the past three years.

We did not provide new project finance or project-related corporate loans in 2014-15.

We are actively involved in the Equator Principles Association through participation in Working Groups and the Association's AGM.

You can find more information about our implementation of the Equator Principles on our website.

Environmental footprint

We operate from four floors of Export House, 22 Pitt Street, Sydney, and lease the remaining floors to tenants on standard commercial terms.

We manage our environmental performance by endeavouring to minimise the building's environmental footprint. As at 30 June 2015, our building had a 3.5 star Nabers rating.

Table 8 summarises the available information on our energy use, water use, solid waste generation and business travel in 2014-15 and includes comparative data for the previous two financial years.

Table 8: Our environmental footprint

Parameter	2012-13	2013-14	2014-15
Energy use, megajoules/m²			
Efic occupancy[a], electricity	722	445	389
Building services[b], electricity	346	294	351
Building services[b], gas	77	75	94
Water (sewage data not available)			
Water, kilolitres[c] data for the 12 months May 2014 to April 2015	Not available	Not available	2.559
Solid waste, tonnes[d]		(data for 6 months)	
Co-mingle (recycled)	Not available	5.1	16.2
Cardboard (recycled)	Not available	5.0	9.9
Waste to landfill	Not available	38.5	48.5
Business travel by our employees			
Total domestic (km)	0.68 million	0.89 million	0.82 million
Total international (km)	2.13 million	1.89 million	1.71 million

(a) This figure represents our energy use only, which is energy consumed on the floors that we occupy.
(b) Building services are common facilities for all floors of Export House and include lighting to common areas, lifts and air conditioning and hot water. Energy use per square metre is the building average.
(c) The water figure represents total usage by Export House. It is not possible to separately identify water use by floor or by tenancy. Water figures were not reliable during 2012-13 and 2013-14 due to a low recording meter.
(d) Data on the generation of waste could not be collected prior to a refurbishment of Efic's floors in 2013. Systems were established to obtain this data commencing in January 2014. The data reported for 6 months in Efic's 2014 Annual Report included some waste for the 2014-2015 financial year and has been corrected in this report.

Renovations to Export House were completed in 2013. Systems to monitor energy use, water use and waste generation, and to assess performance, were implemented as part of the renovations and are being used to either improve efficiency in energy and water use or reduce waste generation.

Energy use by Efic has declined significantly since the refurbishment. This is a pleasing result and demonstrates the effectiveness of the efficiencies installed as part of the refurbishment. The building services energy consumption increased between 2013/14 and 2014/15 but this was a result of an increased occupancy rate as vacant space was leased.

Efic amended its electricity supply contract in 2014 and from October 2014 sourced 20 per cent of its supply from green energy sources, such as mini hydro, wind power, solar, biogas and biomass. We anticipate increasing that proportion in the future.

Data on solid waste generation is now being collected, also an outcome of the refurbishment. Data for the 18 months on record has fluctuated as Efic and building tenants adjust to waste segregation.

Our employees flew 2.53 million kilometres during 2014-15. The majority of this travel was associated with either due diligence for new transactions or the management of existing transactions.

Country risks are inherent in Efic's 'market gap' mandate and we consider travel to be essential in managing those risks appropriately.

Stakeholder engagement

Engaging with stakeholders is fundamental to Efic. These stakeholders comprise our clients, our employees, the Australian Government and the broader community. We aim to engage with each of these groups in a way that's relevant to their needs.

- **Clients:** We engaged with clients in different ways during the year, either through direct contact at various forums such as Efic hosted functions or industry specific events. We engage in this way to better inform Australian companies about Efic and the services it can provide. These events also provide opportunities to discuss in greater detail the particular financial support that we may, or do, provide to a client

  For more information, please refer to the 'Our clients' section on pages 10-21.

- **Employees:** We never underestimate the importance of our people – they are the key to supporting our clients. We value staff engagement and assess this on a regular basis. We are committed to creating a workplace that offers meaningful, stimulating and varied work in a supportive environment.

  We invest in our people and encourage professional development. We also recognise the importance of work-life balance and give employees the opportunity to work flexible hours wherever possible.

  We have a culturally and professionally diverse workforce with a strong focus on respect, courtesy and dignity for all.

  For more information, please refer to the 'Our people' section on pages 40-43.

- **Community:** There are many communities or individuals who are interested in our activities, from the employees of a potential client wanting to know how we could help their company, to a family or village affected by a project that we are supporting. We engage with these individuals and communities by providing information through a variety of media, participating in conferences and workshops and holding direct discussions.

  In the past year:

  - Efic introduced a matching donations program as part of its commitment to build partnerships with the community. Under the program, Efic matches donations by staff in support of charities founded on three key value areas: health and education; environment; and community development, including Indigenous projects. The charities are nominated by staff and approved by the Executive team.
  - Our social club organised an event for Efic employees to work with the team at Sunnyfield for a day in their commercial packing business in Chatswood.
  - We try to resolve any issues that members of the community or others may have about our activities informally. However, we recognise that sometimes a more formal resolution method is required. We have established a complaints mechanism that allows anyone to submit a complaint and seek a response. Efic's Legal and Compliance department is responsible for managing the complaints mechanism and all complaints are reported to the Efic Board Audit Committee. One complaint was received during 2014-15 relating to a transaction being declined. We responded to the complainant suggesting a possible alternative course of action and received no further correspondence.

- **Government:** We work closely with the Government on several levels, as discussed in the 'Whole of government' section on page 28. Our accountability to Government is described in the 'Accountability' section on page 26.

Business ethics

We practice responsible lending in an ethical context by conducting our operations fairly, transparently and with integrity. We believe the success of our business depends on our stakeholders' trust and confidence in us. This trust can only be maintained if we act ethically.

Our commitment to acting ethically is demonstrated by our:

- **Transparency:** we aim to strike an appropriate balance between public accountability and our obligations to respect client confidentiality.
- **Anti-corruption initiatives:** our anti-corruption policies and procedures are designed to foster awareness, among clients and staff, of the international conventions and Australian laws concerning this matter. In the past year, we reviewed and updated our general anti-corruption policy and transactional anti-bribery procedures.
- **Governance Framework:** we impose strong disciplines on our operations through our governance framework, including the ASX corporate governance principles, our risk management framework and our financial control framework.
- **Policy and procedure for environmental and social review of transactions:** we uphold best practice environmental and social standards in the transactions we support.
- **Compliance Program:** we are committed to meeting the highest standard of legal compliance across all of our activities, with the aim of ensuring a fair and compliant organisation.
- **Code of Conduct:** our Code of Conduct outlines the obligations and responsibilities of our employees, including in relation to conflicts of interest, confidential information and standards of personal behaviour. We also have additional staff policies that deal with insider trading and whistleblower protection.
- **OECD Guidelines for Multinational Enterprises:** we encourage our clients to apply the voluntary principles and standards for responsible business conduct described in the OECD Guidelines for Multinational Enterprises.
- **Sustainable Lending and Low Income Countries:** we comply with the OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries.

You can find more information about our approach to business ethics on our website.

Indemnities and insurance

All of our employees and Board members, and certain former employees and Board members, continued to have the benefit of an indemnity from us during 2014-15, 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 PGPA Act and the *Competition and Consumer Act 2010 (Cth)* in relation to such indemnities.

During the year, we maintained and paid premiums for certain insurance to cover our employees and Board members.

This included directors and officers liability insurance and professional indemnity insurance (both of which include cover for certain legal costs).

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

Judicial and administrative decisions and reviews

There were no judicial decisions or decisions of administrative tribunals that have had, or are likely to have, a significant impact on our operations during the financial year ended 30 June 2015.

The Auditor-General provided his annual independent auditor's report on our financial statements. The report was unmodified. This is discussed in the 'Financial statements' section on pages 67-123.

Freedom of Information

We are partially exempt from freedom of information legislation. The partial exemption and the strong secrecy obligation imposed on us recognises the need to keep confidential the commercial information that we obtain from Australian exporters and investors.

We are, however, required to publish certain information to the public as part of the Information Publication Scheme (IPS), details of which can be found on our website.

Particulars of directions from the Minister

Section 9 Efic Act directions

Section 9 of the Efic Act permits the Minister to issue directions to us with respect to the performance of our functions or the exercise of our powers.

We complied with the section 9 directions referred to below during 2014-15. It is not possible to assess the financial effect of these directions on us.

During the year ended 30 June 2015, directions dated 4 July 2007 were in effect in relation to the following matters:

- our continuing participation in Australian Government negotiations in the Paris Club
- our 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 18 June 2014 was in effect during the year ended 30 June 2015 in relation to uranium. The direction revoked a previous section 9 direction dated 1 June 2010.

This direction states that we must not provide assistance for any transaction linked to uranium unless we are satisfied that any foreign countries relevant to a particular transaction:

- are a party to the Treaty on the Non-Proliferation of Nuclear Weapons or have concluded a Nuclear Cooperation Agreement with Australia
- have in force a safeguards agreements and an Additional Protocol on strengthened safeguards within the International Atomic Energy Agency.

We must also obtain a proliferation risk assessment from the Department of Foreign Affairs and Trade (DFAT) and be satisfied, on the basis of that assessment, that the proliferation risk is acceptable.

Iran

A section 9 direction dated 15 October 2008 was in effect during the year ended 30 June 2015 in relation to trade with Iran.

Our governing principles

The direction states that we must not accept an application from a person in respect of any transaction that relates to trade with, or investment in, Iran.

We also cannot provide any insurance or financial services or products, or in any other way assist or facilitate any trade with, or investment in, Iran.

Zimbabwe

A section 9 direction dated 27 May 2009 was in effect during the year ended 30 June 2015 in relation to Zimbabwe.

Under this direction:

- all decisions regarding support for trade with, or investment in, Zimbabwe must be made by our Board
- our Board must not approve any application prior to referring the matter to the Department of Foreign Affairs and Trade (DFAT) for determination
- our 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 2015 in relation to the Democratic People's Republic of Korea (DPRK).

This direction states that we 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.

Australian Public Sector Workplace Bargaining Policy (Policy)

A section 9 direction dated 26 May 2014 was in effect during the year ended 30 June 2015 in relation to new workplace bargaining arrangements for Commonwealth public sector employees.

The direction requires the adoption of the Policy, which sets out the parameters for bargaining new enterprise agreements across the Commonwealth public sector.

Section 29 Efic Act directions

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

During the year ended 30 June 2015, a direction dated 4 July 2007 was in effect that set out facility terms for the provision by us 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 us regarding the payment of a dividend to the Commonwealth.

A dividend of $18.2 million was paid on 19 December 2014 based on a direction from the Minister for Trade and Investment dated 21 November 2014 that 75 per cent of the 2013-14 Commercial Account profit be paid as a dividend.

At the date of publication, the dividend for the year ended 30 June 2015 had not been determined.

Cassegrain Wines

Case study

"With the support of Efic, and boosted by the FTA's with Japan and China, we're anticipating that our exports will double over the next two years."

John Cassegrain
Sole Director,
Cassegrain

Cassegrain is a multi-award winning winemaking company based in Port Macquarie, NSW, which has been successfully exporting its wines since 1987.

Cassegrain produces a large range of wines, doing everything from crushing the grapes through to bottling and distributing the wines.

Having established the business in 1984, Cassegrain started exporting in response to specific demand from a Japanese buyer.

Since then, the company has been successfully exporting its wines to Europe, UK, North America and Asia.

Faced with growing demand from buyers in Japan and China, Cassegrain was worried about matching product supply to the purchase orders it was receiving.

The wine industry has a significant lag phase, given the harvest cycle doesn't necessarily align with demand for product.

In order to realise its potential growth in Japan and China, Cassegrain needed working capital to invest in manufacturing, pay suppliers and keep production running smoothly.

We provided Cassegrain with a A$500,000 export contract loan to enable it to deliver on its growing export contracts in Japan and China by investing in its manufacturing capacity.

Exports currently represent 30 per cent of Cassegrain's sales, with it aiming to increase that to 70 per cent in five years time.

Industry:
Manufacturing

Country:
Japan and China

Product:
Export Contract Loan

Efic support:
A$500,000

Risk Management Framework

Our Risk Management Framework sets out our core principles and the types of risks that we face, which forms the basis of our Risk Appetite Statement and the Risk Control Matrix. You can view our Risk Management Framework on our website.

Our Risk Appetite Statement, while not a public document, describes in detail the manner in which our risk appetite and tolerances (qualitative and quantitative limits) are established and subsequently controlled.

Our approach to risk management and capital management is based around assessing the level of, and our appetite for risk, and ensuring that the level and quality of capital is appropriate to that risk profile.

Similarly, our Risk Control Matrix (RCM) is not a public document as it sets out each of the individual risks that our business faces, as well as our processes and the people responsible for managing these risks. It also includes our management's ratings regarding the likelihood and consequences of each risk.

By assigning practical responsibilities to individuals and management, the RCM engenders a culture of risk awareness. Risks are classified depending on their nature: strategic, reputation, credit/country, market and operational/financial.

The development of our Risk Management Framework and regular discussions with the Board and Audit Committees underlines our commitment to continuously improving our risk management practices, with particular emphasis on planning to identify new risks.

Core principles

Our risk management is built on a foundation that includes:

- awareness and commitment to a single purpose, common principles, shared values and a Code of Conduct that are reviewed and renewed periodically
- a suite of policies and procedures that are supplemented by supportive systems
- human resources practices intended to recruit, develop and retain employees with the required specialist skills
- delegation of responsibility throughout our business 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

Our Board is ultimately responsible for setting our 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 financial reporting and performance reporting, and the adequacy of accounting policies and procedures.

Our Executive and senior management teams are responsible 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.

To assist with risk management, there are several committees that perform specific functions:

- 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 the 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 issues.

Our Board engages an independent internal audit service provider to review our risk management and internal controls. This service provider, currently Deloitte, reports to our Board via the Board Audit Committee and the Executive, and has full access to our employees and company information when conducting its reviews.

The Australian National Audit Office and its appointed agent, currently KPMG, perform an independent review of our financial statements twice a year.

The Chief Financial Officer is responsible for managing our risk management framework, including its periodic review and renewal.

Types of risks

We maintain a comprehensive list of risks that we must manage across the business. This list comes from internal consultation with the Executive team and is reviewed periodically.

Risks fall into the following categories:

- Strategic risk – the risk to income, expenses and capital or product offerings as a result of ineffective corporate planning, specific government policy, trade policy, dividend policy or other legislative implications, or poor decision-making or implementation of those decisions.
- Reputational risk – the risk of deterioration in our reputation arising from adverse publicity regarding our business practices, whether true or not.
- Credit and Country risk – the risk that counterparties will default on obligations resulting in an expected or actual financial loss.
- Market risk – the risk of any fluctuation in the value of a portfolio resulting from adverse changes in market prices and market parameters, including interest rates and exchange rates.
- Operational and Financial risk – the risk of loss resulting from inadequate or failed internal operational or financial processes and systems as well as the actions of people or from external events. We have grouped operational risks into a number of sub-categories, namely: general processes; external regulation; internal policies; domestic and international laws; and events.

Capital management

Under section 56 of the Efic Act, our 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 our likely liabilities

b) make adequate provision for defaults in loan payments.

This requirement relates only to our Commercial Account activities.

We fulfil this obligation by setting our own regulatory standards, drawing upon both the standards of the Australian Prudential Regulation Authority (APRA) and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision. We hold no capital against the National Interest Account exposures on the basis that the risks are borne by the Commonwealth.

For further information on our capital adequacy, please see Note 20 of the Financial Statements on pages 119-121.

Capital adequacy

We consider capital adequacy from a number of perspectives.

Our approach includes the calculation of Capital Adequacy Ratios which incorporate:

(i) A capital adequacy ratio (CAR) assessing actual capital available against risk weighted assets (RWA), of which the Board requires cash capital to RWA to be higher than 8 per cent and including callable capital to be higher than 16 per cent.

(ii) The amount of regulatory capital required calculated under APRA/Basel prudential standards, and adding to regulatory capital an allowance for concentration risk to give a proxy for economic capital, compared to the actual capital available (cash and callable).

Our capital base has increased from $437.6 million to $649.6 due mainly to a capital injection of $200m but also from growth in earnings, less the normal dividend paid to the Commonwealth based last year on 75 per cent of prior year profits.

The $200 million capital injection, announced in the 2014 Federal Budget and paid on 27 July 2014, now brings us back into compliance with our Board approved prudential limits and provides for additional capacity to support exporters, particularly SMEs and those serving emerging and frontier markets.

Our capital base includes $200 million of callable (non-cash) capital with the balance of $449.6 million comprising retained earnings, reserves and contributed equity as cash capital.

Risk-weighted assets increased over the year from $1.9 billion to $2.1 billion. Our capital adequacy ratio including callable capital is 30.5 per cent (22.5 per cent in 2014) and 21.1 per cent (12.2 per cent in 2014) on a cash capital basis.

The first consideration when assessing capital adequacy is the actual capital available (cash and callable). Our Board treats our capital as equivalent to the regulatory capital under Basel and APRA guidelines and uses this as the basis for setting risk tolerances with regard to capital adequacy and large exposures.

When making this assessment, our 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.

A second consideration when assessing our capital adequacy is the management of large exposures or concentrations in our portfolio (see 'Large exposures' section below). Concentration risks arise as a natural consequence of operating within the 'market gap' mandate.

That is, Efic by default, fills financing gaps that the private sector will not or cannot support and those gaps may be in a particular country or industry sector that creates concentration risk for Efic.

Efic is unusual in that a significant component of the overall capital required is for concentration risk. The models used in Basel under Pillar 1 don't capture concentration risk, as a key assumption in the capital adequacy formula is that of full diversification – i.e. the assumption is that no concentrations are present in the portfolio.

Concentration risk in the Basel context is the 'spread' of outstanding obligors or specifically the level of diversity that exists across a bank's loan portfolios. The lower the diversity, the higher the credit concentration risks.

A third consideration when assessing our capital adequacy is foreign currency risk. Our actual capital available is denominated in AUD, whereas we have traditionally written larger loans in the currency required by our clients, which is typically USD.

This gives rise to a currency mismatch in that the numerator for capital adequacy purposes is fixed in AUD but the denominator is in a foreign currency, or specifically, the AUD equivalent of that foreign currency.

Similarly, large exposures and concentration risks denominated in a foreign currency are measured relative to capital fixed in AUD. Substantial movements in the exchange rate can therefore impact on capital adequacy and large exposure limits even though the underlying credit exposure in foreign currency is unchanged.

In this context, our Board looks beyond capital adequacy ratios to determine the amount of capital required to prudently manage Efic's business. Large exposures, concentration risks and potential currency movements all impact on Efic's business and capital is required as a buffer against these risks.

Large exposures

We have modelled our large exposure policy on Basel and APRA guidelines. 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.

Our Board also has endorsed a limit of 25 per cent of eligible capital to apply to exposures graded with an Efic Risk Score (ERS) 1 (AAA/AA– or Aaa/Aa3) or ERS 2 (A+/A– or A1/A3), and adopted a more conservative target of 15 per cent for risks graded ERS 3 (BBB+/BBB– or Baa1/Baa3) or worse within the general limit of 25 per cent.

Our Board allows a small tolerance above these limits for foreign exchange movements, given the majority of our large exposures are in foreign currency against an AUD capital base.

Exceptions in excess of the 15 per cent target for ERS 3 or worse exposures would require consideration by our 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 our Board must approve all transactions that involve commitments over $50 million.

As an exception to this policy, our Board has approved exposure limits to single counterparties under risk transfer arrangements of:

- 37.5 per cent for risk transfer partners rated ERS 1 or 2
- 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. Our Board has endorsed the application of this limit of 50 per cent of capital to all treasury activities with bank counterparties (defined by us 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 our capital has a maturity of six months or less.

For large exposure purposes, our 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.

Allowances for Risks

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 guidelines, issued by the Basel Committee on Banking Supervision, refer to such losses as 'expected losses'.

The Basel Committee's belief, shared by APRA, 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.

We incorporate an allowance for credit risk into the fair value calculation of all credit exposures, both on and off balance sheet. We assess this allowance in light of the expected losses over the life of facilities.

Our underlying profitability in the longer term depends primarily on actual credit losses in the portfolio, although in the past, a major influence in determining our 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.

We estimate the magnitude of the losses using external data for losses of similarly graded risks, as our 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 our 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.

We don't make any collective provision for losses on National Interest Account facilities as the Commonwealth reimburses us for any losses.

We monitor closely the financial health and risk grade of each of the counterparties to which we are exposed. At year end, the weighted average risk grade of our Commercial Account exposures, excluding reinsurance, was an Efic risk score (ERS) of 3.4.

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 3 is the equivalent of BBB+/BBB– (Baa1/Baa3) and an ERS of 4 is the equivalent of BB+/BB– (Ba1/Ba3).

Allowance for derivative risk

Standard practice within financial markets is to value the credit risk component of derivative transactions. It is also standard practice to recognise that different counterparties may value the same transaction differently – giving rise to valuation risk. Each year we consult with our external auditors on the appropriate way to value our derivative exposures to recognise both credit and valuation risk.

The Credit Valuation Adjustment (CVA) 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 Valuation Adjustment (DVA) reflects an offset to the extent that a defaulting institution 'gains' on any outstanding liabilities that cannot be paid in full by them. Most banks therefore offset 'losses' from CVA with 'gains' from DVA, resulting in a smaller net impact to profitability.

We use CDS spreads as a proxy for credit risk in our CVA and DVA calculations, as it is more aligned to a 'fair value' approach.

We also take into account the risk that the valuation of a contract and the valuation of the same contract by our counterparty may not agree. We hold a reserve for valuation risk which reflects the fact that if a derivative counterparty fails for example, and there is a difference in settlement values when closing out the transaction, the difference would be written against the valuation risk reserve and not taken directly to profit and loss. Valuation risk is calculated on all cross currency transactions.

Residual margin

We apply fair value to our loans and guarantees and use 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' and includes other risk factors such as servicing costs and prepayment risk.

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.

Our Treasury

Activities

The core function of our Treasury unit is to prudently raise funding at competitive rates and to manage the investment of the capital and reserves portfolio, and the other investment and liquidity portfolios.

Our treasury activities are carried out within a control framework approved by our Board and compliant with the Efic Act, the PGPA 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 within Board and management-approved limits and does not trade speculatively.

We use derivative products to minimise currency and interest rate risks arising from our core businesses, and our funding and investing operations. Our management reports the results of our treasury operations regularly to our Board.

The loans we have provided to customers and the rescheduled debts are mostly denominated in foreign currencies. As at 30 June 2015, taking both the National Interest Account and Commercial Account into consideration, 91 per cent were denominated in US dollars and 6 per cent in Euro.

We do not take currency exposure on our assets and liabilities. We effectively eliminate this exposure by borrowing in the same currency as the assets or, typically, by borrowing in another currency and using cross-currency swaps and other foreign exchange instruments to remove the foreign exchange exposure.

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

However, as noted previously, foreign exchange rates do affect our fair-value calculations, including the 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 largely when they are received or paid and any currency exposure is subject to a small Board approved limit.

Note 18 of the Financial Statements on pages 95-113 provides further details about our financial exposures.

Borrowings

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 or buyers of Australian exports 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 we are 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 on our guarantees.

We also maintain a diversified funding capability with spare capacity in order to ensure that we have 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 our funding model.

Funding activity in 2014-15 included the issue of short-term Euro-commercial paper in US dollars, and short-term direct loans from banks. We were consistently able to borrow USD at sub-LIBOR margins.

A Debt Neutrality charge of 10 basis points has been agreed with Government to start effective 1 July 2015 on all new debt raised.

Investments and liquidity

At 30 June 2015, the face value of our investment and liquidity holdings on the Commercial Account was $999.1 million, comprising cash, bank deposits and investment securities.

Of this amount, $411.8 million represented cash capital and reserves, while the remainder represented liquidity held to maintain a minimum market presence, reduce collateral posting risk or to refinance borrowings.

Our 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 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 PGPA Act requires our treasury investments to be in entities rated AA– or better, or authorised deposit-taking institutions rated BBB– or better.

Financial matters

Rescheduling and debt forgiveness

In previous years, pursuant to Paris Club determinations, we have 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 2014-15. At 30 June 2015, all previously rescheduled amounts had been paid on time as per the rescheduling agreements.

Indonesia

At 30 June 2015, our rescheduled loans to the Indonesian Government were $139.9 million on the National Interest Account and $7.0 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. At 30 June 2015, all rescheduled amounts had been paid on time as per the rescheduling agreements.

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 the 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 us 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 2014-15, $14.3 million was cancelled under this program.

Egypt

At 30 June 2015, we were owed $30.0 million and US$9.8 million by the Egyptian Government ($7.5 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 2015, all rescheduled amounts had been paid on time as per the rescheduling agreements.

Our risk management framework

Iraq

Between 1987 and 1992, we 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 had prevented us and the Australian 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, we 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 till January 2028.

The rescheduled debt balance at 30 June 2015 is US$0.6 million on the Commercial Account and US$155.6 million on the National Interest Account. At 30 June 2015, all rescheduled amounts have been paid on time as per the rescheduling agreements.

However, the current situation in Iraq and the continuing deterioration in the economic environment were assessed as posing a real threat to the reliability of future payments. Accordingly, in consultation with the Department of Foreign Affairs and Trade, it was deemed appropriate to retain a 100 per cent provision for impairment against the rescheduled debt.

Therefore, future payments from Iraq will only be recognised as income on receipt and booked as a recovery, consistent with current practice. Recoveries made during the year under this agreement were taken to income, resulting in $17.6 million taken up as income during 2014-15 on the National Interest Account.

Dividends

Section 55 of the Efic Act requires our Board to make a written recommendation to the Minister for Trade and Investment (the Minister) to pay a specified dividend, or not pay a dividend, to the Commonwealth for that financial year.

The Minister then either approves the recommendation or directs we pay a different dividend.

In July 2014 the Commonwealth injected $200 million of capital and restored our normal dividend policy. A dividend of $18.2 million was paid in December 2014, based on a direction from the Minister that 75 per cent of the 2013-14 Commercial Account profit be paid as a dividend.

At the date of publication, the dividend for the year ended 30 June 2015 had not been determined.

On reflection...

Here we look at how two of our past SME clients have performed since we helped them access the finance they needed to succeed overseas.

2009: Australian Rural Exports (Austrex)

About:
Austrex is a Brisbane-based agricultural trading business that specialises in exporting beef and dairy cattle to China, South-East Asia and the Middle East.

Need:
Austrex needed additional working capital to fulfil several contracts to ship dairy cattle to China.

Solution:
Our export working capital guarantee allowed Austrex's bank to approve the finance the company needed for each shipment.

> " Efic's support was vital in helping us support the growth in customer demand. It allowed us to increase our exports, grow overall revenue and expand our operations, both in Australia and overseas."
>
> Justin Slaughter
> Managing Director, Australian Rural Exports

2012: United World Enterprises

About:
United World Enterprises is a Sydney-based commodity trader specialising in facilitating agribusiness exports, with a focus on exporting cottonseed to China.

Need:
After identifying new buyers and suppliers, UWE required additional working capital to offer more flexible payment terms.

Solution:
Our export working capital guarantee allowed UWE to receive the finance from its bank it needed to pursue larger contracts and ship more cottonseed to more buyers.

> " Since receiving support from Efic when our company was experiencing substantial growth, we have kicked on to increase our exports significantly, with turnover approaching $86 million last financial year."
>
> Jimmy Liu
> Managing Director, United World Enterprises

Ten-year summary

Commercial Account

Years ended 30 June: $ million	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Signings	**179**	577	514	990	593	697	377	365	545	265
Export contracts and overseas investments supported	**823**	2,138	2,075	4,278	3,473	3,561	817	2,219	1,367	605
Net interest income	**26.5**	22.6	32.8	38.1	39.6	38.3	44.5	32.2	23.4	19.3
Net premiums and fees	**26.4**	27.2	15.0	16.5	14.5	32.0	11.0	4.6	9.0	19.2
Fair value other financial instruments	**(0.2)**	(2.0)	(3.0)	(4.1)	(6.1)	(7.4)	(4.2)	(1.6)	21.0	0.0
Other income	**2.5**	4.1	4.7	3.1	3.0	2.6	3.0	2.9	2.4	1.9
Total revenue	**55.2**	51.9	49.5	53.6	51.0	65.5	54.3	38.1	55.8	40.4
Operating expenses	**(31.5)**	(27.9)	(26.9)	(26.7)	(24.5)	(23.8)	(20.6)	(18.8)	(15.5)	(12.5)
Foreign exchange profit / (loss)	**(5.4)**	0.2	0.6	0.0	0.0	0.0	(0.1)	0.0	0.1	(0.2)
(Charge) / credit for sundry allowances	**(0.1)**	0.0	0.0	0.1	3.6	(3.4)	(0.2)	0.0	0.0	0.0
Profit / (loss) from the discontinued credit insurance business	**0.0**	0.0	0.0	(0.2)	0.1	0.0	0.1	0.4	0.4	0.8
Operating profit of Efic	**18.2**	24.2	22.6	26.8	30.2	38.3	33.6	19.7	40.7	28.7
Dividend (paid in subsequent years)	**Not decided**	(18.2)	(11.3)	(26.8)	(30.2)	(28.7)	(16.8)	(9.8)	(20.4)	(14.3)
Dividend payout ratio	**Not decided**	75%	50%	100%	100%	75%	50%	50%	50%	50%
Capital injection / (Special Dividend paid)	**200.0**	0	(200.0)	0	0	0	0	0	0	0
Equity	**436.8**	225.9	216.3	418.1	408.1	407.6	376.7	331.2	359.8	321.7
Return on average equity (% pa)	**4%**	11%	7%	6%	7%	10%	9%	6%	12%	9%
Capital adequacy ratio including callable capital	**30.5%**	22.5%	21.2%	31.0%	34.6%	37.3%	31.2%	34.5%	46.5%	34.2%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	**878**	594	535	458	361	342	227	145	120	210
Funded EFG's	**117**	123	149	101	102	115	55	0	0	0
Guarantees and other off-balance-sheet exposures	**438**	663	654	513	362	403	514	510	408	464
Exposures reinsured	**601**	478	362	327	112	87	206	212	103	142
Rescheduled debts	**8**	13	16	20	24	22	24	25	26	33
Total Commercial Account facilities	**2,042**	**1,871**	**1,716**	**1,419**	**961**	**969**	**1,026**	**892**	**657**	**849**

National Interest Account

Years ended 30 June: $ million	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Signings	**0**	0	0	13	0	274	200	4	9	5
Export contracts and overseas investments supported	**0**	0	0	240	0	2,411	530	18	85	33
Exports supported by Australian content by drawdown	**12**	305	904	1,005	338	0	0	21	46	21
Net interest income (including grant amortised)	**1.8**	2.1	2.1	1.2	1.0	2.9	3.0	0.3	9.5	17.7
Net premiums and fees	**12.2**	9.8	7.7	5.3	5.0	6.9	2.2	2.4	2.6	3.0
Fair value other financial instruments	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	60.6	88.0
Total revenue	**14.0**	11.9	9.8	6.5	6.0	9.8	5.2	2.7	72.7	108.7
Operating expenses	**(1.0)**	(1.6)	(2.2)	(1.4)	(1.5)	(2.5)	(2.7)	(1.8)	(3.8)	(4.3)
Foreign exchange profit / (loss)	**(0.3)**	(0.2)	(0.1)	(0.2)	2.5	0.7	(2.9)	2.1	0.1	2.1
(Charge) / credit for specific provisions	**(14.3)**	(9.6)	(8.3)	(8.1)	(7.5)	0.1	0.2	1.8	1.4	0.0
Profit / (loss) from the discontinued credit insurance business	**17.6**	15.5	14.7	19.6	10.7	2.0	(2.9)	2.1	0.1	2.1
Operating profit attributable to the Commonwealth	**16.0**	16.0	14.0	16.6	7.7	9.4	(0.2)	4.8	70.4	106.5
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	**665**	625	670	590	567	722	898	893	1,066	1,326
Guarantees and other off-balance-sheet exposures	**12**	11	11	6	0	1	4	8	11	8
Exposures reinsured	**0**	0	5	10	18	33	45	43	52	61
Rescheduled debts	**238**	232	72	87	101	101	111	111	121	360
Total National Interest facilities	**915**	**867**	**758**	**693**	**686**	**858**	**1,058**	**1,055**	**1,250**	**1,755**

We put our clients at the heart of all we do.
We build genuine partnerships.
We use our commercial nous to grow Australia's exports.
We advocate for Australian exporters.
We act responsibly.

Financial statements

Statement by the Board 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 (Efic or "the Corporation"):

(a) the accompanying financial statements are drawn up to give a true and fair view of the performance of the Corporation for the year ended 30 June 2015 and the financial position of the Corporation at 30 June 2015;

(b) the financial statements for the year ended 30 June 2015 comply with subsection 42(2) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act);

(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* (the Efic Act), the Commonwealth guarantees the due payment by Efic of any money payable by Efic to third parties.

Signed in accordance with a resolution of the Board.

James M Millar AM
Chairman

Andrew Hunter
Managing Director and CEO

Stuart Neilson
Chief Financial Officer

27 August 2015

Independent auditor's report

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Trade and Investment

I have audited the accompanying annual financial statements of the Export Finance and Insurance Corporation for the year ended 30 June 2015, which comprise the:

- Statement by Board Members and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to and forming part of the financial statements comprising a Summary of Significant Accounting Policies and other explanatory information.

Director's Responsibility for the Financial Statements

The Directors of the Export Finance and Insurance Corporation are responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Directors are also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that 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. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 of the entity, as well as evaluating the overall presentation of the financial statements.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

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) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Export Finance and Insurance Corporation as at 30 June 2015 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Phillip Sands
Executive Director
Delegate of the Auditor General

Canberra
27 August 2015

Statement of comprehensive income for the year ended 30 June 2015

		Commercial Account		National Interest Account	
	Note	**30 June 2015 $ m**	30 June 2014 $ m	**30 June 2015 $ m**	30 June 2014 $ m
Interest income	3(i)	**146.4**	140.1	**22.5**	25.4
Interest expense	3(ii)	**(119.9)**	(117.5)	**(20.7)**	(23.3)
Net interest income		**26.5**	22.6	**1.8**	2.1
Fair value movement of third-party loans and guarantees	3(iii)	**26.4**	27.2	**-**	-
Fair value movement of other financial instruments	3(iv)	**(0.2)**	(2.0)	**-**	-
Foreign exchange profit/(loss)		**(5.4)**	0.2	**(0.3)**	(0.2)
Other revenue	3(v)	**2.5**	4.1	**29.8**	25.3
Operating income		**49.8**	52.1	**31.3**	27.2
Operating expenses	3(vi)	**(31.5)**	(27.9)	**(1.0)**	(1.6)
Net operating income		**18.3**	24.2	**30.3**	25.6
Credit/(charge) to sundry allowances	3(vii)	**(0.1)**	-	**-**	-
Net rescheduled loans and debt forgiveness	3(viii)	**-**	-	**(14.3)**	(9.6)
Profit from ordinary activities		**18.2**	24.2	**16.0**	16.0
National Interest Account attributable directly to the Commonwealth		**-**	-	**(16.0)**	(16.0)
Net profit available to the Commonwealth		**18.2**	24.2	**-**	-
Other comprehensive income					
Items not subject to subsequent reclassification to profit or loss:					
Gain on revaluation of land and buildings		**13.7**	-	**-**	-
Items subject to subsequent reclassification to profit or loss:					
Net fair value loss taken to equity on cash flow hedge		**(0.2)**	(0.5)	**-**	-
Net fair value loss on available-for-sale investments		**(2.6)**	(2.8)	**-**	-
Total other comprehensive income for the period		**10.9**	(3.3)	**-**	-
Total comprehensive income for the period available to the Commonwealth		**29.1**	20.9	**-**	-

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

Statement of financial position
as at 30 June 2015

	Note	Commercial Account 30 June 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
Assets					
Cash and liquid assets	1(i)	**0.9**	1.2	**-**	-
Receivables from other financial institutions	4, 1(j)	**169.6**	150.9	**-**	-
Available-for-sale investment securities	6, 1(k)	**842.6**	681.6	**-**	-
Loans and receivables at amortised cost	7, 1(l)	**28.3**	29.7	**661.7**	631.4
Loans and receivables designated at fair value through profit or loss	8, 1(m)	**1,172.1**	855.5	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	1(n)	**712.6**	692.9	**-**	-
Derivative financial assets	9, 1(o)	**193.8**	170.6	**-**	-
Property, plant and equipment	10, 1(p)	**57.1**	46.0	**-**	-
Other assets	11	**1.3**	2.3	**20.0**	16.6
Total assets		**3,178.3**	2,630.7	**681.7**	648.0
Liabilities					
Payables to other financial institutions	12, 1(q)	**69.1**	45.1	**-**	-
Amounts payable to the Commonwealth	5	**-**	-	**8.3**	0.5
Borrowings from Commercial Account	1(r)	**-**	-	**669.9**	643.4
Borrowings designated at fair value through profit or loss	13, 1(s)	**2,277.7**	2,175.0	**-**	-
Guarantees designated at fair value through profit or loss	14, 1(t)	**10.5**	23.3	**-**	-
Derivative financial liabilities	9, 1(o)	**352.8**	136.2	**-**	-
Sundry provisions and allowances	15	**3.4**	3.7	**-**	-
Other liabilities	16	**28.0**	21.5	**3.5**	4.1
Total liabilities		**2,741.5**	2,404.8	**681.7**	648.0
Net assets		**436.8**	225.9	**-**	-
Equity					
Contributed equity		**206.0**	6.0	**-**	-
Reserves		**119.7**	108.8	**-**	-
Retained profits		**111.1**	111.1	**-**	-
Total equity		**436.8**	225.9	**-**	-

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

Statement of changes in equity
for the year ended 30 June 2015

	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 2014	**111.1**	**36.6**	**5.0**	**1.0**	**66.2**	**6.0**	**225.9**
Comprehensive income							
Other comprehensive income	**-**	**13.7**	**(2.6)**	**(0.2)**	**-**	**-**	**10.9**
Profit/(loss) for the period	**18.2**	**-**	**-**	**-**	**-**	**-**	**18.2**
Total comprehensive income	**18.2**	**13.7**	**(2.6)**	**(0.2)**	**-**	**-**	**29.1**
Transactions with the Commonwealth							
Dividends paid 75% of 2013-14 profit	**(18.2)**	**-**	**-**	**-**	**-**	**-**	**(18.2)**
Equity Injection	**-**	**-**	**-**	**-**	**-**	**200.0**	**200.0**
Closing balance available to the Commonwealth 30 June 2015	**111.1**	**50.3**	**2.4**	**0.8**	**66.2**	**206.0**	**436.8**
Commercial Account							
Opening balance as at 30 June 2013	98.2	36.6	7.8	1.5	66.2	6.0	216.3
Comprehensive income							
Other comprehensive income	-	-	(2.8)	(0.5)	-	-	(3.3)
Profit/(loss) for the period	24.2	-	-	-	-	-	24.2
Total comprehensive income	24.2	-	(2.8)	(0.5)	-	-	20.9
Transactions with the Commonwealth							
Dividends paid 50% of 2012-13 profit	(11.3)	-	-	-	-	-	(11.3)
Closing balance available to the Commonwealth 30 June 2014	111.1	36.6	5.0	1.0	66.2	6.0	225.9

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

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

Contributed equity comprises of $6 million of capital advanced by the Commonwealth and an equity injection of $200 million paid in July 2014. The equity injection restored Efic's capital base following a $200 million special dividend paid in June 2013.

In addition to the contributed equity, section 54 of the Efic Act provides for $200 million of 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 Board by written notice to the Minister for Trade and Investment (the Minister), to make a recommendation that Efic pay a specified dividend, or not pay a dividend to the Commonwealth 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 the year ended 30 June 2014 was based on a direction from the Minister that 75% of the 2013-14 profit be paid as a dividend and accordingly a dividend of $18.2 million was paid in December 2014.

	Note	Commercial Account 30 June 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
Cash flows from operating activities					
Inflows:					
Premium and fees received*		**31.1**	22.7	**10.7**	8.4
Interest received		**131.1**	138.0	**11.2**	12.3
Insurance claim recoveries		**0.3**	0.1	**15.9**	15.8
Guarantees and associated costs recovered		**2.1**	0.9	**-**	-
Sundry income*		**2.5**	2.2	**-**	-
Rescheduled debt repayments		**4.6**	4.3	**20.6**	19.0
Net decrease/(increase) in other debtors and prepayments		**7.9**	3.9	**(2.5)**	0.3
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(7.3)**	(3.0)	**-**	-
Interest and other costs of finance paid		**(107.4)**	(117.5)	**(21.3)**	(24.6)
Guarantees called and associated costs		**(0.6)**	-	**-**	-
Net repayments/(disbursements) of loans		**(62.8)**	(34.5)	**60.9**	38.4
Payments to creditors and employees*		**(31.7)**	(26.0)	**-**	-
Net cash from/(used by) operating activities	23	**(30.2)**	(8.9)	**95.5**	69.6
Cash flows from investing activities					
Inflows:					
Proceeds from available-for-sale investments		**1,001.0**	710.4	**-**	-
Proceeds from sale of property, plant and equipment		**0.1**	0.2	**-**	-
Outflows:					
Payments for available-for-sale investments		**(1,148.7)**	(639.7)	**-**	-
Payments for property, plant and equipment		**(1.0)**	(1.7)	**-**	-
Net cash from/(used by) investing activities		**(148.6)**	69.2	**-**	-

* Grossed up for Goods and Services Tax.

	Note	Commercial Account 30 June 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		**-**	-	**17.5**	12.5
Receipts from National Interest Account		**1.0**	1.8	**-**	-
Capital Injection from the Commonwealth		**200.0**	-	**-**	-
Outflows:					
Net proceeds/(repayments) of borrowings		**(10.9)**	(24.7)	**(86.3)**	(56.0)
Dividend payments to the Commonwealth		**(18.2)**	(11.3)	**-**	-
Other payments to the Commonwealth		**-**	-	**(25.7)**	(24.3)
Payments to Commercial Account		**-**	-	**(1.0)**	(1.8)
Net cash from/(used by) financing activities		**171.9**	(34.2)	**(95.5)**	(69.6)
Net increase/(decrease) in cash equivalents held		**(6.9)**	26.1	**-**	-
Cash equivalents at beginning of financial year		**152.1**	130.2	**-**	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		**25.3**	(4.2)	**-**	-
Cash equivalents at end of financial year	23	**170.5**	152.1	**-**	-

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

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 is a specialist financier that delivers simple and creative solutions to Australian companies to enable them to win business, grow internationally and achieve export success.

As the Australian Government's export credit agency (ECA), Efic works directly with businesses and their banks to provide loans, guarantees, bonds and insurance products. Efic also support buyers of Australian goods and services in emerging markets and subcontractors of Australian exporters.

Efic's primary purpose is to facilitate and encourage Australian export trade on a commercial basis. Efic assists these clients specifically, by providing financial services in circumstances where they have been unable to source adequate finance from the private sector.

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 general purpose financial statements and are required by section 42 of the Public Governance, Performance and Accountability Act 2013 (PGPA Act).

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; and
- Financial Reporting Rule (FRR) for reporting periods on or after 1 July 2014.

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 and bears all the risks for those business activities undertaken under Part 4 of the Efic Act.

(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 Efic to undertake business activities under Part 5 of the Efic Act which the Minister considers is 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 Efic Act, the credit risk is borne by the Commonwealth. The funding risk, however, is borne by the Commercial Account, and the Commercial Account is compensated for this funding risk by retaining 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.

The Commercial Account 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 the Commercial Account 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.

Note 1: Summary of significant accounting policies (continued)

(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 effect for this financial year did not have a significant impact on the financial statements.

A number of new and revised Australian accounting standards apply to Efic's financial statements. Efic's assessment of the main effects of these standards on its financial statements is set out below.

AASB 9 – Financial Instruments

AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities. It will replace the corresponding AASB 139 Financial Instruments: Recognition and Measurement. Efic is assessing the impact of the new standard, which is applicable for annual reporting periods beginning on or after 1 January 2018.

AASB 15 – Revenue from contracts with customer

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue. Efic is assessing the impact of the new standard, which is applicable for annual reporting periods beginning on or after 1 January 2017.

(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.

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.

Note 1: Summary of significant accounting policies (continued)

(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 reporting date are translated at exchange rates prevailing at reporting 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 New Zealand dollar. The relevant exchange rates used are:

	2015	2014
Average rates during year		
US$ / A$	**0.8373**	0.9186
Euro / A$	**0.6960**	0.6772
NZD / A$	**1.0753**	1.1082
Rates at 30 June		
US$ / A$	**0.7680**	0.94205
Euro / A$	**0.6865**	0.6906
NZD / A$	**1.1293**	1.0761

(g) Hedge accounting

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

The purpose of cash flow hedges is 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.

The purpose of fair value hedges is to hedge the exposure to variability in fair value movements that are attributable to future interest cash flows. 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 (FBT). 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.

A Tax Equivalent charge of 30 per cent on accounting profit, in addition to an equivalent state tax that covers payroll and land tax, has been introduced under competitive neutrality arrangements to apply from 1 July 2015. All tax equivalent payments are made to the Commonwealth.

(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.

Note 1: Summary of significant accounting policies (continued)

(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 valuation calculation refer to Note 19.

(l) Loans and receivables at amortised cost

On the Commercial Account, transactions that are recorded at amortised cost are floating rate loans. As such the amortised value approximates their fair value.

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.

(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.

Note 1: Summary of significant accounting policies (continued)

(p) Property, plant and equipment

Property, plant and equipment are revalued periodically to fair value to ensure that the carrying amounts of assets do not differ materially from the assets fair value at the reporting date.

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 remain the same as last year and the rates used are as 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 structured 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.

Note 1: Summary of significant accounting policies (continued)

(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 reporting 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 reporting 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 of economic benefits is probable, but not virtually certain Efic will recognise the contingent asset. When the outflow of economic benefits is probable, Efic will recognise the contingent 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 after the reporting period

There have been no material events occurring after the reporting period that impact these financial statements for the year ending 30 June 2015.

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 2015, and it has been determined that no investment is considered to be impaired. On a portfolio a 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 an 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 2015 by Mr Benjamin Masters AAPI, Registered Valuer No. 16930 and Mr Jonathan Petsalis AAPI, Registered Valuer No.12849 of CIVAS (NSW) Pty Limited. On an income approach and discounted cash flow analysis with reference to its highest and best use, the land and buildings were valued at $47,000,000.

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 19.

Significant accounting events on judgements, estimates and assumptions during the year

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

Note 3: Revenue and expenses

	Commercial Account		National Interest Account	
	30 June 2015 $ m	30 June 2014 $ m	**30 June 2015 $ m**	30 June 2014 $ m
(i) Interest income				
Receivables from other financial institutions	**1.0**	1.0	**-**	-
Available-for-sale investment securities	**27.0**	23.9	**-**	-
Loans at amortised cost	**0.1**	0.1	**22.5**	25.4
Loans and receivables designated at fair value through profit or loss	**11.5**	10.8	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	**20.1**	22.8	**-**	-
Derivative financial instruments receivable	**86.7**	81.5	**-**	-
Total interest income	**146.4**	140.1	**22.5**	25.4
(ii) Interest expense				
Payables to other financial institutions	**(0.4)**	(0.3)	**-**	-
Borrowings from Commercial Account	**-**	-	**(20.7)**	(23.3)
Borrowings at amortised cost	**(0.1)**	(0.1)	**-**	-
Borrowings designated at fair value through profit or loss	**(67.4)**	(68.2)	**-**	-
Derivative financial instruments payable	**(52.0)**	(48.9)	**-**	-
Total interest expense	**(119.9)**	(117.5)	**(20.7)**	(23.3)
(iii) Fair value movement of third-party loans and guarantees				
Net premium and fees	**26.2**	34.7	**-**	-
Reinsurance	**(6.1)**	(10.7)	**-**	-
Interest expense	**(0.7)**	(1.1)	**-**	-
Credit risk	**4.8**	1.2	**-**	-
Specific events	**2.2**	3.1	**-**	-
Total fair value movement of third-party loans and guarantees	**26.4**	27.2	**-**	-
(iv) Fair value movement of other financial instruments				
Available-for-sale investment securities	**(0.5)**	(0.6)	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	**(13.6)**	(15.5)	**-**	-
Borrowings designated at fair value through profit or loss	**(30.3)**	(17.6)	**-**	-
Derivative financial instruments	**44.2**	31.7	**-**	-
Total fair value movement of other financial instruments	**(0.2)**	(2.0)	**-**	-

Note 3: Revenue and expenses (continued)

	Commercial Account		National Interest Account	
	30 June 2015 $ m	30 June 2014 $ m	**30 June 2015 $ m**	30 June 2014 $ m
(v) Other revenue				
Premium and fees	-	-	**12.2**	9.8
Rental income	**2.1**	1.5	-	-
Sundry income	**0.1**	0.1	-	-
Profit on sale of available-for-sale investment securities	-	2.3	-	-
Recoveries from export finance	-	0.1	-	-
Recoveries from credit insurance	**0.3**	0.1	**17.6**	15.5
Total other revenue	**2.5**	4.1	**29.8**	25.3
(vi) Operating expenses				
Staff costs	**(17.4)**	(15.7)	-	-
Depreciation	**(3.5)**	(3.4)	-	-
Advertising and promotional costs	**(2.1)**	(1.6)	-	-
Other expenses	**(1.8)**	(1.8)	-	-
Superannuation costs	**(1.7)**	(1.6)	-	-
Professional fees	**(1.7)**	(1.3)	-	-
Property costs	**(1.5)**	(1.4)	-	-
Travel costs	**(1.1)**	(1.2)	-	-
Computer and communication costs	**(1.0)**	(0.8)	-	-
Credit information	**(0.4)**	(0.4)	-	-
Provision for employee entitlements	**(0.3)**	(0.3)	-	-
National Interest Account recovery/(expense)	**1.0**	1.6	**(1.0)**	(1.6)
Total operating expenses	**(31.5)**	(27.9)	**(1.0)**	(1.6)
(vii) Credit/(charge) to sundry allowances				
Allowances for unrecoverable costs	**(0.1)**	-	-	-
Total credit/(charge) to sundry allowances	**(0.1)**	-	-	-
(viii) Net rescheduled loans and debt forgiveness				
Reinstatement of rescheduled loan	-	0.7	-	178.4
Credit/(charge) to specific provisions	-	(0.7)	-	(178.4)
Debt forgiveness	-	-	**(14.3)**	(9.6)
Total rescheduled loans and debt forgiveness	-	-	**(14.3)**	(9.6)

On 8 July 2010 the then Minister for Trade 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 $14.3 million (2014: $9.6m) was cancelled bringing the total cancelled to $47.7 million and the remainder is available to be cancelled if the Republic of Indonesia continues to invest in approved tuberculosis programs.

Note 4: Receivables from other financial institutions

		Commercial Account		National Interest Account	
	Note	**30 June 2015 $ m**	30 June 2014 $ m	**30 June 2015 $ m**	30 June 2014 $ m
	1(j)				
Overnight deposits		**148.5**	57.2	-	-
Fixed cash deposits		**21.1**	93.7	-	-
Total receivables from other financial institutions		**169.6**	150.9	-	-
Maturity analysis of receivables from other financial institutions					
At call		**148.5**	57.2	-	-
Due in less than 3 months		**19.9**	85.7	-	-
Due after 3 months to 1 year		**1.2**	8.0	-	-
Total receivables from other financial institutions		**169.6**	150.9	-	-

These receivables are from various Authorised Deposit-taking Institutions (ADIs) all rated AA-.

Note 5: Amounts payable to/(receivable from) the Commonwealth

	Commercial Account		National Interest Account	
	30 June 2015 $ m	30 June 2014 $ m	**30 June 2015 $ m**	30 June 2014 $ m
Commonwealth opening balance payable/(receivable)	-	-	**0.5**	(3.8)
Net payments to the Commonwealth	-	-	**(8.2)**	(11.7)
	-	-	**(7.7)**	(15.5)
Profit for the year on National Interest Account	-	-	**16.0**	16.0
Total amounts payable to the Commonwealth	-	-	**8.3**	0.5

Note 6: Available-for-sale investment securities

	Note	Commercial Account 30 June 2015 $ m	30 June 2014 $ m	National Interest Account 30 June 2015 $ m	30 June 2014 $ m
	1(k)				
Discount securities		**228.3**	194.3	**-**	-
Floating rate notes		**308.2**	249.3	**-**	-
Fixed rate bonds		**306.1**	238.0	**-**	-
Total available-for-sale investment securities		**842.6**	681.6	**-**	-
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**243.8**	96.5	**-**	-
Due after 3 months to 1 year		**333.1**	188.5	**-**	-
Due after 1 year to 5 years		**265.7**	396.6	**-**	-
Total available-for-sale investment securities		**842.6**	681.6	**-**	-

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 2015 $ m	30 June 2014 $ m	National Interest Account 30 June 2015 $ m	30 June 2014 $ m
	1(l)				
Gross export finance loans		**-**	-	**665.4**	624.6
Gross funded export finance guarantees		**28.3**	29.7	**-**	-
Gross rescheduled credit insurance debts		**0.7**	0.7	**238.0**	231.5
Loans and receivables gross		**29.0**	30.4	**903.4**	856.1
Unearned premiums		**-**	-	**(6.4)**	(7.6)
Specific provision for impairment		**(0.7)**	(0.7)	**(212.3)**	(188.1)
Deferred income		**-**	-	**(1.9)**	(4.4)
Unamortised grants	1(e)	**-**	-	**(21.1)**	(24.6)
Total loans and receivables at amortised cost		**28.3**	29.7	**661.7**	631.4
Maturity analysis loans and receivables gross					
Overdue – impaired		**-**	-	**9.7**	9.7
Due in 3 months or less		**-**	-	**18.1**	22.1
Due after 3 months to 1 year		**8.1**	6.6	**98.8**	70.7
Due after 1 year to 5 years		**20.4**	23.3	**395.8**	357.4
Due after 5 years		**0.5**	0.5	**381.0**	396.2
Total loans and receivables gross		**29.0**	30.4	**903.4**	856.1
Restructured exposures included above		**0.7**	0.7	**376.9**	376.9

Note 7: Loans and receivables at amortised cost (continued)

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, the funded export finance guarantee 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.

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

	Commercial Account 30 June 2015 $ m	30 June 2014 $ m	National Interest Account 30 June 2015 $ m	30 June 2014 $ m
Specific provision				
Specific provision opening balance	**0.7**	-	**188.1**	9.7
Foreign exchange movement	**-**	-	**39.9**	-
Provision written back	**-**	-	**(15.7)**	-
Charge against asset transferred from contingent	**-**	0.7	**-**	178.4
Specific provision closing balance	**0.7**	0.7	**212.3**	188.1
Impaired loans				
Impaired loans	**0.7**	0.7	**212.3**	188.1
Specific provision for impairment	**(0.7)**	(0.7)	**(212.3)**	(188.1)
Carrying value of impaired loans	**-**	-	**-**	-
Interest foregone on impaired loans	**-**	-	**0.2**	0.2

Amounts shown under National Interest Account represent loans made by Efic under Part 5 of the Efic Act.

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

	Note	Commercial Account		National Interest Account	
		30 June 2015 $ m	30 June 2014 $ m	**30 June 2015 $ m**	30 June 2014 $ m
Gross export finance loans		**936.8**	633.5	**-**	-
Gross funded export finance guarantees		**250.9**	218.1	**-**	-
Gross rescheduled credit insurance debts		**7.5**	12.1	**-**	-
Loans and receivables gross	1(m)	**1,195.2**	863.7	**-**	-
Fair value net premium and fees		**22.3**	16.5	**-**	-
Fair value interest income		**2.2**	2.1	**-**	-
Fair value of credit risk		**(47.6)**	(26.8)	**-**	-
Total loans and receivables at fair value		**1,172.1**	855.5	**-**	-
Maturity analysis loans and receivables gross					
Overdue		**0.7**	1.0	**-**	-
Due in 3 months or less		**24.1**	22.7	**-**	-
Due after 3 months to 1 year		**98.0**	70.3	**-**	-
Due after 1 year to 5 years		**586.6**	353.8	**-**	-
Due after 5 years		**485.8**	415.9	**-**	-
Total loans and receivables gross		**1,195.2**	863.7	**-**	-
Restructured exposures included above		**14.5**	19.7	**-**	-

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.

The overdue amount of $0.7 million relates to two export finance loans where repayments were due to be repaid on the 31st May 2015 and payment was not received.

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.

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

Note 9: Derivative financial instruments

	Note	Commercial Account		National Interest Account	
		30 June 2015 $ m	30 June 2014 $ m	**30 June 2015 $ m**	30 June 2014 $ m
	1(o)				
Derivative financial assets					
Interest rate swaps		**79.7**	72.1	**-**	-
Cross-currency swaps		**106.0**	97.8	**-**	-
Forward foreign exchange contracts		**4.9**	0.7	**-**	-
Options		**3.2**	-	**-**	-
Total derivative financial assets		**193.8**	170.6	**-**	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		**7.4**	1.5	**-**	-
Due after 3 months to 1 year		**59.5**	31.3	**-**	-
Due after 1 year to 5 years		**113.2**	100.4	**-**	-
Due after 5 years		**13.7**	37.4	**-**	-
Total derivative financial assets		**193.8**	170.6	**-**	-
Derivative financial liabilities					
Interest rate swaps		**41.0**	48.4	**-**	-
Cross-currency swaps		**311.7**	84.8	**-**	-
Forward foreign exchange contracts		**0.1**	3.0	**-**	-
Total derivative financial liabilities		**352.8**	136.2	**-**	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**(8.3)**	(2.5)	**-**	-
Due after 3 months to 1 year		**(2.5)**	(0.5)	**-**	-
Due after 1 year to 5 years		**85.0**	15.7	**-**	-
Due after 5 years		**278.6**	123.5	**-**	-
Total derivative financial liabilities		**352.8**	136.2	**-**	-

A derivative financial liability arises when the underlying value of the contract results in a overall payment obligation by Efic. Efic's derivative liabilities involve cross currencies which convert AUD or NZD borrowings into the USD currency needed for the underlying loans, typically this would involve a principal exchange at the beginning and end of the contract and interest payments and receipts over the life of the contract. The principal exchange expected at the maturity date is reduced by the interest receipts on these contracts which are greater than the interest payments, although they still remain a liability overall. This results in an anomaly where the interest is increasing the liability in the next year as there are no principal exhanges due within the next year.

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

Note 10: Property, plant and equipment

	Note	Commercial Account 30 June 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
	1(p)				
Freehold land and building, at valuation		**47.0**	38.9	**-**	-
Accumulated depreciation		**-**	(3.7)	**-**	-
Net book value – land and building		**47.0**	35.2	**-**	-
Plant and equipment, at valuation		**15.7**	14.9	**-**	-
Accumulated depreciation		**(5.6)**	(4.1)	**-**	-
Net book value – plant and equipment		**10.1**	10.8	**-**	-
Total property, plant and equipment		**57.1**	46.0	**-**	-

	Land and buildings $ m	Plant and equipment $ m	Total $ m
Gross value			
Balance as at 30 June 2014	38.9	14.9	53.8
Additions	-	0.9	0.9
Write back of accumulated depreciation on revaluation	(5.6)	-	(5.6)
Revaluation increment	13.7	-	13.7
Disposals	-	(0.1)	(0.1)
Gross value as at 30 June 2015	**47.0**	**15.7**	**62.7**
Accumulated depreciation			
Balance as at 30 June 2014	(3.7)	(4.1)	(7.8)
Depreciation charged for assets held at 1 July 2014	(1.9)	(1.5)	(3.4)
Depreciation charged for additions	-	(0.1)	(0.1)
Write back on revaluation	5.6	-	5.6
Depreciation recovered on disposals	-	0.1	0.1
Depreciation as at 30 June 2015	**-**	**(5.6)**	**(5.6)**
Net book value as at 1 July 2014	35.2	10.8	46.0
Net book value as at 30 June 2015	**47.0**	**10.1**	**57.1**

An independent valuation of land and buildings was carried out in June 2015 by Mr Benjamin Masters AAPI, Registered Valuer No. 16930 and Mr Jonathan Petsalis AAPI, Registered Valuer No.12849 of CIVAS (NSW) Pty Limited. On an income approach and discounted cash flow analysis with reference to its highest and best use, the land and buildings were valued at $47,000,000.

Note 10: Property, plant and equipment (continued)

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 is based on a pro rata of floor space:

Leased accommodation	30 June 2015 $ m	30 June 2014 $ m
Freehold land and building, at valuation	**32.2**	15.8
Accumulated depreciation	**-**	(1.5)
Written-down value	**32.2**	14.3
Depreciation expense	**1.3**	0.7

Note 11: Other assets

	Commercial Account 30 June 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
Accrued interest receivable	**-**	-	**3.8**	4.6
Sundry debtors and prepayments	**1.3**	2.3	**16.2**	12.0
Total other assets	**1.3**	2.3	**20.0**	16.6

Note 12: Payables to other financial institutions

	Note	Commercial Account 30 June 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
	1(q)				
Overnight borrowings		**40.8**	15.4	**-**	-
Floating rate borrowing*		**28.3**	29.7	**-**	-
Total payables to other financial institutions		**69.1**	45.1	**-**	-
Maturity analysis of payables to other financial institutions					
At call		**40.8**	15.4	**-**	-
Due after 3 months to 1 year		**8.1**	6.6	**-**	-
Due after 1 year to 5 years		**20.2**	23.1	**-**	-
Total payables to other financial institutions		**69.1**	45.1	**-**	-

* 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 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
	1(s)				
Borrowings		**2,277.7**	2,175.0	**-**	-
Total borrowings at fair value		**2,277.7**	2,175.0	**-**	-
Borrowings designated at fair value through profit or loss					
Structured borrowings					
Japanese yen		**113.7**	146.0	**-**	-
US dollar		**-**	84.2	**-**	-
Total structured borrowings		**113.7**	230.2	**-**	-
Non-structured borrowings					
Australian dollar		**1,202.4**	1,201.5	**-**	-
Euro		**-**	6.7	**-**	-
New Zealand dollar		**128.5**	122.4	**-**	-
US dollar		**-**	41.1	**-**	-
Total non-structured borrowings		**1,330.9**	1,371.7	**-**	-
Euro commercial paper					
US dollar		**833.1**	573.1	**-**	-
Total euro commercial paper		**833.1**	573.1	**-**	-
Total borrowings at fair value		**2,277.7**	2,175.0	**-**	-
Maturity analysis of borrowings					
Due in 3 months or less		**802.9**	648.9	**-**	-
Due after 3 months to 1 year		**73.8**	143.3	**-**	-
Due after 1 year to 5 years		**629.6**	411.6	**-**	-
Due after 5 years		**771.4**	971.2	**-**	-
Total borrowings at fair value		**2,277.7**	2,175.0	**-**	-

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.

A Debt Neutrality charge of 10 basis points on new borrowings, payable to the Commonwealth, has been introduced under competitive neutrality arrangements to apply from 1 July 2015.

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	Commercial Account 30 June 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
	1(t)				
Fair value of credit risk		**15.2**	31.6	**-**	-
Fair value of specific events		**-**	2.2	**-**	-
Fair value of net premium receivable		**(4.7)**	(10.5)	**-**	-
Total guarantees designated at fair value through profit or loss		**10.5**	23.3	**-**	-

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	Commercial Account 30 June 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
Employee entitlements	1(u)	**3.3**	3.6	**-**	-
Allowances for unrecoverable costs		**0.1**	0.1	**-**	-
Total sundry provisions and allowances		**3.4**	3.7	**-**	-

Note 16: Other liabilities

	Note	Commercial Account 30 June 2015 $ m	Commercial Account 30 June 2014 $ m	National Interest Account 30 June 2015 $ m	National Interest Account 30 June 2014 $ m
Sundry creditors	1(v)	**28.0**	21.5	**-**	-
Interest payable		**-**	-	**3.5**	4.1
Total other liabilities		**28.0**	21.5	**3.5**	4.1

Note 17: **Contingencies and commitments**

	Commercial Account		National Interest Account	
	30 June 2015 $ m	30 June 2014 $ m	**30 June 2015 $ m**	30 June 2014 $ m
Contingent liabilities				
Guarantees	**342.3**	505.5	**11.5**	11.1
Bonds	**124.3**	184.3	**-**	-
Medium-term insurance	**351.6**	286.6	**-**	-
Total contingent liabilities	**818.2**	976.4	**11.5**	11.1

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

Commitments to provide financial facilities				
Loans	**25.8**	46.0	**-**	-
Funded guarantees	**16.6**	4.4	**-**	-
Guarantees*	**297.9**	333.1	**1.8**	2.3
Bonds	**21.2**	63.4	**-**	-
Total commitments to provide financial facilities	**361.5**	446.9	**1.8**	2.3

* Guarantees include facilities signed under risk participation agreements.

Commitments to provide financial facilities are contractually based.

Commitments payable				
Capital commitments				
Due in 1 year or less	**0.3**	0.2	**-**	-
Operating lease payable				
Due in 1 year or less	**0.3**	0.1	**-**	-
Due after 1 year to 2 years	**0.1**	0.1	**-**	-
Due after 2 years to 5 years	**0.1**	-	**-**	-
Total commitments payable	**0.8**	0.4	**-**	-
Commitments receivable				
Operating lease receivable				
Due in 1 year or less	**2.8**	1.4	**-**	-
Due after 1 year to 2 years	**2.9**	1.3	**-**	-
Due after 2 years to 5 years	**7.0**	1.8	**-**	-
Due after 5 years	**1.7**	2.0	**-**	
Total commitments receivable	**14.4**	6.5	**-**	-

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 including loans, guarantees, medium term insurance, bonds, and political risk insurance, which can be denominated in various currencies.

Efic 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 interest rate movements where the interest rate basis of the borrowing is different from that of the required liability to fund assets. These contracts 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 contracts 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.

Efic also conducts detailed stress testing, including examining the impact on the credit portfolio of slower economic growth in emerging markets and adverse movements in foreign exchange rates and commodity prices. After reviewing the results of its most recent stress tests, Efic entered into an option contract to mitigate to a degree credit losses across part of the portfolio.

(ii) Credit risk

(a) Commercial Account exposures

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

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

	Note	**30 June 2015 $ m**	30 June 2014 $ m
Credit risk exposures			
Receivables from other financial institutions	4, 1(j)	**169.6**	150.9
Available-for-sale investment securities	6, 1(k)	**842.6**	681.6
Loans and receivables at amortised cost	7, 1(l)	**28.3**	29.7
Loans and receivables designated at fair value through profit or loss	8, 1(m)	**1,172.1**	855.5
Derivative financial assets	9, 1(o)	**193.8**	170.6
Total*		**2,406.4**	1,888.3
Contingent liabilities	17	**818.2**	976.4
Commitments	17	**361.5**	446.9
Total		**1,179.7**	1,423.3
Total credit risk exposure		**3,586.1**	3,311.6

* 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 above. 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 (CSAs).

Note 18: **Financial risk management** (continued)

Prudential controls set by the PGPA Act for the investment by Efic's treasury of surplus monies are limited to:

(i) money with Authorised Deposit-taking Institutions (ADIs) in Australia rated BBB- or above

(ii) securities issued by or guaranteed by the Commonwealth, a State or Territory

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

(iv) deposits with, or securities issued, by the above ADIs

(v) deposits with, or securities issued or guaranteed, by the above entities, subject to:

- **(a)** investments in ADIs with a rating lower than A- must not exceed 25% of Efic's total investments
- **(b)** 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
- **(c)** investments in an individual ADI with a rating lower than A- must not exceed 10% of Efic's total investments.

In addition to the PGPA Act requirements stated above, the Board does not permit proprietary trading and in addition have set further controls for Efic's treasury operations 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

(vi) limits relating to portfolio exposures and terms

(vii) limits on investments in structured, multi credit entities

(viii) performance benchmarks relating to specific portfolios

(ix) derivative limits and a CSA collateral policy

The Board also specifically does not permit proprietary trading by Efics treasury operations.

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 meeting quarterly, which then reports to the Board. A treasury update is provided at each Board meeting.

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 and some contracts also have Credit Support Annexes in operation where Efic receives collateral to offset the exposure.

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

	Note	**30 June 2015 $ m**	30 June 2014 $ m
Available-for-sale investment securities			
Australian Authorised Deposit-taking Institutions			
AA-		**292.4**	287.5
A+		**102.1**	21.3
A-		**323.8**	223.8
BBB+		**19.8**	38.7
Other financial institutions or foreign entities			
AA-		**75.0**	110.3
A+*		**29.5**	-
Exposure to credit risk of available-for-sale investment securities	6, 1(k)	**842.6**	681.6

* At time of purchase all counterparties were rated at AA- or better.

Note 18: **Financial risk management** (continued)

	Note	**30 June 2015 $ m**	30 June 2014 $ m
Derivative financial assets			
Australian Authorised Deposit-taking Institutions			
AA-		**127.0**	123.9
Other financial institutions or foreign entities			
AAA		**-**	3.2
AA-		**34.4**	5.1
A+*		**8.8**	24.8
A*		**23.6**	13.6
Exposure to credit risk for derivative financial assets	9, 1(o)	**193.8**	170.6

* At time of purchase all counterparties were rated at AA- or better.

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 that were not subsequently recovered within the year were nil (2014: nil).

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

	Note	**30 June 2015 $ m**	30 June 2014 $ m
Gross exposures			
Export finance loans	8, 1(m)	**936.8**	633.5
Funded export finance guarantees	8, 1(m)	**250.9**	218.1
Rescheduled credit insurance debts	8, 1(m)	**7.5**	12.1
Funded export finance guarantees at amortised cost	7	**29.0**	30.4
Guarantees	17	**342.3**	505.5
Medium-term insurance	17	**351.6**	286.6
Bonds	17	**124.3**	184.3
Total gross exposures		**2,042.4**	1,870.5
Reinsured exposures included above		**601.4**	478.1

Note 18: Financial risk management (continued)

Gross exposures are also monitored by country and on the Commercial Account the country exposures after reinsurance are as follows:

	30 June 2015 $ m	30 June 2015 % of total	30 June 2014 $ m	30 June 2014 % of total
Country exposures				
Australia*	**642.1**	**31.4**	669.6	35.8
Canada	**234.4**	**11.5**	191.1	10.2
United Arab Emirates	**143.8**	**7.1**	124.3	6.6
Papua New Guinea	**129.6**	**6.4**	51.6	2.8
China	**128.9**	**6.3**	107.5	5.8
Chile	**113.9**	**5.6**	106.1	5.7
Japan	**95.7**	**4.7**	66.9	3.6
United Kingdom	**73.5**	**3.6**	32.8	1.8
Malaysia	**65.1**	**3.2**	53.1	2.8
Belgium	**58.6**	**2.9**	37.9	2.0
Trinidad and Tobago	**57.0**	**2.8**	59.7	3.2
Denmark	**46.6**	**2.3**	52.1	2.8
Sri Lanka	**42.7**	**2.1**	52.3	2.8
Russia	**41.7**	**2.0**	39.3	2.1
France	**41.0**	**2.0**	26.5	1.4
Turkey	**39.5**	**1.9**	39.8	2.1
Bermuda	**32.9**	**1.6**	24.0	1.3
Indonesia	**26.9**	**1.3**	29.2	1.6
Vietnam	**13.6**	**0.7**	14.7	0.8
Egypt	**7.5**	**0.3**	12.1	0.6
Pakistan	**5.1**	**0.2**	0.1	0.0
United States of America	**1.6**	**0.1**	49.2	2.6
Other	**0.7**	**0.0**	30.6	1.6
Total country exposures	**2,042.4**	**100.0**	1,870.5	100.0
Reinsured exposures included above	**601.4**		478.1	

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

Note 18: Financial risk management (continued)

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

	30 June 2015 $ m	30 June 2014 $ m
Allowance for credit risk by product		
Export finance loans	**(39.9)**	(23.9)
Funded export finance guarantees	**(6.0)**	(6.6)
Rescheduled credit insurance debts	**(1.7)**	(2.9)
Guarantees	**(12.1)**	(21.9)
Medium Term Insurances	**(0.9)**	(0.9)
Bonds	**(2.2)**	(2.2)
Allowance for credit risk closing balance	**(62.8)**	(58.4)

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

	30 June 2015 $ m	30 June 2014 $ m
Allowance for credit risk for gross exposures		
Allowance for credit risk opening balance	**(58.4)**	(59.8)
New exposures	**(15.8)**	(12.3)
Repayments	**11.1**	8.2
Change in risk grade	**(6.9)**	(3.4)
Change in term to maturity	**9.1**	7.0
Change in allowance rates	**2.4**	1.7
Change in risk grade due to reinsurance	**5.6**	-
Exchange rate movements	**(9.9)**	0.2
Allowance for credit risk closing balance	**(62.8)**	(58.4)

Note 18: Financial risk management (continued)

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 concentration risk in the Commercial Account. Any significant concentration risk 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 Standards and Poor's risk rating, is stated in brackets. The gross exposures (before fair value adjustments) for the Commercial Account after reinsurance under each of the nine broad categories is as follows:

	Note	30 June 2015 $ m	30 June 2014 $ m
Gross exposures loans and receivables			
Risk category 1 (AA- to AAA)		**133.2**	127.0
Risk category 2 (A- to A+)		**183.8**	145.2
Risk category 3 (BBB- to BBB+)		**517.5**	437.8
Risk category 4 (BB- to BB+)		**174.1**	9.4
Risk category 5 (B- to B+)		**158.7**	103.9
Risk category 6 (CCC+)		**20.4**	28.3
Risk category 7 (C to CCC)		**7.5**	12.1
Gross exposures loans and receivables	8, 1(m)	**1,195.2**	863.7

* There are no exposures in categories 8 and 9.

As part of its normal operations, Efic enters into a variety of transactions denominated 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 after reinsurance under each of the nine broad categories is as follows:

	Note	30 June 2015 $ m	30 June 2014 $ m
Contingent liabilities			
Risk category 1 (AA- to AAA)		**266.1**	216.1
Risk category 2 (A- to A+)		**259.9**	213.9
Risk category 3 (BBB- to BBB+)		**62.6**	202.0
Risk category 4 (BB- to BB+)		**33.1**	83.4
Risk category 5 (B- to B+)		**110.7**	198.1
Risk category 6 (CCC+)		**79.7**	56.5
Risk category 7 (C to CCC)		**6.1**	6.4
Total contingent liabilities	17	**818.2**	976.4

* There are no exposures in categories 8 and 9.

Note 18: Financial risk management (continued)

As part of its normal operations, Efic enters into a variety of transactions denominated 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.

	Note	30 June 2015 $ m	30 June 2014 $ m
Commitments			
Risk category 1 (AA- to AAA)		**302.9**	311.9
Risk category 2 (A- to A+)		**-**	12.3
Risk category 3 (BBB- to BBB+)		**-**	15.2
Risk category 4 (BB- to BB+)		**0.7**	48.9
Risk category 5 (B- to B+)		**45.7**	49.5
Risk category 6 (CCC+)		**12.2**	9.1
Total commitments	17	**361.5**	446.9

* There are no exposures in categories 8 and 9.

> *Retained sector exposure*

The sectors that represent more than 15% of Efic's Commercial Account retained exposure are the Mining LNG and Manufacturing sectors. At 30 June 2015, the exposure to the Mining LNG sector accounted for $398.6 million, representing 27.7% of Efic's total retained exposure (2014: $359.2 million, representing 25.8% of the total), the exposure to the Manufacturing sector accounted for $226.8 million, representing 15.8% of Efic's total retained exposure (2014: $186.4 million, representing 13.4% of the total).

> *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 2, 3, and 6 to reinsurers in risk categories 1 or 2.

	Note	30 June 2015 $ m	30 June 2014 $ m
Reinsurance			
Reinsured to			
Risk category 1 (AA- to AAA)		**316.8**	257.6
Risk category 2 (A- to A+)		**284.6**	220.5
Reinsured from			
Risk category 2 (A- to A+)		**(293.0)**	(229.0)
Risk category 3 (BBB- to BBB+)		**(130.2)**	(164.5)
Risk category 4 (BB- to BB+)		**(54.8)**	-
Risk category 6 (CCC+)		**(123.4)**	(84.6)
Total reinsurance		**0.0**	0.0

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. For the bond product in the normal course of business we do hold cash security deposits which at the 30 June 2015 were $19.4 million (2014: $11.9 million).

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 $14.3 million during the year (2014: $9.6 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:

	Note	30 June 2015 $ m	30 June 2014 $ m
Gross exposures			
Export finance loans	7, 1(l)	**665.4**	624.6
Rescheduled credit insurance debts	7, 1(l)	**238.0**	231.5
Guarantees	17	**11.5**	11.1
Total gross exposures		**914.9**	867.2

Gross exposures are also monitored by country and on the National Interest Account the country exposures are as follows:

	30 June 2015 $ m	30 June 2015 % of total	30 June 2014 $ m	30 June 2014 % of total
Country exposures				
Papua New Guinea	**323.9**	**35.4**	129.0	14.9
Indonesia	**314.6**	**34.4**	332.1	38.3
Iraq	**202.7**	**22.1**	178.4	20.6
Egypt	**35.3**	**3.9**	53.0	6.1
China	**17.2**	**1.9**	17.5	2.0
Australia*	**11.5**	**1.2**	47.0	5.4
Cuba	**9.7**	**1.1**	9.7	1.1
United States of America	**-**	**-**	88.1	10.2
Japan	**-**	**-**	12.4	1.4
Total country exposures	**914.9**	**100.0**	867.2	100.0

* 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 Euro 108 million on the National Interest Account. The repayment schedule for the rescheduled debts requires six-monthly payments until June 2019, June 2016, and June 2021 respectively depending on the rescheduling agreement. As at 30 June 2015, all rescheduled amounts have been paid on time as per the rescheduling agreements.

Note 18: Financial risk management (continued)

Egypt: Efic is owed $7.5 million by Egypt on the Commercial Account and US$9.8 million and $22.5 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 2015, all rescheduled amounts have been paid on time as per the rescheduling agreements.

Iraq: The rescheduled debt balance at 30 June 2015, is US$0.6 million on the Commercial Account and US$155.6 million on the National Interest Account. At 30 June 2015, all rescheduled amounts have been paid on time as per the rescheduling agreements. However, the current situation in Iraq and the continuing deterioration in the economic environment were assessed as posing a real threat to the reliability of future payments. Accordingly, in consultation with DFAT, it was deemed appropriate to retain a 100% provision for impairment against the rescheduled debt and this treatment will be reviewed on an annual basis. Therefore future payments from Iraq will only be recognised as income on receipt and booked as a recovery, consistent with current practice. Recoveries made during the year under this agreement were taken to income resulting in $17.6 million taken up as income during 2014-15 on the National Interest Account. These debts arose from credit insurance claims between 1987 and 1992 in respect of non-payment by the Iraqi Government for exports from Australia. These debts were subject to rescheduling with 80% debt forgiveness in three stages at the Paris Club. The repayment schedule for the remaining rescheduled amounts call for six-monthly payments until January 2028.

(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.

Note 18: **Financial risk management** (continued)

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 2015	**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	**0.9**	**-**	**-**	**-**
Receivables from other financial institutions	**168.3**	**1.2**	**-**	**-**
Available-for-sale investment securities	**248.4**	**343.5**	**266.8**	**-**
Loans and receivables at amortised cost	**-**	**8.3**	**21.0**	**0.5**
Loans and receivables designated at fair value through profit or loss	**13.7**	**100.7**	**659.4**	**535.5**
Loans to National Interest Account designated at fair value through profit or loss	**19.8**	**92.0**	**373.8**	**287.5**
Derivative financial instruments receivable				
- Contractual amounts receivable	**144.9**	**313.4**	**1,044.9**	**1,186.0**
Total undiscounted financial assets	**596.0**	**859.1**	**2,365.9**	**2,009.5**
Undiscounted financial liabilities				
Payables to other financial institutions	**40.8**	**8.2**	**20.6**	**-**
Borrowings designated at fair value through profit or loss				
- Euro commercial paper	**794.3**	**39.1**	**-**	**-**
- Non structured borrowings	**8.1**	**33.2**	**586.9**	**920.2**
- Structured borrowings	**0.6**	**2.1**	**89.4**	**21.3**
Derivative financial instruments payable				
- Contractual amounts payable	**129.9**	**253.3**	**997.7**	**1,432.0**
Total undiscounted financial liabilities	**973.7**	**335.9**	**1,694.6**	**2,373.5**
Net undiscounted financial assets/(liabilities)	**(377.7)**	**523.2**	**671.3**	**(364.0)**

While the above maturity profile shows a refinancing shortfall in the next 3 months, this is predominately due to the Euro Commercial Paper borrowing facility which comprises short term borrowings that are in part funding marketable available-for-sale investments securities with a maturity of no longer than three years. The majority of the Euro Commercial Paper maturing ($794.3 million) in the next 3 months will be reissued which will cover any refinancing shortfall shown in the maturity profile.

Efic has legally enforceable master netting arrangements which apply on default and as such have not been taken into account. If these master netting arrangements were considered then the derivative assets would be $90.9 million and the derivative liabilities would be $199.8 million.

As at 30 June 2015, Efic holds collateral of $21.0 million (2014: $4.2m) and Efic has posted collateral of $65.5 million (2014: nil).

Note 18: **Financial risk management** (continued)

	Contractual undiscounted principal and interest			
30 June 2014	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	1.2	-	-	-
Receivables from other financial institutions	142.9	8.1	-	-
Available-for-sale investment securities	99.9	205.1	399.6	-
Loans and receivables at amortised cost	-	6.7	24.0	0.5
Loans and receivables designated at fair value through profit or loss	24.3	77.3	385.4	477.9
Loans to National Interest Account designated at fair value through profit or loss	24.1	73.0	348.8	317.8
Derivative financial instruments receivable				
- Contractual amounts receivable	174.0	266.3	836.4	1,348.2
Total undiscounted financial assets	466.4	636.5	1,994.2	2,144.4
Undiscounted financial liabilities				
Payables to other financial institutions	15.4	6.7	23.7	-
Borrowings designated at fair value through profit or loss				
- Euro commercial paper	520.1	53.0	-	-
- Non structured borrowings	79.8	41.6	364.4	1,198.5
- Structured borrowings	49.6	49.9	73.1	59.2
Derivative financial instruments payable				
- Contractual amounts payable	169.8	234.8	736.6	1,335.5
Total undiscounted financial liabilities	834.7	386.0	1,197.8	2,593.2
Net undiscounted financial assets/(liabilities)	(368.3)	250.5	796.5	(448.8)

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:

	30 June 2015 $ m	30 June 2014 $ m
Cash flow hedge reserve		
Opening balance cash flow hedge reserve	**1.0**	1.5
Transferred to interest expense	**(0.7)**	(0.7)
Transferred to interest income	**1.2**	0.8
Net unrealised change in cash flow hedges	**(0.7)**	(0.6)
Closing balance cash flow hedge reserve	**0.8**	1.0

Fair value hedges are intended 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. The fair value hedges matured during the financial year and none were held at year end. During the year ended June 2015, a $0.4 million ($0.6 million for 2014) loss was recognised on hedging instruments. The total gain on hedged items attributable to the hedged risks for year ended June 2015 was $0.4 million ($0.6 million for 2014). A table is not shown for fair value hedges as unlike the cash flow hedge where amounts go through equity, on a fair value hedge all amounts go through the profit or loss.

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.

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.

	Contractual undiscounted principal exposure				
30 June 2015	**Floating interest rate $ m**	**Fixed Less than 1 year $ m**	**Fixed 1 to 5 years $ m**	**Fixed More than 5 years $ m**	**Fixed Total $ m**
Undiscounted principal exposures					
Financial assets					
Cash and liquid assets	**0.9**	-	-	-	-
Receivables from other financial institutions	**169.5**	-	-	-	-
Available-for-sale investment securities	**536.0**	**152.5**	**141.1**	-	**293.6**
Loans and receivables designated at amortised cost	**29.1**	-	-	-	-
Loans and receivables designated at fair value through profit or loss	**1,148.5**	**19.0**	**27.7**	-	**46.7**
Loans to National Interest Account designated at fair value through profit or loss	**472.9**	**47.4**	**134.1**	**15.5**	**197.0**
Total financial assets	**2,356.9**	**218.9**	**302.9**	**15.5**	**537.3**
Financial liabilities					
Payables to other financial institutions	**69.1**	-	-	-	-
Derivative financial instruments					
- Cross-currency swaps	**787.7**	-	**(226.1)**	**(335.0)**	**(561.1)**
- Interest rate swaps*	**255.1**	**66.4**	**162.4**	**(483.9)**	**(255.1)**
Borrowings designated at fair value through profit or loss	**1,108.3**	-	**226.1**	**835.0**	**1,061.1**
Other monetary liabilities	**17.9**	-	-	-	-
Total financial liabilities	**2,238.1**	**66.4**	**162.4**	**16.1**	**244.9**
Interest exposures	**118.8**	**152.5**	**140.5**	**(0.6)**	**292.4**
Capital and reserves portfolio	**118.2**	**152.5**	**141.1**	-	**293.6**
Net interest exposures	**0.6**	-	**(0.6)**	**(0.6)**	**(1.2)**

* Notional principal amounts.

The capital and reserves portfolio is the investment of Efic's cash equity. The investment of these funds is exposed to interest rate movements and the tables below in the interest margin (duration) 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.

Note 18: **Financial risk management** (continued)

30 June 2014	Contractual undiscounted principal exposure Floating interest rate $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed Total $ m
Undiscounted principal exposures					
Financial assets					
Cash and liquid assets	1.2	-	-	-	-
Receivables from other financial institutions	150.8	-	-	-	-
Available-for-sale investment securities	443.7	57.0	167.5	-	224.5
Loans and receivables designated at amortised cost	30.4	-	-	-	-
Loans and receivables designated at fair value through profit or loss	809.7	15.9	38.1	-	54.0
Loans to National Interest Account designated at fair value through profit or loss	431.0	49.8	134.0	28.6	212.4
Total financial assets	1,866.8	122.7	339.6	28.6	490.9
Financial liabilities					
Payables to other financial institutions	45.1	-	-	-	-
Derivative financial instruments					
- Cross-currency swaps	551.6	(6.3)	-	(568.3)	(574.6)
- Interest rate swaps*	277.7	23.2	170.2	(471.1)	(277.7)
Borrowings designated at fair value through profit or loss	956.3	81.6	-	1,068.3	1,149.9
Other monetary liabilities	11.9	-	-	-	-
Total financial liabilities	1,842.6	98.5	170.2	28.9	297.6
Interest exposures	24.2	24.2	169.4	(0.3)	193.3
Capital and reserves portfolio	14.2	26.2	167.5	-	193.7
Net interest exposures	10.0	(2.0)	1.9	(0.3)	(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 as to the sensitivity rates to use in the analysis. The sensitivity analysis movement percentages are based on both statistical and non-statistical analysis. The statistical analysis is based on the cash rate for the past five years issued by the Reserve Bank of Australia (RBA) as the underlying data set. This information is then revised and adjusted for reasonableness under the current economic circumstances. The following 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.

Note 18: **Financial risk management** (continued)

30 June 2015	**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	**293.6**				
Change of 40 basis points interest margin		**-**	**-**	**(1.2)**	**1.2**
Floating rate investments	**118.2**				
Change of 40 basis points interest margin		**0.4**	**(0.4)**	**-**	**-**

30 June 2014	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	193.7				
Change of 60 basis points interest margin		-	-	(1.7)	1.7
Floating rate investments	14.2				
Change of 60 basis points interest margin		0.1	(0.1)	(0.1)	0.1

> *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.

As at 30 June 2015, Efic's investment approval is derived from the PGPA Act. This approval requires Efic to invest its surplus money in only Australian Commonwealth and state or territory government securities, on deposit with or in securities issued by Authorised Deposit-taking Institutions rated at least BBB- or above and on deposit with or in securities of entities with credit ratings the equivalent of AA- or above. 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, holding the asset to maturity, or obtaining security through credit support annexures (CSA's).

Notwithstanding such a high level of credit quality in Efic's investments, the portfolio is exposed to movements in credit spreads.

Unrealised marked to market movements are minimised by having an average life to maturity of approximately two years. 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.

Note 18: Financial risk management (continued)

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

	Exposure at risk 2015 $ m	Exposure at risk 2014 $ m	Increase in basis points Effect on equity 2015 $ m	Decrease in basis points Effect on equity 2015 $ m	Increase in basis points Effect on equity 2014 $ m	Decrease in basis points Effect on equity 2014 $ m
Investment portfolio						
Fixed rate investments	**293.6**	224.5				
Change of 50 basis points credit margin			**(1.5)**	**1.5**	(1.5)	1.5
Change of 120 basis points credit margin			**(3.6)**	**3.7**	(3.5)	3.6
Change of 200 basis points credit margin			**(6.0)**	**6.2**	(5.8)	6.0
Floating rate investments	**705.5**	594.5				
Change of 50 basis points credit margin			**(1.7)**	**1.7**	(2.5)	2.5
Change of 120 basis points credit margin			**(4.1)**	**4.1**	(6.0)	6.0
Change of 200 basis points credit margin			**(6.9)**	**6.9**	(9.9)	9.9

Note 18: Financial risk management (continued)

(b) Foreign exchange risk

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

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

	Foreign currency fair value exposures			
30 June 2015	**USD A$ m**	**EUR A$ m**	**NZD A$ m**	**Other A$ m**
Financial assets exposure in foreign currencies				
Cash and liquid assets	**0.1**	**0.1**	**-**	**0.2**
Receivables from other financial institutions	**159.3**	**-**	**-**	**-**
Available-for-sale investment securities	**26.2**	**44.6**	**-**	**30.8**
Loans at amortised cost	**28.3**	**-**	**-**	**-**
Loans and receivables designated at fair value through profit or loss	**1,099.4**	**60.5**	**-**	**0.6**
Loans to National Interest Account designated at fair value through profit or loss	**609.6**	**80.2**	**-**	**-**
Derivative financial instruments receivable	**635.2**	**-**	**125.4**	**112.6**
Other assets	**0.1**	**-**	**-**	**-**
Total financial assets exposure in foreign currencies	**2,558.2**	**185.4**	**125.4**	**144.2**
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	**22.6**	**18.2**	**-**	**-**
Borrowings designated at fair value through profit or loss	**833.1**	**-**	**128.5**	**113.7**
Guarantees designated at fair value through profit or loss	**6.4**	**2.2**	**-**	**0.4**
Derivative financial instruments payable	**1,713.2**	**170.4**	**-**	**31.0**
Other liabilities	**4.0**	**-**	**-**	**-**
Total financial liabilities exposure in foreign currencies	**2,579.3**	**190.8**	**128.5**	**145.1**
Net foreign exchange exposures in foreign currencies	**(21.1)**	**(5.4)**	**(3.1)**	**(0.9)**

As shown by the above table, the net foreign exchange exposure as at 30 June 2015 is minimal in value for all currencies other than USD of $21.1 million. The imbalance in this currency is largely due to movements in credit risk.

Note 18: **Financial risk management** (continued)

30 June 2014	USD A$ m	EUR A$ m	JPY A$ m	Other A$ m
	Foreign currency fair value exposures			
Financial assets exposure in foreign currencies				
Cash and liquid assets	-	-	-	0.4
Receivables from other financial institutions	132.0	-	-	-
Available-for-sale investment securities	84.7	44.4	-	-
Loans at amortised cost	29.7	-	-	-
Loans and receivables designated at fair value through profit or loss	778.0	59.0	-	-
Loans to National Interest Account designated at fair value through profit or loss	551.2	105.0	-	-
Derivative financial instruments receivable	691.2	-	156.8	122.4
Other assets	0.1	1.5	-	-
Total financial assets exposure in foreign currencies	2,266.9	209.9	156.8	122.8
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	33.9	11.2	-	-
Borrowings designated at fair value through profit or loss	698.3	6.7	146.1	122.4
Guarantees designated at fair value through profit or loss	16.5	3.2	0.1	-
Derivative financial instruments payable	1,534.3	191.6	12.9	0.2
Other liabilities	0.7	-	-	-
Total financial liabilities exposure in foreign currencies	2,283.7	212.7	159.1	122.6
Net foreign exchange exposures in foreign currencies	(16.8)	(2.8)	(2.3)	0.2

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) future fixed interest profit that has been taken to income in foreign currency.

(ii) future risk premiums and other residual components taken to income in foreign currency.

(iii) the allowance for credit risk which is held in Australian dollars against loans predominantly in foreign currency.

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.

Note 18: **Financial risk management** (continued)

Sensitivity analysis for foreign exchange on the Commercial Account:

30 June 2015	**Change in foreign exchange (FX) rate %**	**Exposure at risk A$ m**	**Increase in FX rate Effect on profit A$ m**	**Decrease in FX rate Effect on profit A$ m**
Exposure to USD	**10.9**	**(21.1)**	**2.1**	**(2.6)**
Exposure to EUR	**10.9**	**(5.4)**	**0.5**	**(0.7)**
Exposure to NZD	**10.9**	**(3.1)**	**0.3**	**(0.4)**

30 June 2014	Change in foreign exchange (FX) rate %	Exposure at risk A$ m	Increase in FX rate Effect on profit A$ m	Decrease in FX rate Effect on profit A$ m
Exposure to USD	11.5	(16.8)	1.7	(2.2)
Exposure to EUR	11.5	(2.8)	0.3	(0.4)
Exposure to JPY	11.5	(2.3)	0.2	(0.3)

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

	USD 30 June 2015 A$ m	**EUR 30 June 2015 A$ m**	USD 30 June 2014 A$ m	EUR 30 June 2014 A$ m
Financial assets exposure				
Loans and receivables	**574.3**	**72.6**	510.3	95.6
Other assets	**3.5**	**0.1**	3.3	0.6
Total financial assets exposure	**577.8**	**72.7**	513.6	96.2
Financial liabilities exposure				
Borrowings from Commercial Account	**574.9**	**72.6**	511.5	95.6
Other liabilities	**3.0**	**0.1**	3.0	0.6
Total financial liabilities exposure	**577.9**	**72.7**	514.5	96.2
Net foreign exchange exposures	**(0.1)**	**-**	(0.9)	-

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:

30 June 2015	**Change in foreign exchange (FX) rate %**	**Exposure at risk A$ m**	**Increase in FX rate Effect on profit A$ m**	**Decrease in FX rate Effect on profit A$ m**
Exposure to USD	**10.9**	**(0.1)**	**-**	**-**

30 June 2014	Change in foreign exchange (FX) rate %	Exposure at risk A$ m	Increase in FX rate Effect on profit A$ m	Decrease in FX rate Effect on profit A$ m
Exposure to USD	11.5	(0.9)	0.1	(0.1)

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, Efic determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 2015	**Level 1 A$ m**	**Level 2 A$ m**	**Level 3 A$ m**	**Total A$ m**
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	1,172.1	1,172.1
Loans to National Interest Account designated at fair value through profit or loss	-	712.6	-	712.6
Interest rate swaps	-	79.7	-	79.7
Cross-currency swaps	-	97.2	8.8	106.0
Forward foreign exchange contracts	-	4.9	-	4.9
Option	-	3.2	-	3.2
Available-for-sale financial assets				
Discount securities	-	228.3	-	228.3
Floating rate notes	-	85.8	222.4	308.2
Fixed rate bonds	-	256.0	50.1	306.1
Total	-	1,467.7	1,453.4	2,921.1
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	(2,164.0)	(113.7)	(2,277.7)
Guarantees designated at fair value through profit or loss	-	-	(10.5)	(10.5)
Interest rate swaps	-	(41.0)	-	(41.0)
Cross-currency swaps	-	(309.9)	(1.8)	(311.7)
Forward foreign exchange contracts	-	(0.1)	-	(0.1)
Total	-	(2,515.0)	(126.0)	(2,641.0)

Note 19: Fair value of financial instruments (continued)

	Fair value exposures by hierarchy			
30 June 2014	Level 1 A$ m	Level 2 A$ m	Level 3 A$ m	Total A$ m
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	855.5	855.5
Loans to National Interest Account designated at fair value through profit or loss	-	692.9	-	692.9
Interest rate swaps	-	72.1	-	72.1
Cross-currency swaps	-	66.8	31.0	97.8
Forward foreign exchange contracts	-	0.7	-	0.7
Available-for-sale financial assets				
Discount securities	-	194.3	-	194.3
Floating rate notes	-	86.1	163.2	249.3
Fixed rate bonds	-	238.0	-	238.0
Total	-	1,350.9	1,049.7	2,400.6
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	(1,951.2)	(223.8)	(2,175.0)
Guarantees designated at fair value through profit or loss	-	-	(23.3)	(23.3)
Interest rate swaps	-	(48.4)	-	(48.4)
Cross-currency swaps	-	(81.2)	(3.6)	(84.8)
Forward foreign exchange contracts	-	(3.0)	-	(3.0)
Total	-	(2,083.8)	(250.7)	(2,334.5)

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 2014 $ 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 2015 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	**855.5**	**288.2**	**(136.0)**	**176.8**	**-**	**-**	**(12.4)**	**1,172.1**
Cross-currency swaps	**31.0**	**-**	**(0.9)**	**(21.5)**	**-**	**(3.2)**	**3.4**	**8.8**
Available-for-sale financial assets								
Floating rate notes	**163.2**	**82.5**	**(31.8)**	**8.2**	**0.2**	**(0.1)**	**0.2**	**222.4**
Fixed rate bonds	**-**	**49.9**	**-**	**-**	**(0.1)**	**-**	**0.3**	**50.1**
	1,049.7	**420.6**	**(168.7)**	**163.5**	**0.1**	**(3.3)**	**(8.5)**	**1,453.4**
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	**(223.8)**	**-**	**126.7**	**(15.9)**	**-**	**0.5**	**(1.2)**	**(113.7)**
Guarantees designated at fair value through profit or loss*	**(23.3)**	**-**	**-**	**(2.3)**	**-**	**-**	**15.1**	**(10.5)**
Cross-currency swaps	**(3.6)**	**(1.3)**	**2.5**	**(5.7)**	**-**	**1.1**	**5.2**	**(1.8)**
	(250.7)	**(1.3)**	**129.2**	**(23.9)**	**-**	**1.6**	**19.1**	**(126.0)**
Total net level 3	**799.0**	**419.3**	**(39.5)**	**139.6**	**0.1**	**(1.7)**	**10.6**	**1,327.4**

* Guarantees are contingent liabilities and so the face value is not held in the statement of financial position.

Movement in level 3 fair value exposures	At 1 July 2013 $ 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 2014 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	783.2	222.7	(150.2)	(15.0)	-	-	14.8	855.5
Cross-currency swaps	44.2	-	(2.2)	(6.8)	-	(4.6)	0.4	31.0
Available-for-sale financial assets								
Floating rate notes	148.5	86.4	(77.2)	5.6	-	(0.4)	0.3	163.2
	975.9	309.1	(229.6)	(16.2)	-	(5.0)	15.5	1,049.7
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(380.2)	-	145.5	8.5	-	4.9	(2.5)	(223.8)
Guarantees designated at fair value through profit or loss*	(32.1)	-	-	-	-	-	8.8	(23.3)
Cross-currency swaps	(6.6)	-	-	0.3	-	-	2.7	(3.6)
	(418.9)	-	145.5	8.8	-	4.9	9.0	(250.7)
Total net level 3	557.0	309.1	(84.1)	(7.4)	-	(0.1)	24.5	799.0

* Guarantees are contingent liabilities and so the face value is not held in the statement of financial position.

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 the quantitative information of significant unobservable inputs for Level 3 fair value exposures on the Commercial Account:

Sensitivity of level 3 Fair value exposures	At 30 June 2015 $ m	Effect of reasonable alternative assumptions $ m	At 30 June 2014 $ m	Effect of reasonable alternative assumptions $ m
Level 3 Financial assets				
Loans and receivables designated at fair value through profit or loss	**1,172.1**	**(16.3)**	855.5	(10.5)
Cross-currency swaps	**8.8**	**-**	31.0	0.1
Available-for-sale financial assets				
Floating rate notes	**222.4**	**0.2**	163.2	0.2
Fixed rate bonds	**50.1**	**0.1**	-	-
Level 3 Financial liabilities				
Borrowings designated at fair value through profit or loss	**(113.7)**	**(0.4)**	(223.8)	(0.7)
Guarantees designated at fair value through profit or loss	**(10.5)**	**(5.8)**	(23.3)	(6.3)
Cross-currency swaps	**(1.8)**	**-**	(3.6)	-

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 (e.g. 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 basis points 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 10 basis points which is considered a reasonable alternative assumption.

(ii) Determination of fair value

The process for determination of fair value is regularly reviewed, and any changes recommended to the inputs used in the valuations are documented and submitted to the Audit Committee and then to the Board for approval if necessary. A summary paper is submitted to the Audit Committee and Board every year prior to the approval of the financial statements, which documents the accounting estimates used in fair value calculations including level 3 unobservable inputs.

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 and this is classified as a level 2 hierarchy. If a revaluation rate is not available for an investment then it is classified as a level 3 hierarchy, and 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).

Note 19: Fair value of financial instruments (continued)

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 interest rates and using the valuation technique of discounted cash flows through an external valuation system. These are classified as level 3 as the credit risk component is included in the valuation through an internal model 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.

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

Fair value is determined by applying market interest rates and using the valuation techniques of discounted cash flows through an external valuation system. These loans are classified as a level 2 hierarchy.

Derivative financial instruments

The fair value of derivative financial instruments is determined by product using market interest rates and valuation techniques which incorporate discounted cash flows. For derivatives that are associated to borrowings, an Efic curve is derived from the LIBOR or risk-free curve and then adjusted to calculate a margin based on Efic's current ability to issue debt at a margin to LIBOR. These valuations before the allowance for derivative risk are being obtained from an external valuation system. In the calculation of the allowance for derivative risk, a credit risk component is included through the use of published credit default spreads and a valuation risk component is included through an internal model. Vanilla derivatives are classified as level 2 whereas non-vanilla structured derivatives are classified as level 3 hierarchy. The structured derivatives are level 3 as they have complex interest rate formula that include foreign exchange rates.

Commercial Account borrowings designated at fair value through profit or loss

The fair value of borrowings is determined using market interest rates and valuation techniques which incorporate discounted cash flows. An Efic curve is derived from the LIBOR or risk-free curve and then adjusted to calculate a margin based on Efic's current ability to issue debt at a margin to LIBOR. These valuations are being obtained from an external valuation system. Non-structured borrowings are classified as level 2 whereas structured borrowings are classified as level 3 hierarchy. The structured borrowings are level 3 as they have complex interest rate formula that include foreign exchange rates.

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 through an external valuation system. These are classified as level 3 as the credit risk component is included in the valuation through an internal model 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 equivalent

	Commercial Account		National Interest Account	
	30 June 2015 $ m	30 June 2014 $ m	**30 June 2015 $ m**	30 June 2014 $ m
Capital available				
Equity at start of period	**225.9**	216.3	**-**	-
Profit	**18.2**	24.2	**-**	-
Net gain on cash flow hedges	**(0.2)**	(0.5)	**-**	-
Net gain/(loss) on available-for-sale investments	**(2.6)**	(2.8)	**-**	-
Asset revaluation reserve	**13.7**	-	**-**	-
Capital Injection	**200.0**	-	**-**	-
Dividend payable/paid	**(18.2)**	(11.3)	**-**	-
Equity at end of period	**436.8**	225.9	**-**	-
Eligible allowance for credit risk in capital	**12.8**	11.7	**-**	-
Efic capital	**449.6**	237.6	**-**	-
Callable capital	**200.0**	200.0	**-**	-
Capital available (including callable capital)	**649.6**	437.6	**-**	-
Capital required				
Export finance	**115.6**	109.4	**-**	-
Treasury	**32.9**	26.3	**-**	-
Other assets	**4.6**	3.8	**-**	-
Operational capital	**8.5**	7.7	**-**	-
Capital before concentration capital	**161.6**	147.2	**-**	-
Concentration capital	**172.0**	169.1	**-**	-
Total capital required	**333.6**	316.3	**-**	-
Capital ratios				
Risk weighted assets	**2,131.4**	1,941.8	**-**	-
Capital adequacy ratio (excluding callable capital)	**21.1%**	12.2%	**-**	-
Capital adequacy ratio (including callable capital)	**30.5%**	22.5%	**-**	-

Note 20: **Capital equivalent** (continued)

Commercial Account

Capital Injection

On May 13, 2014 the Treasurer announced in the Federal Budget a capital injection of $200 million to restore Efic's capital base following a $200 million special dividend paid in June 2013. The restoration of Efic's capital base was contained in Appropriation Bill (No. 2) and received Royal Assent (Act No. 64) on 30 June 2014. The actual payment of the $200 million in cash capital occurred in July 2014. The capital injection brought Efic back into compliance with its own internal capital-based limits for large exposures and country risk. Exposures are shown in Note 18.

Capital management

Efic considers capital from two perspectives.

- The amount of regulatory capital required calculated under APRA/Basel prudential standards, and adding to regulatory capital an allowance for concentration risk to give a proxy for economic capital, compared to the actual capital available (cash and callable).
- A capital adequacy ratio (CAR) assessing actual capital available against risk weighted assets (RWA), of which cash capital to RWA must be higher than 8% and including callable capital must be higher than 16%.

Actual capital available (cash and callable) is used by the Board as the base for setting risk tolerances for counterparty and country exposure limits.

Efic is unusual in that over 90% of Efic's exposures are denominated in foreign currency but actual capital available is denominated in AUD. This gives rise to a currency mismatch in that the numerator for capital adequacy purposes is fixed in AUD but the denominator is in a foreign currency. Substantial movements in the exchange rate can therefore impact on capital adequacy and large exposure and country limits even though the underlying credit exposure in foreign currency is unchanged.

Similarly, Efic needs a substantial amount of capital for concentration risk. Concentration risk is the "spread" of outstanding obligors or specifically the level of diversity that exists across a bank's loan portfolios and is not captured in typical capital adequacy calculations.

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

In this context, it is imperative that given Efic's mandate, the Board looks beyond capital adequacy ratios to determine the amount of capital required to prudently manage Efic's business. Large exposures, concentration risks and potential currency movements all impact on Efic's business and capital is required as a buffer to these risks.

Efic's Model for assessing 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'. This requirement relates only to our Commercial Account activities. Efic guides itself in fulfilling this obligation by setting its own regulatory standards drawing upon both the standards of APRA and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision.

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.

Under Basel 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 management believe that the APRA/Basel prudential framework is the most suitable framework for Efic to measure its capital adequacy and large exposures. On this basis, and consistent with previous years, 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) to measure capital required for credit risk for Export Finance facilities. Efic also uses the Supervisory Slotting approach for specialised lending

Note 20: **Capital equivalent** (continued)

- 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 (excluding reinsurers and central or local governments with internal rating 1 and 2); 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 its callable capital of $200 million, and a ratio of 8% excluding the callable capital.

At 30 June 2015, Efic's capital requirement based on risk weighted assets of $2.1 billion (2014 - $1.9 billion) is $332.5 million (2014 - $316.3 million) compared with available capital of $649.5 million (2014: $437.6 million). The capital adequacy ratio is 21.2% excluding callable capital and 30.7% including callable capital (2014: 12.2% and 22.5% respectively).

Efic's Risk Based Capital Framework

Efic's approach to risk management and capital management is based around assessing the level of, and appetite for risk, and ensuring that the level and quality of capital is appropriate to that risk profile. Prudent practice also requires that capital management be forward-looking, having regard to changes in strategy, business plans and the operating environment as well as changes in the type, amount and concentration of risk that might impact on the capital resources available.

Capital also supports Efic's operations by providing a buffer to absorb unanticipated losses from its normal business activities. In the event cash capital is insufficient, the Board, in consultation with Government, may call additional cash capital up to a prescribed amount. Efic is also supported by a Commonwealth guarantee that protects third parties from any financial loss in the event Efic cannot meet its obligations. This guarantee has never been called.

The Board treats Efic's capital as equivalent to the regulatory capital under Basel and APRA guidelines and uses this as the basis for setting risk tolerances with regard to large exposures and capital adequacy. Changes to the Efic Act in 2013 which gave the Minister power under Section 55A(2) to direct Efic to pay specified dividends within a specific period means Efic's capital base may not meet the regulatory definition of capital.

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(8)(a) of the Efic Act.

Efic's Model for assessing Large Exposures

Efic has modelled its large exposure policy on Basel and APRA guidelines and in the past has limited large exposures to 25% of eligible capital for internal grades 1 and 2 (A- and above) and adopted a more conservative target of 15% for internal risk grades 3 and worse (below A-) within the general limit of 25%, with exceptions subject to Board approval. In addition, the Board allows a small tolerance above these limits for foreign exchange movements given the majority of Efic's large exposures are in foreign currency against an AUD capital base.

National Interest Account

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

Note 21: Remuneration of external auditors

	Commercial Account		National Interest Account	
	30 June 2015 $ m	30 June 2014 $ m	30 June 2015 $ m	30 June 2014 $ m
Auditor's remuneration				
Amounts received or due and receivable by the corporation's auditors for:				
An audit or review of the financial report of the corporation	220,000	240,000	-	-
Total audit remuneration	220,000	240,000	-	-

The corporation's auditor is the Australian National Audit Office (ANAO) who has retained KPMG to assist with the assignment. The ANAO had retained Ernst & Young for the 2014 audit.

Note 22: Related party disclosures

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

	Commercial Account		National Interest Account	
	30 June 2015 $ m	30 June 2014 $ m	30 June 2015 $ m	30 June 2014 $ m
Key Management Remuneration Expenses for the Reporting Period				
Short-term employee benefits	3,288,259	3,126,777	-	-
Post-employment benefits	237,451	201,867	-	-
Termination benefits	464,001	180,144	-	-
Total remuneration	3,989,711	3,508,788	-	-
Total number of senior management personnel	18	17	-	-

Transactions with key management personnel

Efic has not entered into any direct transactions with key management personnel.

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	
	30 June 2015 $ m	30 June 2014 $ m	30 June 2015 $ m	30 June 2014 $ m
Operating profit from ordinary activities	18.2	24.2	16.0	16.0
Reclassification on non-cash items				
Depreciation	3.5	3.4	-	-
Employee entitlements	0.3	0.3	-	-
Amortisation of deferred income	(0.5)	(0.7)	(10.5)	(12.6)
Credit risk movement	(4.8)	(1.2)	-	-
Foreign exchange (gains)/losses	5.4	(0.2)	0.3	0.2
Unearned premium	-	-	(1.4)	(1.4)
Fair value movement of third-party loans and guarantees	4.3	(3.4)	-	-
Fair value movement of other financial instruments	0.2	2.0	-	-
Specific provision	(2.2)	(3.1)	14.3	9.6
Other	(4.3)	(3.9)	(2.2)	0.1
Reclassification on cash items				
Net movement in receivables/payables	7.9	3.9	(2.5)	0.3
Net repayments of loan balances	(62.8)	(34.5)	60.9	38.4
Rescheduled debt repayments	4.6	4.3	20.6	19.0
Net cash inflows/(outflows) from operating activities	(30.2)	(8.9)	95.5	69.6
Reconciliation of cash				
Cash at end of financial year is reconciled to the related items in the Balance Sheet as follows:				
Cash	0.9	1.2	-	-
Receivables from other financial institutions	169.6	150.9	-	-
Cash (including liquid funds) at end of financial year	170.5	152.1	-	-
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	-	-

Index of statutory reporting requirements

We report in accordance with the requirements of the various acts and statutory instruments as set out in Table 9.

Table 9: Index of statutory reporting requirements

Part A:
PGPA Act, Public Governance, Performance and Accountability (Consequential and Transitional Provisions) Rule 2014

Section	Subject	Location	Page
Public Governance, Performance and Accountability Act 2013			
s.42	The Board must prepare annual financial statements	Financial Statements	67-123
s.43	The Auditor-General's report of financial statements must be included in an annual report	Independent auditor's report	69-70
s.46	The Board must prepare an annual report	Report of operations, financial statements and Auditor General's statement	1-65
Commonwealth Authorities (Annual Reporting) Orders 2011			
6	The Annual Report of operations must be approved by a resolution of directors and signed by a director and include details of how and when approval was given	Report of operations - Summary and statement by the Board	68
10	Enabling legislation, objectives and functions	Report of operations - About us - Efic Act	26 26-27
11	Responsible Minister	Report of operations - About us (Accountability)	26
12a	Ministerial directions	Report of operations - Particulars of directions from the Minister	51-52
12b	General policies notified under section 23 of the PGPA Act in force before 1 July 2008	Not applicable	n.a.
12c	General Policy Orders issued under section 22 of the PGPA Act	Not applicable	n.a.
12	Other legislation	Refer to Part B of this table	127
13	Information about directors	Report of operations - Our Board	32-37
14a	Organisational structure	Report of operations - Our organisation structure	38
14b	Location	Company details	129
14	Statement on governance	Report of operations - Corporate governance - Our Board - Our risk management framework	30 32-37 54-62
15	Related entity transactions	Not applicable	n.a.

Index of statutory reporting requirements

Section	Subject	Location	Page
16	Key activities and changes affecting the authority	Report of operations - Performance against principal objectives - Chairman's report - Chief Executive Officer's report - Our clients	 4-5 6-7 8-9 10-21
17	Judicial decisions and reviews by outside bodies	Report of operations - Judicial and administrative decisions and reviews	51
18	Obtaining information from subsidiaries	Not applicable	n.a.
19	Indemnities and insurance premiums for officers	Report of operations - Indemnities and insurance	50
20	Disclosure requirements for government business enterprises	Not applicable	n.a.
21	Index of annual report requirements	Index of statutory reporting requirements	124-127

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	43-50
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	51-52
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	51-52
s.85 (2(a)	Particulars of Ministerial directions issued under section 9(2)	Report of operations - Particulars of directions by the Minister	51-52
s.85 (2)(b)	Statement of principal objectives	Report of operations - Purpose and principles - Performance against principal objectives	 24-25 4-5
s.85 (2)(c)	Assessment of principal objectives achieved	Report of operations - Performance against principal objectives	4-5
Equal Employment Opportunity (Commonwealth Authorities) Act 1987			
s.9 (4)	Report on Equal Employment Opportunity program	Report of Operations - Our people	40-43
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	40-43

Abbreviations and acronyms

Abbreviations and acronyms

Table 10: Abbreviations and acronyms

Abbreviation / acronym	Description
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
DFAT	Department of Foreign Affairs and Trade
DPRK	Democratic People's Republic of Korea
ECA	Export credit agency
EFG	Export finance guarantee
EFIC or Efic	Export Finance and Insurance Corporation
EFIC Act or 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
OECD	Organisation for Economic Co-operation and Development
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PNG	Papua New Guinea
RPA	Risk Participation Agreement
SME	Small or medium-sized enterprise
WHS Act	*Work Health and Safety Act 2011*
WHSC	Work Health and Safety Committee

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