Efic

Finance for Australian Exporters

60 YEARS SUPPORTING AUSTRALIAN EXPORTERS

ANNUAL REPORT 2016/2017

Data in this report may not sum due to rounding.

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An online version of this report is available on the Efic website www.efic.gov.au/annualreport

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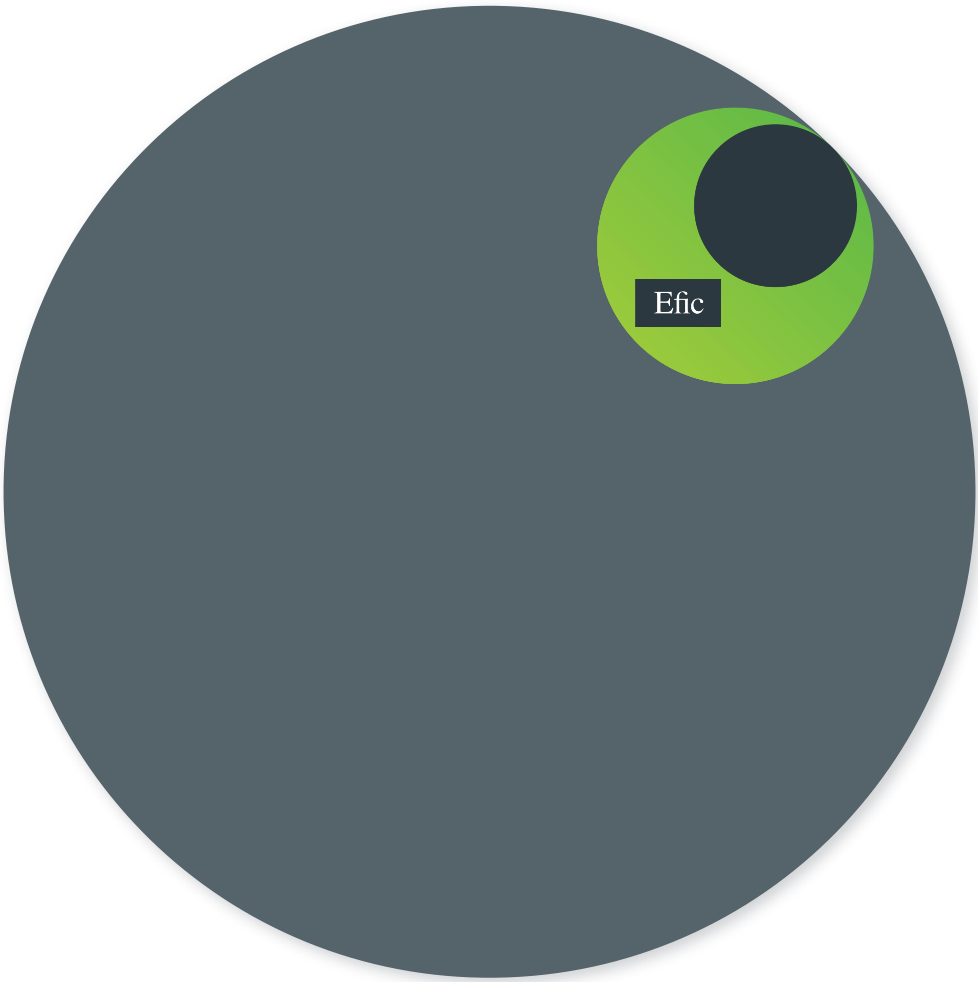
PURPOSE AND PRINCIPLES

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

We carry out our purpose by:

- helping Australian-based companies that are first time or experienced exporters; integral to a domestic export supply chain; looking to expand their business overseas; or operating in emerging markets.
- providing financial support to businesses that are unable to secure private market funding.
- 'crowding in' the private market by encouraging Australian banks and other financial institutions to support Australian businesses internationally[1].

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

Principles

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.

Provide products and services as efficiently and economically as possible

Efic operates on a commercial basis and supports clients in an efficient and cost effective manner. Our Board and management seek to manage Efic prudently to ensure our long-term viability.

Uphold best-practice environmental, social and governance standards

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

Fulfilment of our people

Efic supports a diverse and inclusive workplace where employees are accountable in their respective roles. We encourage our employees to reach their full potential and to achieve an appropriate balance between personal and professional priorities.

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 us to understand the priorities of Government across central agencies and other trade, industry, investment and business portfolios.

[1] 'Crowding in' refers to the occasions where Efic's intended participation in a transaction results in interest in that transaction from private market financiers. In many cases, this means that Efic will step away from the transaction. All SME transactions are formally referred to the banks before we offer our financial support to the transaction.

ANNUAL PERFORMANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2017

Introductory Statement

I, James M Millar, Chairman of the accountable authority, the Board of the Export Finance and Insurance Corporation (Efic), present the 2016-2017 Annual Performance Statement of Efic, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, these Annual Performance Statements are based on properly maintained records, accurately reflect the performance of the entity, and comply with subsection 39(2) of the PGPA Act.

Purpose

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

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

Efic's 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).

Analysis of overall performance against Purpose

Commercial Account

During the year, Efic continued to achieve its purpose of facilitating and encouraging Australian export trade on a commercial basis. In particular, our support for SMEs has ensured that small businesses have access to the finance they need to win business, grow internationally and achieve export success.

The analysis of our overall performance below should be read in conjunction with the rest of the Annual Report, and in particular, the Chairman's and Managing Director's report.

It has been a successful year for Efic with some growth year on year for the business and exceeding in most cases the performance in 2015-16. In total, we provided 198 transactions (194 in 2015-16) during the year, valued at $396 million ($390 million in 2015-16), supporting 170 export contracts (149 in 2015-16), which supported over $1.0 billion of export contracts and overseas investments ($1.4 billion in 2015-16). We made a post-tax profit of $11.6 million ($11.5 million in 2015-16) and had a capital adequacy ratio of 25.2 per cent. We also helped 17 per cent more SME exporters than in 2015-16. Tables 1 to 4 show how we performed against the targets set out in the 2016-17 Corporate Plan (Plan).

Our Plan had set ambitious targets this year in both number of transactions, value of transactions and export contracts supported. When assessing performance against these targets, the eventual outcomes are significantly influenced by the risk appetite of the private sector and the degree of market gap. These factors are beyond our control and this year there was greater private sector financial support for exporters than expected, and so maintaining existing levels of Efic support was a positive outcome for Efic.

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

If our early involvement means our clients' needs may be met at a later stage by the private sector, then we have been successful in achieving our mandate, even though this is not reflected in our performance. For example, this year we saw the private sector assist with over $55 million of business that we were considering, but we stepped away when the private sector was willing to step in.

We continue to develop solutions to meet the needs of our diverse clients – introducing support for first-time exporters, an Export Line of Credit product, and an Export Venture Debt solution for high growth businesses. These new solutions will help underpin the growth expected in 2017-18.

We have streamlined the application, credit assessment, credit decision and documentation processes for small exporters. Our standard form documentation and accelerated execution processes have improved the average turnaround times on SME transactions. Our investment in our continuous improvement program has improved Efic's operations and processes and a review by an independent consultant is looking at ways to further enhance business efficiencies, eliminate redundant processes and find innovative solutions.

Information technology services have undergone significant change to support a digital transformation across the business, accelerating business activities, processes and competencies to leverage the changes and opportunities of digital technologies available to us. An important aspect of this change is the use and adoption of more cloud based services. Our cloud strategy is formed on making maximum use of software-as-a-service (SaaS) where this provides us with an opportunity to implement a new system quickly, access new functionality, and/or reduce the cost and risk associated with running existing systems ourselves.

We invest in our staff and promote diversity across the organisation. A diverse and inclusive workplace is critical to strengthening our employee retention and reputation and contributes significantly to talent attraction and employee engagement.

National Interest Account

In 2016-17, Efic provided a new loan facility of $49.2 million to OneSteel Manufacturing Pty Ltd (Administrators Appointed), a member of the Arrium group of companies. The loan supported the purchase of new equipment enabling an upgrade to the existing iron ore mines in Whyalla, South Australia.

ANNUAL PERFORMANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

Results on the Commercial Account

Table 1: We increased the value of export contracts supported while transaction volumes and values that supported SMEs during the year were below Plan.

Performance criterion	Result against performance criterion	Source
Number and value of facilities		
New Signings SME – Direct		
200 to 250 in number of transactions	184 transactions	
155 to 205 in number of facilities	144 facilities	
$180 to $200 million in value of facilities	$106.6 million in value of deals	
$840 to $890 million in value supporting export contracts	$555.8 million in value supporting export contracts	
New Signings SME – Alliances		
0 in number of transactions	7 transactions	
0 in number of facilities	3 facilities	
$nil in value of facilities	$1.0 million in value of deals	
$nil in value supporting export contracts	$2.1 million in value supporting export contracts	
New Signings SME - Total		2016-17 Corporate Plan
200 to 250 in number of transactions	191 transactions	1
155 to 205 in number of facilities	147 facilities	2
$180 to $200 million in value of facilities	$107.6 million in value of deals	3
$840 to $890 million in value supporting export contracts	$557.9 million in value supporting export contracts	4

1: 2016-17 Corporate Plan, Page 15, Column 4, Line 2 of Table
2: 2016-17 Corporate Plan, Page 15, Column 4, Line 6 of Table
3: 2016-17 Corporate Plan, Page 15, Column 4, Line 10 of Table
4: 2016-17 Corporate Plan, Page 15, Column 4, Line 14 of Table

Explanation

SME signings, as a proportion of total signings, dominate our activity and account for over 96 per cent of all transactions by number. We provided 184 SME transactions through direct relationships with our exporters during the year equating to 144 facilities valued at $106.6 million, supporting export contracts valued at $555.8 million. This lower than Plan result was in part due to our demonstration role where our participation in specific transactions encouraged private sector interest, resulting in private market financing being extended to a number of SME clients with a total value of around $10 million, after we had made a formal offer. While not contributing to our targets, we consider such transactions as successful examples of meeting our mandate.

We also signed 7 SME transactions under our alliance arrangements with the Asian Development Bank whereby we support Australian SMEs exporting to Bangladesh, Pakistan, Sri Lanka and Vietnam.

The overall SME business has benefitted from the success of our Small Business Export Loan introduced in 2016 and delivered via our online portal EficDirect. Small Business Export Loan transactions have grown from 10 transactions in 2015-16 to 51 transactions this year.

In March 2017, we also introduced our Export Line of Credit product. In the four months since its introduction, we have completed 12 transactions. Both the Export Line of Credit and Small Business Export Loan products were specifically designed to support SMEs and followed earlier amendments to the Efic Act in 2015 that enabled us to offer these type of products to meet the needs of smaller exporters.

Table 2: We continued to support larger exporters and overseas projects with Australian content, including those with a significant contribution from Australian SME exporters.

Performance criterion	Result against performance criterion	Source
Number and value of facilities		
New Signings Corporate, Sovereign and Project Finance – Direct		
5 to 15 in number of transactions	5 transactions	
5 to 15 in number of facilities	4 facilities	
$330 to $360 million in value of facilities	$284.2 million in value of deals	
$1,300 to $1,400 million in value supporting export contracts	$428.2 million in value supporting export contracts	
New Signings Corporate, Sovereign and Project Finance – Alliances		
0 in number of transactions	2 transactions	
0 in number of facilities	2 facilities	
$nil in value of facilities	$4.2 million in value of deals	
$nil in value supporting export contracts	$10.1 million in value supporting export contracts	
New Signings Corporate, Sovereign and Project Finance – Total		2016-17 Corporate Plan
5 to 15 in number of transactions	7 transactions	1
5 to 15 in number of facilities	6 facilities	2
$330 to $360 million in value of facilities	$288.4 million in value of deals	3
$1,300 to $1,400 million in value supporting export contracts	$438.3 million in value supporting export contracts	4

1: 2016-17 Corporate Plan, Page 15, Column 4, Line 3 of Table
2: 2016-17 Corporate Plan, Page 15, Column 4, Line 7 of Table
3: 2016-17 Corporate Plan, Page 15, Column 4, Line 11 of Table
4: 2016-17 Corporate Plan, Page 15, Column 4, Line 15 of Table

Explanation

Corporate, Sovereign and Project Finance signings account for around 4 per cent of all transactions by number but around 73 per cent by value due to the large size of each individual transaction. We provided 5 Corporate, Sovereign and Project Finance transactions during the year, which equated to 4 facilities valued at $284.2 million. We also signed 2 corporate transactions under our alliance arrangements with the Asian Development Bank during the year, valued at $4.2 million. Similar to the SME business, the Corporate, Sovereign and Project Finance business has a demonstration role and there was one significant transaction of around € 30 million (A$45 million) where we helped attract private sector finance after we had issued an indicative term sheet. While ending the year below Plan, in terms of meeting our mandate, we have in this instance successfully 'crowded in' the private sector effectively contributing to a successful export opportunity.

The export contracts supported by Corporate, Sovereign and Project Finance totalled $428.2 million. This year our transactions were predominantly buyer finance, where our financial support is a large component of the overall export contract supported. In previous years, our financial support has been to project finance (resource projects), where the export contract is much larger, involving multiple parties, and our support is a smaller component of the overall export contract.

The performance of our Corporate, Sovereign and Project Finance business reflects the episodic nature of these type of transactions and their significant size, resulting in transactions taking longer to close due to their increased complexity and the number of stakeholders involved, including foreign governments.

ANNUAL PERFORMANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

Table 3: Our support of exporters and the transactions undertaken was profitable (sustainable) over the period of the Plan.

Performance criterion	Result against performance criterion	Source
Financial Performance		2016-17 Corporate Plan
Achieve a pre-tax profit of $16.5 million	Commercial account pre-tax profit is $16.6 million	1
Achieve a post-tax profit of $11.5 million	Commercial account post-tax profit is $11.6 million	2

1: 2016-17 Corporate Plan, Page 15, Column 4, Line 17 of Table
2: 2016-17 Corporate Plan, Page 15, Column 4, Line 18 of Table

Explanation

Our annual pre-tax profit was $16.6 million and post-tax profit was $11.6 million on the Commercial Account, which marginally exceeded our Plan profit of $16.5 million pre-tax and $11.5 million post-tax.

Our profit during the year was underpinned by ongoing annuity income derived from fees and premium income on longer tenor transactions written in previous years. Profit was also supported by unrealised foreign exchange gains of $1.9 million compared to unrealised foreign exchange losses of $1.6 million in 2015-16.

During 2016-17, we continued to make allowance for payments to the Commonwealth covering a debt neutrality charge of $1.1 million, state equivalent taxes of $1.3 million and income tax equivalent payments of $5.0 million. In addition, we paid a dividend in December 2016 of $5.8 million representing 50 per cent of our 2015-16 profit.

Table 4: We met the minimum capital adequacy requirements set by the Board, including our capital adequacy ratio being above 16 per cent.

Performance criterion	Result against performance criterion	Source
Capital Adequacy		2016-17 Corporate Plan
Capital Available at $667.5 million	Capital Available is $667.2 million	1
Risk Weighted Assets at $2,951 million	Risk Weighted Assets are $2,652.4 million	2
Capital Adequacy ratio of 22.6% including callable capital	Capital Adequacy ratio of 25.2% including callable capital	3

1: 2016-17 Corporate Plan, Page 15, Column 4, Line 23 of Table
2: 2016-17 Corporate Plan, Page 15, Column 4, Line 24 of Table
3: 2016-17 Corporate Plan, Page 15, Column 4, Line 25 of Table

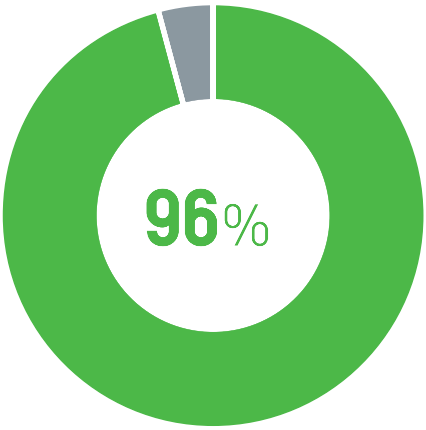
Explanation

Our Capital Adequacy Ratio is a function of both Risk Weighted Assets and the capital available to support the business. Risk Weighted Assets grew during the year to $2,652.4 million principally as a result of growth in foreign currency denominated exposures. However, Risk Weighted Assets were lower than Plan due to lower levels of exposure to corporate clients.

Capital Available grew to $667.2 million, which is equal to the Plan due to profit after tax also being in line with Plan. The Capital Adequacy Ratio of 25.2 per cent reflects the lower level of Risk Weighted Assets relative to the same amount of available capital. The ratio is above the minimum set by the Board of 16 per cent.

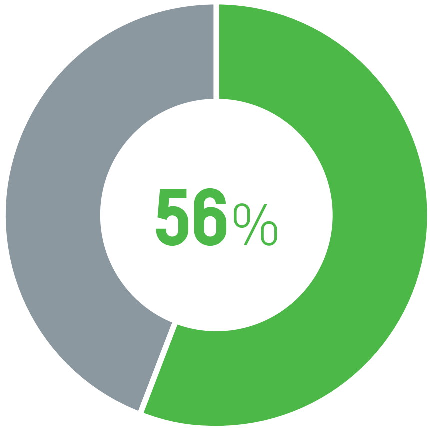
HIGHLIGHTS
FOR 2017

SME transactions by number



of transactions by number were for SMEs

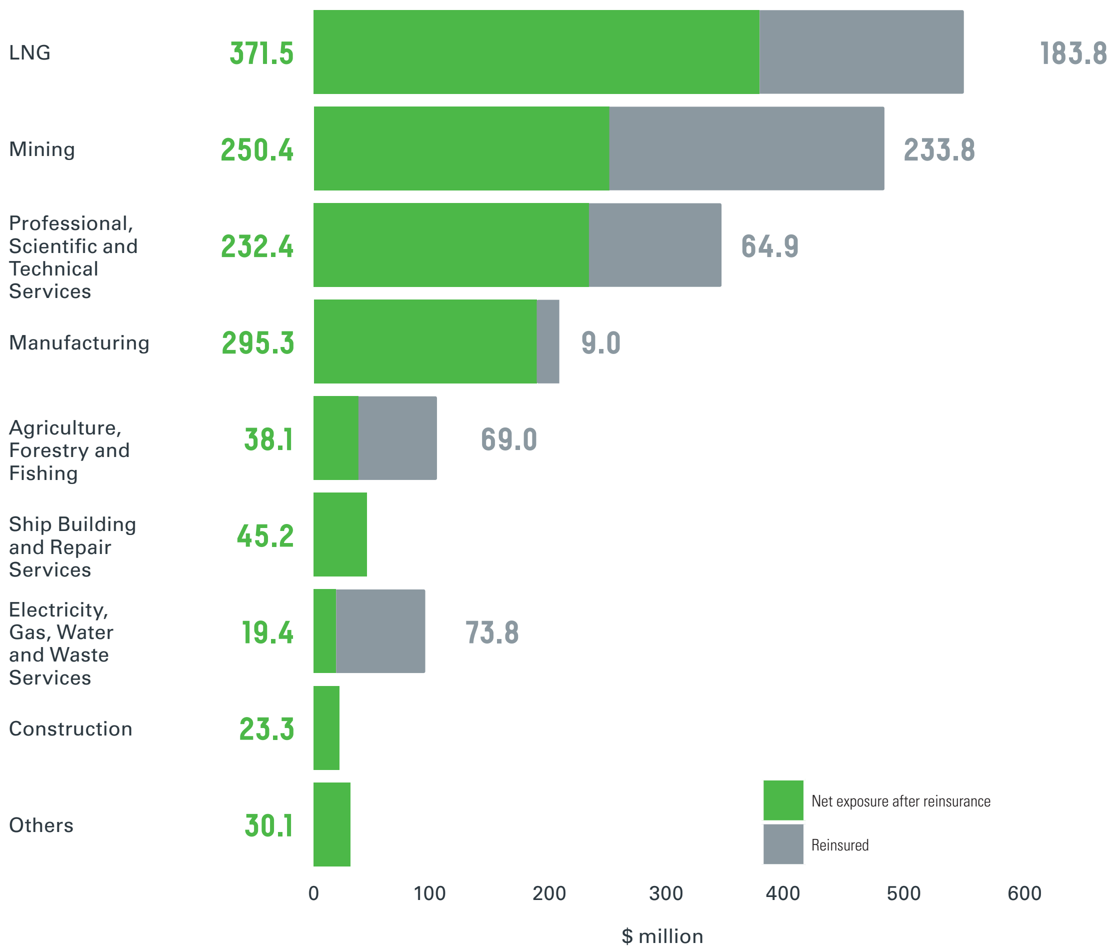
SME transactions by contracts supported



of export contracts supported were for SMEs

New vs. Existing clients supported

Exposure by industry of exporters (A$m)
as at 30 June 2017



HIGHLIGHTS FOR 2017
PUTTING AUSTRALIAN BUSINESSES FIRST

New product solutions introduced:

Export Line of **Credit**

A line of credit to support ongoing eligible export-related contracts that can be drawn and repaid multiple times during the term

Export Venture **Debt**

For high growth businesses that need finance to support an export contract between capital raising rounds

First time **Exporters**

First time exporters can now access our range of finance solutions to help secure or deliver on their first export contract

17% more SME exporters supported than 2015-16

Increase in the number of SME businesses supported year on year since 2014-15

$1b+ value of export contracts supported

EficDirect.

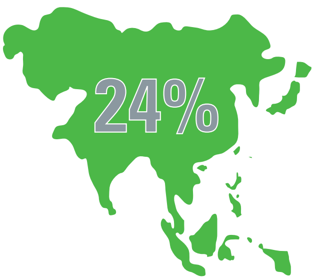
Small Business Export Loan Enhancements introduced in 2016-17:

- Conditional approval
- $20,000 – $350,000 loans
- 3rd party applications
- Improved application process

Making an impact

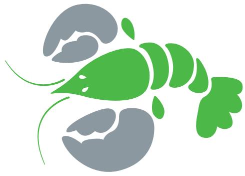
- Pre-qualification turnaround times down to 5.8 days from 16.5 days
- Exceeded transaction target by > 20%
- Exceeded total transaction value by 41%
- Accounts for 46% of 'new to Efic' clients

Supporting exports to **40+** countries worldwide



ASIA is the top overseas region of export for Efic clients

A$8.4m support provided to Australian SMEs that are part of an export supply chain



1st seafood transaction exporting to Asia

Increase in number of wineries supported due to the Small Business Export Loan

Continuing support of Australia's world-leading shipbuilding industry

50% increase in funding provided to SMEs in the Professional, Scientific and Technical Services industry

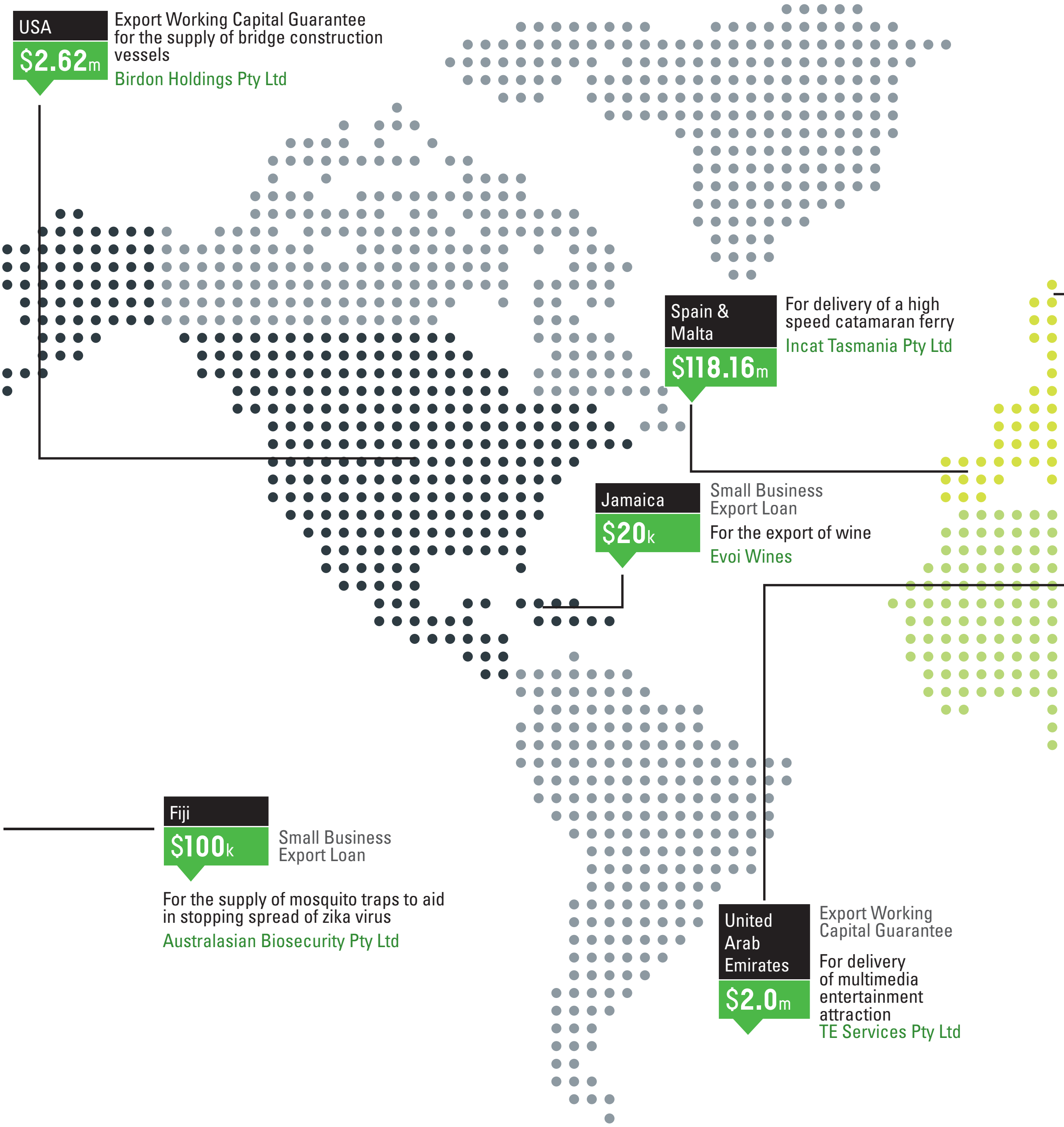
60 years of helping Australian businesses grow their exports

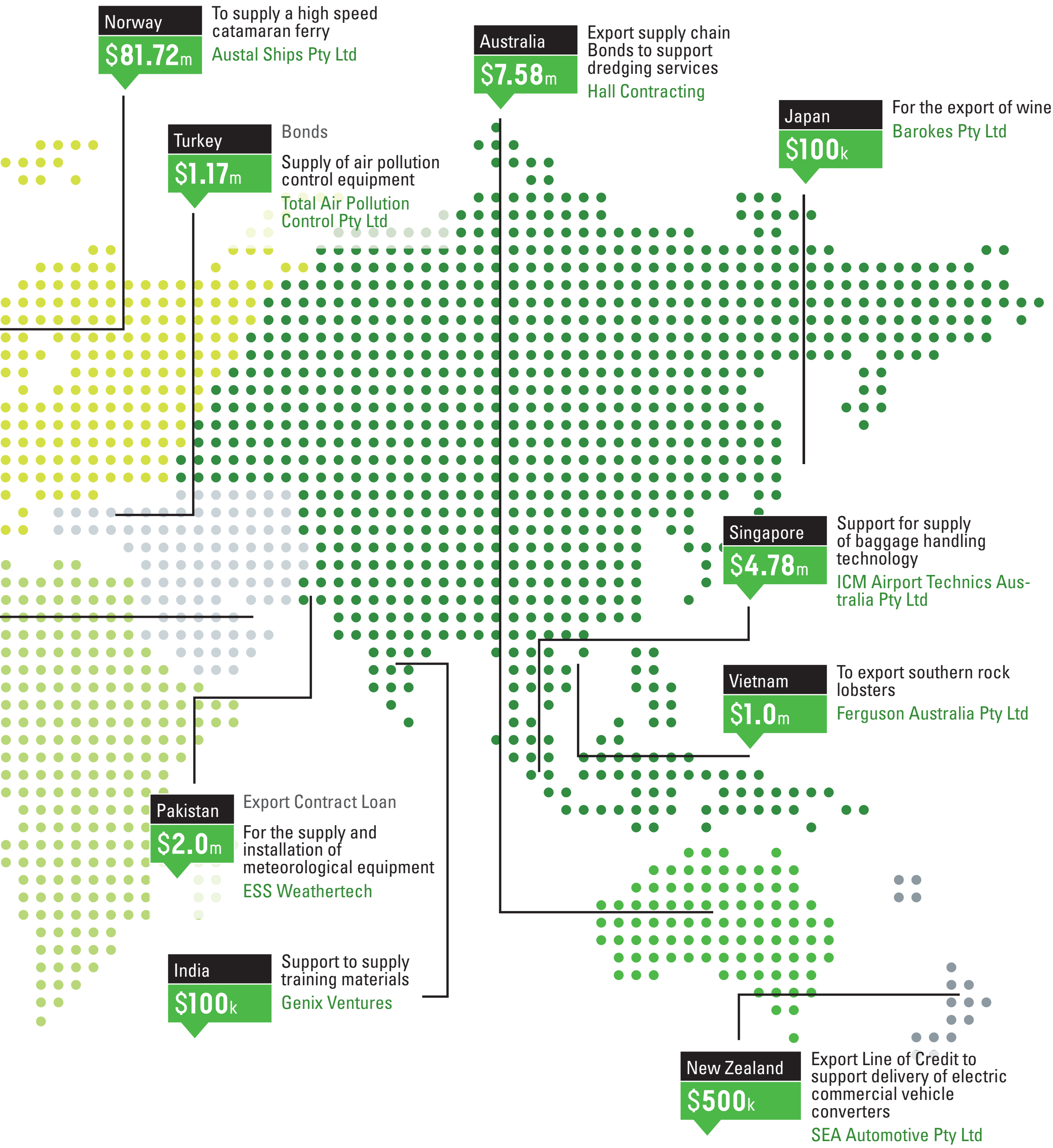
SME exporters working with Efic have a significantly higher level of business confidence*

940+ enquiry calls to Efic's client liaison officers

*Source: Efic's Export Sentiment Index, July 2017

TRANSACTION HIGHLIGHTS FOR 2017




Norway
$81.72m
To supply a high speed catamaran ferry
Austal Ships Pty Ltd
Australia
$7.58m
Export supply chain Bonds to support dredging services
Hall Contracting
Japan
$100k
For the export of wine
Barokes Pty Ltd
Turkey
$1.17m
Bonds
Supply of air pollution control equipment
Total Air Pollution Control Pty Ltd
Singapore
$4.78m
Support for supply of baggage handling technology
ICM Airport Technics Australia Pty Ltd
Vietnam
$1.0m
To export southern rock lobsters
Ferguson Australia Pty Ltd
Pakistan
$2.0m
Export Contract Loan
For the supply and installation of meteorological equipment
ESS Weathertech
India
$100k
Support to supply training materials
Genix Ventures
New Zealand
$500k
Export Line of Credit to support delivery of electric commercial vehicle converters
SEA Automotive Pty Ltd

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

In 2016-17 Efic continued to focus on delivering finance solutions that built on our mandate of helping Australian exporters grow overseas. We provided a total of 198 transactions valued at $396 million, supporting 170 export contracts worth over $1 billion, through 153 facilities.

Small to medium-sized enterprises (SMEs) continued to dominate Efic's signings, accounting for 96 per cent of all transactions. While the number and value of transactions has declined marginally this financial year, it is pleasing to report that Efic was able to maintain its profit, consistent with last financial year and supported 17 per cent more SME exporters than in the previous year.

Our mandate, to work in the market gap, means our ability to support Australian export businesses is directly connected to the private sector's willingness to finance such businesses, particularly in emerging markets. This year we have continued to show value in our demonstration role through the number of transactions where we have 'crowded in' the private sector.

'Crowding in' the private sector

We were also able to encourage the advance of private sector financing to over 10 clients worth approximately $55 million, in line with our role to 'crowd in' private sector finance. One of these situations involved a client who was a leading manufacturer of heating and cooling appliances that had secured an export order with the largest home improvement retailer in the United States.

Requiring financial support to deliver on the order, the business was unable to secure financing from its bank. Efic's favourable assessment and involvement led to the client's bank eventually covering the relevant financing.

At Efic, we consider this a positive outcome as it highlights to the private market that there is value in supporting growing and commercially viable Australian export businesses and enables us to achieve our mandate.

More flexible options for small business exporters

Last financial year we introduced our online finance solution developed for businesses with a turnover of between $250k and $10 million. The Small Business Export Loan product filled a much-needed gap for businesses requiring quick access to finance. We are pleased with the progress that we are making with the Small Business Export Loan and have continued to improve this solution by working closely with our clients to provide more flexibility and options to meet their needs.

This year we modified our Small Business Export Loan product by giving our clients the ability to borrow between $20k and $350k. As a result, we have been able to support smaller businesses that may not have the export orders needed for larger loans.

We have also introduced 90-day conditional approval for businesses that may not have yet secured their export order but are in the process of doing so. This option provides Australian small businesses with an added level of security to pursue export opportunities with the knowledge that financial support is available when needed.

The online application portal for the Small Business Export Loan has been refined to make it more user-friendly. By reducing the number of application pages, we have reduced the number of application cancellations from 74 per cent to 33 per cent.

New solutions to meet changing needs

Providing Australian businesses with export finance solutions that meet their needs and helping them to succeed internationally is Efic's core purpose.

This year was no exception and we introduced a number of new solutions that will allow us to reach even more Australian exporters.

Support for first time exporters

First time exporters can now access our financing options. This is a positive development for successful domestic businesses that are ready to build their business overseas. For many first time exporters, getting access to finance from traditional banks can be difficult due to lack of security or risks associated with the country of export.

Export Line of Credit

Our new Export Line of Credit product provides an easy-to-understand facility with the flexibility to be drawn and repaid multiple times during the loan term. This provides our clients with access to additional working capital when they need it to support eligible export-related contracts.

Export Venture Debt solution

We have also introduced a solution for high-growth businesses that need working capital to support an export contract between equity funding rounds.

Efic's Export Venture Debt product is a loan, not an equity injection, providing businesses with working capital to assist in meeting their obligations for relevant export contracts. The funds are repaid through the customers' payments, with redraws available if needed.

This solution allows equity investment funding to focus on more strategic aspects of the business, and provides an alternative to selling equity.

Continuous improvement has delivered gains

The continuous improvement process and introduction of new solutions has achieved some real gains for Efic and our clients. Since 2013, we have seen the number of exporters supported increase year on year. This year we saw the number of exporters supported grow by 17 per cent.

It is encouraging to acknowledge that this year we supported the largest number of new clients, with the Small Business Export Loan accounting for 46 per cent of new Efic clients.

Support for large projects continues

We continue to provide funding for large-scale projects where there is a market gap. This year we provided support to three large-scale projects in the shipbuilding industry in Tasmania and Western Australia.

Australia's shipbuilding industry continues to be an important contributor to export trade, and provides employment and apprenticeship opportunities to the local workforce. Our support for two of Australia's largest shipbuilders has been ongoing and we expect this to continue into the future.

We continue to provide support to Australian businesses involved in the export of breeding and dairy cattle, within the framework of Efic's due diligence requirements.

We continue to support the extractive industries where there is measurable significant support for Australian SME participation in relevant projects.

Our due diligence process is rigorous and assesses all opportunities against the environmental, social and technical risks associated with relevant export contracts.

Efic regularly engages with its key stakeholders – exporters, Government, private sector financiers, industry groups, the media and Civil Society Organisations. This engagement enhances understanding of our operations, and assists us in gaining a greater understanding of the market in which we operate.

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

Cross government support

Last financial year we entered into a support agreement with the Northern Australia Infrastructure Facility (NAIF), made possible under changes to the Efic Act. Efic's role is to provide services under a Service Level Agreement under the direction of the NAIF Chief Executive Officer.

Efic and the NAIF are both corporate Commonwealth entities governed by their own bespoke legislation and by the terms of the PGPA Act. Each entity has an independent Board who are responsible for their own corporate governance, managing their affairs and overseeing their operations.

Efic is responsible for providing a range of specialist services to the NAIF, reducing the duplication of 'back-office' resourcing requirements across Government entities. A key aspect of this support arrangement is the ability of the NAIF to use the same key systems and processes used across Efic. These services and processes, and associated internal controls, are subject to regular review by Efic's independently appointed internal audit provider. This arrangement ensures that the NAIF can draw on Efic's systems and expertise with the assurance and knowledge that such services are subject to appropriate internal review and oversight. The NAIF Board however is responsible for all NAIF decisions.

Our people

At Efic, we recognise that our people are our greatest asset. We are committed to promoting diversity across the organisation and strive for better representation of women in senior leadership positions. We also support Australia's indigenous community by promoting awareness of indigenous culture and supporting reconciliation.

We acknowledge the hard work by our staff, and thank them for their continuing commitment to helping Australian exporters grow.

Looking ahead

We would like to take this opportunity to thank outgoing Managing Director and CEO, Andrew Hunter. Since joining Efic in 2013, Andrew has made a significant contribution to the organisation. Enhancing Efic's focus on SMEs, he streamlined processes, increased efficiencies across Efic and built a strong national presence. We wish him all the best for the future.

We also welcome Swati Dave, our new Managing Director and CEO, to Efic. Swati brings more than 30 years' experience in finance and banking across a range of sectors in both domestic and international markets.

She brings to Efic a strong record of accomplishment of leading strategy, driving customer focus, risk management and people leadership.

We look forward to working with Swati and the Efic team to continue to build on our capabilities while delivering finance solutions that help build Australia's export businesses.

I am delighted to join Efic and am passionate about supporting Australian exporters as they expand and grow globally.

Australia's trade landscape continues to be a key driver of the country's prosperity with exports rising five percent in 2016 to $330 billion. Our own research shows that Australian exporting SMEs are feeling very positive about the future. Over 60 per cent of SMEs are confident they will be in a better financial position in the next 12 months, with 62 per cent expecting an increase in overseas sales revenue.

It is an exciting time for Australian export businesses, with the introduction of key trade agreements leading to favourable trade conditions and new opportunities.

Our focus will be on providing export finance solutions in a commercial and sustainable way.

I look forward to working with a very committed team who are helping Australian businesses achieve export success.

Signed for and on behalf of the members of the Board, as the accountable authority of Efic, and being responsible for preparing and giving the Annual Report to Efic's Minister in accordance with Section 46 of the PGPA Act.

James M. Millar AM
Chairman
24 August 2017

Swati Dave

Swati Dave
Managing Director and CEO
24 August 2017

OUR
CLIENTS

Our two accounts

Efic's 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).

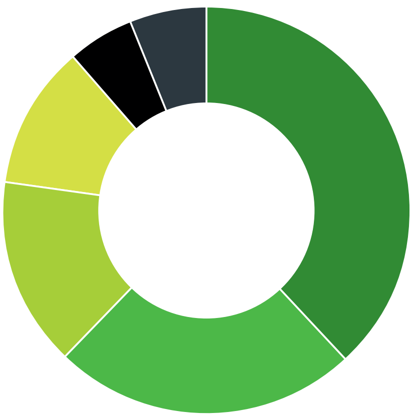
Commercial Account

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

Our Commercial Account exposures of $1.9 billion comprises loans, export finance guarantees including funded export finance guarantees, medium-term insurances, bonds and rescheduled credit insurance debts.

The average maturity of all facilities outstanding at 30 June 2017 was 2.1 years, although it was 1.1 years for SME exposures and 6.3 years for our larger corporate exposures. On a weighted basis by value, the average maturity for all facilities lengthens to 6.4 years with SME exposures at 3.0 years and larger corporate exposures at 6.7 years.

Figure 1: Commercial Account at 30 June 2017 – exposure by region



Region	Value ($m)	Value (%)
Australia	737.8	38.0%
Asia	468.4	24.1%
Northern America	290.9	15.0%
Europe	222.1	11.4%
South America	105.5	5.4%
Pacific	114.7	5.9%
Middle East	0.6	0.0%

Figure 2: Commercial Account at 30 June 2017 – exposure by industry sector

Region	Value ($m)	Value (%)
Reinsurance	634.3	32.7%
Mining LNG	371.5	19.1%
Public Administration and Safety	320.4	16.5%
Mining Commodities	211.1	10.9%
Financial and Insurance Services	152.9	7.9%
Transport, Postal & Warehousing	127.1	6.6%
Other	54.3	2.8%
Manufacturing	51.7	2.7%
Construction	16.7	0.9%

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. If a transaction is written on the National Interest Account, the Commonwealth receives the net income from Efic and must reimburse Efic for any losses.

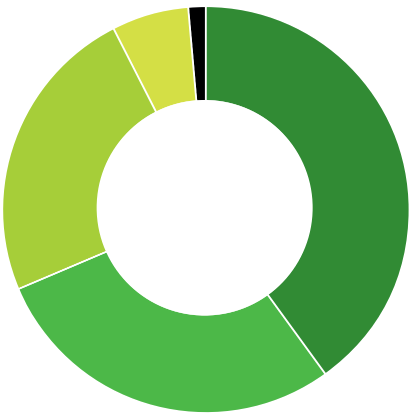
National Interest transactions tend to involve:

- financial commitments that are too large for our balance sheet.
- risks that we consider 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.

The National Interest Account exposure of $716.4 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$220.7 million at 30 June 2017. 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 2017 – exposures by region



Region	Value ($m)	Value (%)
Pacific	286.7	40.0%
Asia	206.3	28.8%
Middle East	169.8	23.7%
Australia	44.1	6.2%
South America	9.5	1.3%

Figure 4: National Interest Account at 30 June 2017 – exposure by industry sector

Sector	Value ($m)	Value (%)
Public Administration and Safety	376.2	52.5%
Mining LNG	286.6	40.0%
Mining Other	33.8	4.7%
Manufacturing	10.3	1.4%
Financial and Insurance Services	9.5	1.3%

CASE
STUDY

Down Under Enterprises

“Efic’s Export Contract Loan helped us manage our cashflow and grow our export business by 91%.”

Dee-Ann Prather, Managing Director
Down Under Enterprises

Efic supported Down Under Enterprises to deliver on increased orders from its clients in the US and Asia.

Founded in 2001, Down Under Enterprises specialises in the production and distribution of a wide range of wholesale Australian essential oils, carrier oils, and other ingredients for the global personal care market. With growing appetite for Australian quality essential oils, Down Under Enterprises has experienced strong growth.

Growing orders from their existing US clients, as well as a rapidly growing Asian market, meant that Down Under Enterprises needed support to deliver on a variety of export contracts. With their bank unable to provide the support needed, Efic was able to help with an Export Contract Loan and Export Working Capital Guarantee.

Industry:
Wholesale Trade

Product:
Export Working Capital Guarantee and Export Contract Loan

Support:
A$850,000

CASE STUDY

Alpha Box & Dice

> "Efic's Small Business Export Loan allowed us to keep filling orders and keep up with interest from overseas."
>
> Dylan Fairweather, Managing Director
> Alpha Box & Dice

Efic's Small Business Export Loan helped South Australian wine business, Alpha Box & Dice (AB&D), export more wine to Sweden and Canada.

With its alphabet list of wines, AB&D experienced strong growth since it started to focus on growing its exports. Targeting a younger demographic, the business priority is staying true to its brand and audience.

An increase in orders from its customers in Canada and Sweden meant AB&D needed a quick cashflow boost to fund the bottling and shipment of its products. Efic's unsecured Small Business Export Loan gave AB&D access to funds within 8 business days, helping them take their wine to the world.

Industry:
Wine

Product:
Small Business Export Loan

Support:
A$60,000

OUR CLIENTS

Facilities signed

Table 5: Our Commercial Account transactions for 2016-17

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
ADB - Military Commercial Joint Stock Bank	Wholesale Trade	Waste paper	Vietnam	RPA	1	0.03	Low potential - note 2
ADB - National Bank of Pakistan	Wholesale Trade	Carbonised wool	Pakistan	RPA x 5	1	0.38	Low potential - note 2
ADB - National Credit and Commerce Bank Ltd	Wholesale Trade	Lentils	Bangladesh	RPA	1	0.11	Low potential - note 2
ADB - Southeast Bank Limited	Wholesale Trade	Lentils	Bangladesh	RPA	1	0.63	Low potential - note 2
ADB - Vietnam Technological and Commercial Joint Stock Bank	Wholesale Trade	Wheat	Vietnam	RPA	1	4.05	Low potential - note 2
Altmore International Pty Ltd	Education and Training	Training services	China	ECL	1	0.15	Low potential - note 3
AOM Group Pty Ltd	Wholesale Trade	Organic beef	Various	EWCG	1	0.50	Low potential - note 1
Atkins Family Vineyards Pty Ltd	Manufacturing	Wine	Various	SBEL x 2	2	0.31	Low potential - note 3
Audio Visual Imagenation Pty Ltd	Manufacturing	Communication router systems	Finland	ECL	1	1.30	Low potential - note 1
Austal Ships Pty Limited	Manufacturing	High speed catamaran	Norway	Loan x 2	1	81.72	Low potential - note 1
Australasian Biosecurity Pty Ltd	Wholesale Trade	Mosquito traps	Fiji	SBEL	1	0.10	Low potential - note 3
Australian Bale Press Company	Electricity, Gas, Water and Waste Services	Recycling processing equipment	Korea	ECL	1	0.50	Low potential - note 1
Australian Radio Towers Pty Ltd	Mining	Installation of telecommunication network	Australia – integral to supply chain	EWCG	1	1.50	Category C
Barokes Pty Ltd	Manufacturing	Wine packaging	Japan	SBEL	1	0.11	Low potential - note 3

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Big Mobile Group Pty Ltd	Information Media and Telecommunications	Mobile marketing and media services	Various	ODI	1	0.53	Low potential - note 1
Birdon Holdings Pty Ltd	Manufacturing	Bridge construction vessels	United States of America	EWCG	1	2.62	Low potential - note 1
BJP Laboratories Pty Ltd	Manufacturing	Pharmaceuticals	Australia – integral to supply chain	EWCG	1	1.00	Low potential - note 1
Boost Media Holdings Pty Ltd	Information Media and Telecommunications	Media brokerage services	Various	EWCG	1	1.50	Low potential - note 1
Borghesi & Adam Publishers Pty Ltd	Information Media and Telecommunications	Publishing	United States of America	SBEL	1	0.06	Low potential - note 3
Bottles Of Australia Pty Ltd	Manufacturing	Custom drink bottles	Various	ECL	1	0.21	Low potential - note 3
BroadSource Australia Pty Ltd	Professional, Scientific and Technical Services	Information technology services	Various	ELOC	1	0.30	Low potential - note 1
Brumby Aircraft Australia Pty Ltd	Other Services	Aircraft shows	China	SBEL	1	0.11	Low potential - note 3
Calix Ltd	Manufacturing	Magnesium oxide products	France	ECL	1	0.34	Low potential - note 1
Camatic Pty Ltd	Manufacturing	Seating	United States of America	BOND	1	0.61	Low potential - note 1
Careplus Australia Pty Ltd	Retail Trade	Health products	China	EWCG	1	1.50	Low potential - note 1
Cartar Industries Pty Ltd	Manufacturing	Automotive hoists	Various	ECL x 1, ELOC x 1	2	0.20	Low potential - note 3
Cassegrain Wines Pty Ltd	Manufacturing	Wine	Japan	SBEL	1	0.13	Low potential - note 3
CCB Envico Pty Ltd	Electricity, Gas, Water and Waste Services	Wastewater management	Sri Lanka, Kiribati Republic	Bond x 7	1	3.25	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)
Choice M Pty Ltd	Wholesale Trade	Meat products	Korea	EWCG x 2	2	0.85	Low potential - note 1
Clayton's Organics Pty Ltd	Agriculture, Forestry and Fishing	Organic beef	Australia – integral to supply chain	EWCG x 3	2	0.80	Low potential - note 1
Clinical Genomics Technologies Pty Ltd	Health Care and Social Assistance	Cancer screening kits	United States of America	EWCG	1	1.29	Low potential - note 1
Codan Ltd	Manufacturing	High frequency radios	Bangladesh, Nepal	DCG x 2	2	0.31	Low potential - note 2
Commex International Pty Ltd	Wholesale Trade	Agricultural commodities	Egypt	ELOC	1	0.10	Low potential - note 3
Cougar Mining Group Pty Ltd	Mining	Mining equipment	China	ECL	1	0.11	Low potential - note 1
Cozero Energylink Pty Ltd	Electricity, Gas, Water and Waste Services	Monitoring systems	Japan	ECL	1	1.00	Low potential - note 1
Creative Instore Solutions Pty Ltd	Manufacturing	Point of sale displays	United States of America	SBEL	1	0.25	Low potential - note 3
Deotome Pty Ltd	Manufacturing	Performance measurement systems	United States of America	SBEL	1	0.06	Low potential - note 3
Dog & Bone Holdings Pty Ltd	Manufacturing	Mobile phone accessories	United States of America	ECL	1	0.25	Low potential - note 1
Down Under Enterprises International Pty Ltd	Wholesale Trade	Natural Australian essential oils	United States of America	EWCG	1	0.65	Low potential - note 1
ECS Boards Australia Pty Ltd	Manufacturing	Surf and paddle boards	United States of America	SBEL	1	0.20	Low potential - note 3
Ellery Land Pty Ltd	Manufacturing	Luxury womenswear	Various	ECL	1	0.60	Low potential - note 1
Ensitech Pty Ltd	Manufacturing	Weld cleaning system	United Kingdom	SBEL	1	0.15	Low potential - note 3
ESS Weathertech Pty Ltd	Manufacturing	Meteorological equipment	Pakistan	ECL	1	2.00	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)
Europa International Pty Ltd	Manufacturing	Beverage products	United Kingdom	ELOC	1	0.50	Low potential - note 1
Evoi Wines Pty Ltd	Manufacturing	Wine	Jamaica	SBEL	1	0.02	Low potential - note 3
FCT Holdings Pty Ltd	Professional, Scientific and Technical Services	Burner system	Algeria	Bond	1	0.66	Low potential - note 1
Ferguson Australia Pty Ltd	Wholesale Trade	Seafood	Vietnam	ECL	1	1.00	Low potential - note 1
Fin Design and Effects Pty Ltd	Information Media and Telecommunications	Digital production	China	SBEL x 2	2	0.34	Low potential - note 3
Frog Tech Pty Ltd	Professional, Scientific and Technical Services	Geotechnical services	Various	EWCG	1	0.35	Low potential - note 1
Furnace Solutions Pty Ltd	Mining	Kiln dismantling	New Caledonia	ECL	1	0.50	Low potential - note 1
Gasco Pty Ltd	Manufacturing	Gas flares	Malaysia, Pakistan	Bond x 4	1	1.02	Low potential - note 1
Geovert Ground Engineering Pty Ltd	Construction	Engineering services	Singapore	ECL	1	1.40	Low potential - note 1
Gold Peg International Pty Ltd	Manufacturing	Food processing equipment	New Zealand, Saudi Arabia	Bond x 2	2	0.54	Low potential - note 1
Goulburn Enterprises (Australia) Pty Ltd	Wholesale Trade	Wheat and barley	Taiwan, Vietnam	ECL	1	0.30	Low potential - note 1
Greenwheat Freekeh Pty Ltd	Manufacturing	Whole grains	United Kingdom	SBEL	1	0.22	Low potential - note 3
Hall Contracting Pty Ltd	Mining	Dredging services	Australia – integral to supply chain	Bond x 7	1	7.58	Low potential - note 1
HTA Group Pty Ltd	Manufacturing	Heat treatment services	United States of America	ODI	1	0.42	Low potential - note 1
ICM Airport Technics Australia Pty Ltd	Transport, Postal and Warehousing	Baggage handling technology	Singapore	Bond x 1, ECL x 1	1	4.78	Category C

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)
Incat Tasmania Pty Limited	Manufacturing	High speed catamaran	Spain, Malta	Loan x 2	2	118.16	Low potential - note 1
Ingeneus Pty Ltd	Manufacturing	Medical equipment	Germany	ECL	1	0.06	Low potential - note 3
Integrated Bulk Systems (IBS) Pty Ltd	Wholesale Trade	Bulk specialised equipment	Australia – integral to supply chain	Bond	1	0.18	Low potential - note 1
J.R.B Engineering Pty Ltd	Professional, Scientific and Technical Services	Rail equipment	China	ECL	1	0.50	Category C
Jaytona Pty Ltd	Mining	Civil engineering services	Australia – integral to supply chain	ECL	1	1.20	Low potential - note 1
Kaiser Baas Pty Ltd	Wholesale Trade	Electronic equipment	Various	ECL x 1, ELOC x 1	2	1.24	Low potential - note 1
Kookaburra Pacific (Aust) Pty Ltd	Wholesale Trade	Liquorice	United States of America	EWCG	1	0.20	Low potential - note 1
Learntoplaymusic. Com Pty Ltd	Manufacturing	Music education products	United States of America	SBEL x 2	2	0.40	Low potential - note 3
Liddy Design Pty Ltd	Wholesale Trade	Kitchenware	United States of America	EWCG	1	1.05	Low potential - note 1
Lightning Protection International Pty Ltd	Manufacturing	Computer and electronic equipment	Vietnam	SBEL	1	0.25	Low potential - note 3
Mack Valves Pty Ltd	Manufacturing	Valve manufacturing	India	ECL	1	0.10	Low potential - note 3
MCA Engineering Group Pty Ltd	Mining	Engineering and construction	Australia – integral to supply chain	Bond	1	0.38	Low potential - note 1
McGeoch's Birkdale Nursery Pty Ltd	Construction	Landscaping services	Macau	Bond	1	0.76	Low potential - note 1
Misha Collection Pty Ltd	Manufacturing	Women's clothing	Various	SBEL	1	0.35	Low potential - note 1
Mobicon Systems Pty Ltd	Manufacturing	Straddle container carriers	United States of America	ECL	1	0.70	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)
Modelco Pty Ltd	Wholesale Trade	Cosmetics	Various	ECL x 1, ELOC x 1	2	1.50	Low potential - note 1
Mollydooker Wines Pty Ltd	Manufacturing	Wine	United States of America	EWCG	1	2.50	Low potential - note 1
My Healthy Garden Pty Ltd	Retail Trade	Health products	China	EWCG	1	0.35	Low potential - note 1
Natural Water Solutions Pty Ltd	Manufacturing	Water treatment chemicals	Philippines	SBEL	1	0.09	Low potential - note 3
Neptune Sports Pty Ltd	Manufacturing	Diving equipment	United States of America, Malaysia	SBEL x 3	3	0.20	Low potential - note 3
Nicholas The Label Pty Ltd	Wholesale Trade	Designer clothing	Various	SBEL	1	0.58	Low potential - note 1
Nomad Tackle Pty Ltd	Manufacturing	Fishing equipment	New Zealand	SBEL	1	0.07	Low potential - note 3
Ocean & Earth Australia Pty Ltd	Wholesale Trade	Surf products and clothing	Various	EWCG x 1, ODI x 1	2	1.07	Low potential - note 1
Oceania Bodycare Natural Nutrition Group Pty Ltd	Wholesale Trade	Pharmaceuticals and toiletries	Hong Kong	SBEL	1	0.04	Low potential - note 3
Oz Nature Pty Ltd	Wholesale Trade	Meat products	Korea	EWCG	1	0.40	Low potential - note 1
Pakton Group Pty Ltd	Manufacturing	Electrical equipment	Chile	SBEL	1	0.10	Low potential - note 1
Pared Design Pty Ltd	Wholesale Trade	Fashion accessories	Various	SBEL x 2	2	0.09	Low potential - note 1
PowerfulPoints Pty Ltd	Professional, Scientific and Technical Services	Communication services	China	SBEL	1	0.05	Low potential - note 3
Precise Global Pty Ltd	Manufacturing	Injection moulds	United States of America	SBEL	1	0.35	Low potential - note 3
Precision Marketing Holdings Pty Ltd	Professional, Scientific and Technical Services	Marketing services	Japan	ELOC	1	2.20	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)
Primero Group Pty Ltd	Mining	Mining support services	Australia – integral to supply chain	Bond x 3	1	0.65	Low potential - note 1
Prior Industries Australia Pty Ltd	Professional, Scientific and Technical Services	Engineering consulting services	Australia – integral to supply chain	EWCG x 2	1	0.57	Low potential - note 1
Pureform Golf Pty Ltd	Arts and Recreation Services	Sporting equipment	Hong Kong	ECL	1	0.13	Low potential - note 3
Quickstep Technologies Pty Ltd	Manufacturing	Advanced composite structures	United States of America – integral to supply chain	ELOC	1	3.00	Low potential - note 1
Radlink Pty Ltd	Mining	Radio communication devices	Various – integral to the supply chain	Bond x 2, EWCG x 1	2	3.48	Low potential - note 1
Rcallan Pty Ltd	Manufacturing	Measurement systems	Germany	SBEL	1	0.10	Low potential - note 3
Reed Pacific Media Pty Ltd	Manufacturing	Advertising solutions	Various	ELOC x 2	1	0.45	Low potential - note 1
Reeves International Pty Ltd	Construction	Construction management	Solomon Islands	Bond x 3, EWCG x 2	Existing Facility	1.77	Low potential - note 1
Refrigeration Engineering Pty Ltd	Manufacturing	Refrigeration equipment	Saudi Arabia, United Arab Emirates	Bond x 2	Existing Facility	1.60	Low potential - note 1
Reino International Pty Ltd	Manufacturing	Parking meters	Hong Kong	EWCG	1	1.30	Low potential - note 1
Residue Solutions Pty Ltd	Electricity, Gas, Water and Waste Services	Residue and process management	Morocco	ECL	1	0.60	Low potential - note 1
RFID N Print Pty Ltd	Manufacturing	Printing services	United States of America	SBEL	1	0.10	Low potential - note 3
Rhipe Australia Pty Ltd	Information Media and Telecommunications	Telecommunications services	Various	Bond	1	0.95	Low potential - note 1
Rhodes Project Services Pty Ltd	Construction	Construction	Papua New Guinea	Bond x 3	Existing Facility	0.69	Low potential - note 1
Rimslow Global Pty Ltd	Manufacturing	Fabric colourisation machinery	Bulgaria	SBEL	1	0.05	Low potential - note 3

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Rinstrum Pty Ltd	Manufacturing	Weighing equipment	United States of America	SBEL	1	0.30	Low potential - note 3
Riverview Channel Services Pty Ltd	Professional, Scientific and Technical Services	Information technology services	United States of America	ECL	1	0.50	Low potential - note 1
Robertson Technology Pty Ltd	Manufacturing	Pump monitoring systems	United Kingdom	SBEL	1	0.06	Low potential - note 3
SBI Global Pty Ltd	Manufacturing	Clothing pegs	Various	EWCG	Existing Facility	0.13	Low potential - note 3
SD and CC Ritchings Pty Ltd	Manufacturing	Hydraulic tyre handler	South Africa	SBEL	1	0.15	Low potential - note 3
SEA Automotive Pty Ltd	Manufacturing	Electrical components	New Zealand	ELOC	1	0.50	Low potential - note 1
Shanghai Donghong Pty Ltd	Wholesale Trade	Timber	China	EWCG x 3	3	1.80	Low potential - note 1
Sila Australia (2010) Pty Ltd	Manufacturing	Refractory and thermal textile	Various	SBEL x 2	2	0.25	Low potential - note 3
Skilled Materials Handling Pty Ltd	Manufacturing	Bulk handling equipment	Australia - Integral to supply chain, Panama	ECL x 1, SBEL x 1	2	0.25	Low potential - note 3
Smartfutures Group Pty Ltd	Education and Training	Training materials	India	SBEL	1	0.10	Low potential - note 3
Steriline Racing Pty Ltd	Manufacturing	Horse racing running rails	China	SBEL	1	0.25	Low potential - note 3
TE Services Pty Ltd	Arts and Recreation Services	Laser light shows	United Arab Emirates	EWCG	Existing Facility	2.02	Low potential - note 1
The Beauty Chef Pty Ltd	Wholesale Trade	Cosmetics	United States of America	SBEL	1	0.24	Low potential - note 3
The Brand Republik Pty Ltd	Manufacturing	Swimwear	Germany	ECL	1	0.35	Low potential - note 1
The Wilpak Group Pty Ltd	Manufacturing	Thermal products	Indonesia	SBEL	1	0.05	Low potential - note 3

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)
Thompson Meat Machinery Pty Ltd	Manufacturing	Machinery	Australia – integral to supply chain	ELOC	1	1.00	Low potential - note 1
Thoroughbred Ratings Pty Ltd	Manufacturing	Data capture systems	Various	ECL	1	0.12	Low potential - note 3
Tim Morse Industries Pty Ltd	Manufacturing	Wind turbine products	Japan	SBEL	1	0.11	Low potential - note 3
Total Air Pollution Control Pty Ltd	Professional, Scientific and Technical Services	Air pollution control equipment	Turkey	Bond x 2	1	1.17	Low potential - note 1
Tritium Pty Ltd	Manufacturing	Electrical equipment	Various	ECL x 2	2	3.20	Low potential - note 1
Turbid & Bretty Pty Ltd	Wholesale Trade	Wine	Australia – integral to supply chain	SBEL	1	0.08	Low potential - note 3
United Wool Company Pty Ltd	Wholesale Trade	Wool	Various	EWCG	1	1.00	Low potential - note 1
UON Pty Ltd	Mining	Mining support services	Australia – integral to supply chain	Bond x 4	1	1.03	Low potential - notes 1 and 3
UWE - Hay Pty Ltd	Wholesale Trade	Agricultural products	China	ECL	1	1.50	Category C
Varley Holdings Pty Ltd	Manufacturing	Overseas investment	United States of America	ODI	1	5.33	Low potential - note 1
Viottolo Pty Ltd	Manufacturing	Wine	Various	SBEL x 3	3	0.26	Low potential - note 3
Wellard Rural Exports Pty Ltd	Agriculture, Forestry and Fishing	Dairy cattle	Sri Lanka	FEFG	1	84.30	Potential impacts - note 1
Whittens Pty Ltd	Mining	Construction services	Australia – integral to supply chain	Bond x 2, EWCG x 1	1	4.60	Low potential - note 1 Category C
Winplus Australasia Pty Ltd	Wholesale Trade	Consumer electronic goods	Various	EWCG	1	2.33	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)
Worldpoly Pty Ltd	Manufacturing	Welding equipment	India, Mexico	ECL x 1, SBEL x 1	2	0.42	Low potential - notes 1 and 3
Zinvin Pty Ltd	Manufacturing	Wine	United Kingdom	SBEL	1	0.09	Low potential - note 3
Total Commercial Interest Account (to 30 June 2017)				**198.00**	**153.00**	**396.05**	

On the Commercial Account the average margin on the SME facilities signed during the year was around 6 per cent, with a weighted average tenor of 1.2 years. However around 70 percent of all SME facilities signed had maturity dates of less than a year. The average margin on the Corporate, Sovereign and Project Finance facilities signed during the year was around 3.7 per cent, with a weighted average tenor of 7 years.

Table 6: Our National Interest Account transactions for 2016-17

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
OneSteel Manufacturing Pty Ltd	Mining	Export of iron ore	Various	Loan	1	49.20	Low potential – note 1
Total National Interest Account (to 30 June 2017)				**1.00**	**1.00**	**49.20**	

DCG: Documentary Credit Guarantee
ECL: Export Contract Loan
EFG: Export Finance Guarantee
ELOC: Export Line of Credit
EWCG: Export Working Capital Guarantee
FEFG: Funded Export Finance Guarantee
ODI: Overseas Direct Investment
RPA: Risk Participation Agreement
SBEL: Small Business Export Loan

(a) These notes refer to Efic's Procedure for environmental and social review of transactions that is available on Efic's website under 'About Efic - Our Corporate Responsibility - Transactions - Environmental and Social Review - Procedure'. This Procedure applies to all transactions Efic assesses after commencing its credit assessment and due diligence processes.

Note 1: Transaction associated with either a non-project or a bond. This association determines the way that Efic considers the potential environmental and social impacts of the transaction. Further details are available in section 2.3 of the above Procedure.

Note 2: Assessed under a general facility review to identify the type of product provided. Based on specific criteria, certain products will have a low or no potential for significant environmental and social impact. This classification is not often used.

Note 3: Assessed under a screen to identify which transactions require a detailed environmental and social review. Further details are available in section 2.4 of the above Procedure.

An explanation of our three categories (A, B, C) for classifying potential environmental and/or social impacts associated with new projects is on page 61.

CASE STUDY

Jet Engineering

> "Efic's Small Business Export Loan made a world of difference to our business. Their responsiveness was a real lifesaver."
>
> Shayne Ritchings, Co-founder
> Jet Engineering

Efic's Small Business Export Loan helped Jet Engineering take on a large export contract in South Africa.

Founded in 2006, Jet Engineering is a Queensland-based business that specialises in the design, manufacture and installation of custom-built machinery for the mining and construction industries.

The business secured a large export contract to supply a modified version of its hydraulic tyre handler to an underground mine in South Africa.

Due to the long lead-time of the project, Jet Engineering needed cash to help deliver on the contract. Efic's Small Business Export Loan provided the business with the funds they needed quickly.

Industry:
Mining/Manufacturing

Product:
Small Business Export Loan

Support:
A$145,000


(07) 3868 1682
JET

CASE STUDY

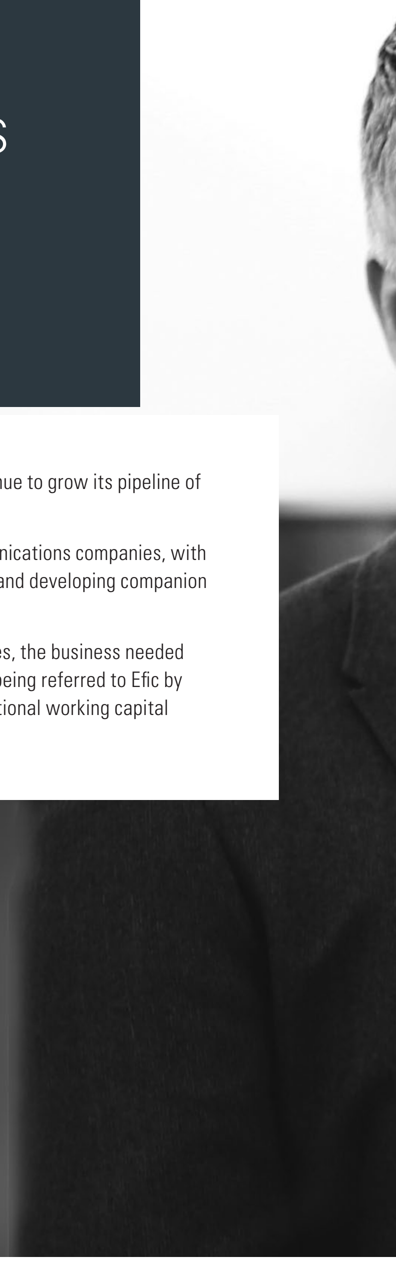
BroadSource

> “Efic’s support has been a huge help – it has helped us to punch well above our weight, in what is a very competitive market.”
>
> Jason Thals, Co-founder and COO
> BroadSource

An Export Line of Credit from Efic meant that BroadSource could continue to grow its pipeline of export opportunities.

BroadSource provides IT solutions and platforms for global telecommunications companies, with a focus on building and implementing cloud-based telephone systems and developing companion software products.

With exports making up around 90 per cent of BroadSource’s total sales, the business needed support for their rapidly expanding pipeline of export contracts. After being referred to Efic by their accounting firm, we were able to help BroadSource with the additional working capital needed through the approval of a $300,000 Export Line of Credit.



Industry:
Professional, Scientific and Technical Services

Product:
Export Line of Credit

Support:
A$300,000

OUR BUSINESS

About us

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

As outlined in our purpose and principles, we are a specialist financier that delivers simple and creative solutions for Australian companies when their bank is unable to assist. Through our loans, guarantees and bonds 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 and Efic is the responsibility of the Minister for Trade, Tourism and Investment (Minister). The current Minister is the Hon Mr Steven Ciobo MP, who was appointed on 18 February 2016. The Minister has a number of powers in relation to Efic, 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 interest.

The Minister may also approve or direct entry into transactions on the National Interest Account (see page 66). Details of Ministerial directions for the financial year ended 30 June 2017 are set out on pages 65-67.

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.

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 Efic from members of Federal Parliament and to parliamentary orders relating to us.

Our senior management attend Senate Estimates to answer questions on the affairs of Efic, including transactions undertaken or particular policies in relation to those transactions.

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.

In addition to the above functions, Efic is also authorised to:

- assist the Northern Australia Infrastructure Facility in the performance of its back office functions.
- provide incidental assistance to the States and Territory in respect of their dealings with the Northern Australia Infrastructure Facility.

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.

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 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 work closely with the Department of Foreign Affairs and Trade (DFAT), the Australian Trade and Investment Commission (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.

This year we partnered with Austrade and DFAT to conduct educational and information events to support exporters. This included our support for the North Asia Free Trade Agreements Information Seminars, which are designed to educate Australian businesses on how to take advantage of the practical benefits Free Trade Agreements 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 flow of information with Austrade, state-based trade agencies and other business support providers.

The client journey

OUR
GOVERNING PRINCIPLES

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.

We have accumulated profits of $577.8 million since 1991 and have paid normal dividends of $249.9 million. No dividend has been agreed for 2016-17. In addition to dividend payments, payments to be made this year under competitive neutrality arrangements comprised a debt neutrality charge of $1.1 million, state equivalent taxes of $1.3 million and an income tax equivalent charge of 30 per cent of accounts profit, equal to $5.0 million.

Services provided to the Northern Australia Infrastructure Facility are reimbursed on a cost recovery basis.

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

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 Government is represented on the Board by the Secretary of the Department of Foreign Affairs and Trade (or their alternate).

Also sitting on the Board are seven Non-executive Directors who are appointed by the Minister and our Managing Director who is a full-time employee of Efic and appointed by the Board.

As a corporate Commonwealth entity, our Board and our employees are governed by the Efic Act and the PGPA Act. We are required to produce a four-year corporate plan that must be published by 31 August each year 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 by the Efic Act 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 requirement of confidentiality also applies to Board members.

Our Board met eight times in 2016-17 and its membership is set out on pages 44-50.

OUR BOARD

Justin Brown | Lynda Cheng | Denise Goldsworthy | Nicholas Minogue | Swati Dave

James M. Millar AM | Rick Sawers | Laura McBain | Frances Adamson

OUR BOARD

James M. Millar AM

BCom, FCA, FAICD
Chairman
Term of appointment: 09/12/2014 to 08/12/2017
Board attendance: 8 of 8
Independent, Non-executive member

James Millar AM 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 Forestry Corporation of NSW. He is a director of Mirvac Limited, Fairfax Media Limited, Slater and Gordon Limited and Macquarie Media Limited. He is a member of the advisory board of Grant Samuel; a trustee of the Australian Cancer Research Foundation; and the Chairman of The Vincent Fairfax Family Foundation.

Nicholas Minogue

MA, MBA
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: 8 of 8
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 Chairman of Morphic Asset Management Pty Ltd, a 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.

Swati Dave

BCom, GAICD, GAIST
Managing Director and Chief Executive Officer
Appointed: 3/07/2017
Executive member

Swati Dave is an experienced senior banking executive and non-executive director with an established track record of successfully leading and growing complex businesses in Australia, the UK, Hong Kong and Singapore.

Swati has over 30 years banking and finance experience across a number of sectors including infrastructure, energy and utilities, renewable energy and property. She has held senior positions at National Australia Bank, Deutsche Bank, AMP Henderson Global Investors, Bankers Trust and Westpac.

Swati currently serves on the boards of Australian Hearing, State Super and Asia Society Australia. She has served as a former director of Great Western Bancorp Inc. (USA) and the NAB Wealth Responsible Entity Boards.

Swati holds a Bachelor of Commerce from the University of Newcastle and is a Graduate Member of the Australian Institute of Company Directors and the Australian Institute of Superannuation Trustees.

Lynda Cheng

BCom, LLB (Hons), GAICD
Board member
Term of appointment: 13/05/2016 to 12/05/2019
Board attendance: 8 of 8
Independent, Non-executive member

Lynda Cheng is currently a director of Corporate Development and Mergers and Acquisitions at Pratt Holdings and has held other senior executive roles for the Pratt Group since 2005 including CFO of Visy Industries. Previously, Lynda was in investment banking for a decade and worked for JPMorgan in their New York, San Francisco, Sydney and Melbourne offices. She brings a broad commercial and international corporate finance perspective.

Lynda was Deputy Chair of South East Water and Chair of their Finance Audit and Risk Management Committee and is a current member of the Wesley College Council.

Lynda holds a Bachelor of Law (Honours) and Commerce degree majoring in actuarial studies and economics from the University of Melbourne.

Denise Goldsworthy

BMet (Hons + University medal), FTSE, FAIM, GAICD
Board member, Audit Committee member
Term of appointment: 05/11/2014 to 04/11/2017
Board attendance: 8 of 8
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, a non-executive director for MRIWA, a member of Council and Chair of the Quality, Audit and Risk Committee of Edith Cowan University, a member of the Commercialisation Advisory Board for Curtin University and Chair of the Navy Clearance Diver's Trust.

Among Denise's honours is being named the 2010 Telstra Australian Business Woman of the Year.

OUR BOARD

Laura McBain

BCom
Board member
Term of appointment: 09/12/2014 to 08/12/2017
Board attendance: 7 of 8
Independent, Non-executive member

Laura McBain is the Managing Director of Primary Opinion Ltd, a listed food and beverage company. This appointment was made in August 2017.

Laura was formerly the CEO and Managing Director of Bellamy's Australia Ltd from 2014 to 2017, prior to which she was CEO/General Manager since 2007. During these years, Laura oversaw significant change, innovation and business growth including expansion into South East Asia and China.

Prior to joining Bellamy's, Laura practised as an accountant and specialised in the areas of providing business advisory and taxation services to SMEs in both Sydney and Tasmania. Laura holds a Bachelor of Commerce, completed the IMD Leadership Challenge in 2013 and completed the IESE, Wharton and CEIBS Global executive program in 2017.

In 2013, Laura was named as the Telstra Tasmanian Business Woman of the Year and she went on to be named the Telstra Australian Business Woman of the Year for (Private and Corporate).

Rick Sawers

Board member, Audit Committee Chair
Term of appointment: 09/12/2014 to 08/12/2017
Board attendance: 7 of 8
Audit Committee attendance: 4 of 4
Independent, Non-executive member

Rick has over 44 years of commercial and international banking experience leading large frontline businesses in Australia, Japan, United Kingdom, Hong Kong and the USA. Rick has served on NAB's Group Executive Committee (2009-15), and Group Risk Committee (2005-2015). He has deep experience in treasury and balance sheet management, credit, market and operational risk, business administration and governance, financial markets (including capital markets, funding, liquidity, fixed income, money markets, FX and interest rate risk management), infrastructure and project finance, and human resources.

Rick is a director of The Australian Rural Leadership Foundation and previous board positions include Chairman and board member of the Australian Financial Markets Association, Chairman and director of Great Western Bancorp Inc., and director of Clydesdale Bank PLC. He is 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

Board attendance: 7 of 8
Represents the Australian Government
Non-executive member

The Government is represented by:

Frances Adamson

BEc
Appointed: 13/09/2016

Frances Adamson took up her position as Secretary of the Department of Foreign Affairs and Trade on 25 August 2016.

Prior to her appointment, Ms Adamson was International Adviser to the Prime Minister the Hon Malcolm Turnbull MP from November 2015.

From 2011 to 2015, Ms Adamson was Ambassador to the People's Republic of China. She served in the Australian Consulate-General in Hong Kong in the late 1980s during the early years of China's reform and opening. From 2001 to 2005, she was seconded as Representative to the Australian Commerce and Industry Office in Taipei.

Ms Adamson has twice served in the Australian High Commission in London, as Deputy High Commissioner from 2005 to 2008 and as Political Counsellor from 1993 to 1997.

She was Chief of Staff to the Minister for Foreign Affairs and then the Minister for Defence from 2009 to 2010.

Alternate Government member

Justin Brown

BEc
Appointed: 24/09/2015

Mr Brown is a career officer in the Australian Department of Foreign Affairs and Trade. In his current position, he has overall responsibility for Australia's trade negotiations and trade and investment policy agenda.

Mr Brown has held a number of positions in the Department over the course of his career, including Ambassador for Environment, chief negotiator in free trade negotiations, and has held positions with responsibility for trade law and disputes in the WTO and bilateral relations with the countries of the Americas and Europe. He has also headed the Department's consular and crisis management division.

Overseas, his most recent posting was to Canada as High Commissioner. He has also had postings in Brussels, Los Angeles and Copenhagen.

He holds a Bachelor of Economics degree.

OUR BOARD

Members whose term ended in 2016-17

Andrew Hunter

BEc
Managing Director and Chief Executive Officer
Appointed: 01/09/2013 to 30/06/2017
Board attendance: 7 of 8 (absent for 1 meeting as required by s 75 of the Efic Act)
Executive member

Annabelle Chaplain

BA, MBA, FAICD
Board member, Audit Committee Chair
Terms of appointment: 01/8/2013 to 31/7/2016 and 01/08/2016 to 31/07/2017
Board attendance: 7 of 8
Audit Committee attendance: 4 of 4
Independent, Non-executive member

Peter Varghese, AO

BA (Hons), H.DLitt Qld
Government member
Appointed: 11/02/2013 to 01/07/2016

Board and Audit Committee

Ms Adamson was appointed to the Board on 13 September 2016 following the retirement of Mr Varghese on 1 July 2016.

Ms Dave was appointed as Managing Director and Chief Executive Officer on 3 July 2017 following the resignation of Mr Andrew Hunter on 30 June 2017.

Mr Sawers was appointed as Audit Committee Chair on 1 August 2017 and Ms Goldsworthy was appointed as an Audit Committee member on 24 August 2017 following the resignation of Ms Chaplain from the Board on 31 July 2017.

Transactions with Board members and related entities of Board members

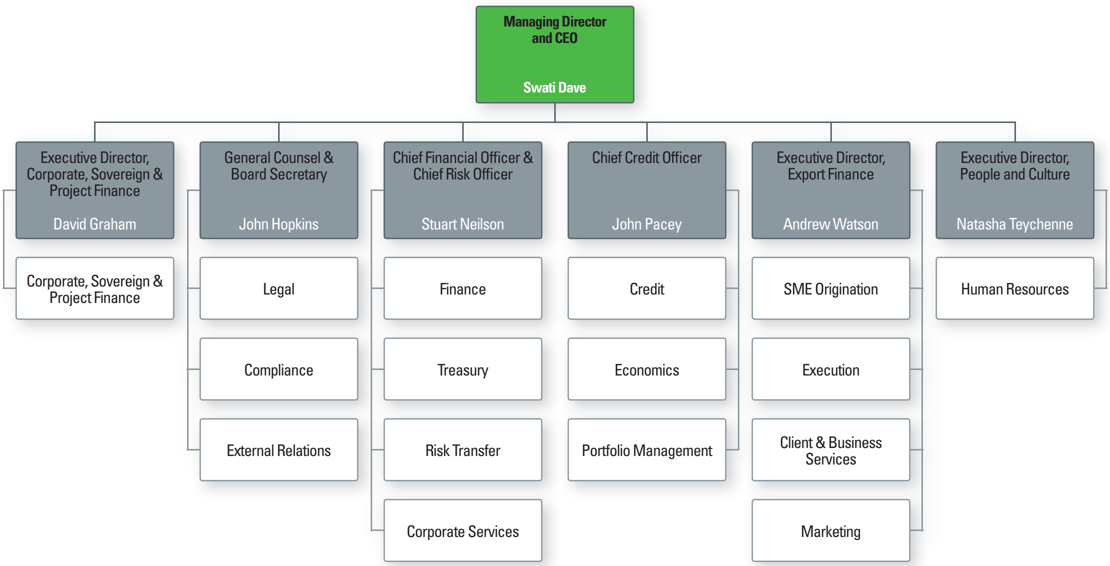
During the course of the year, Directors have made appropriate disclosures in respect of transactions that Efic has undertaken where they may have, or it may be perceived to have, a material personal interest.

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

Figure 5: Our organisational structure



David Graham | John Hopkins | Stuart Neilson | Swati Dave | John Pacey | Andrew Watson | Natasha Teychenne

CASE STUDY

ModelCo

"Efic's support really helped us meet the increased demand from our overseas distributors."

Shelley Sullivan, Founder and Managing Director
ModelCo

With Efic's help, ModelCo was able to deliver on increased orders from its key overseas distributors in the US and UK.

ModelCo is a Sydney-based cosmetics company that specialises in the development, manufacture and supply of a range of cosmetic, skincare and tanning products.

Founded by former model agent Shelley Sullivan, ModelCo's 'Natural Skincare' collection and other cosmetic products are sold via long-term supply agreements at major retail chains in Australia.

ModelCo has also been exporting since 2012, and has seen strong growth in the US, New Zealand, Europe, Asia and the Middle East.

ModelCo continued to see increased demand from its US and UK distributors. This put increased pressure on its working capital. With its bank unable to provide the finance needed, ModelCo contacted Efic.

We were able to provide ModelCo with the funds needed through an Export Contract Loan, helping them deliver on their increased export orders.

Industry:
Cosmetics

Product:
Export Contract Loan

Support:
A$120,000

CASE STUDY

RJE Global

> "Without Efic's support we would have been unable to access the finance we needed to undertake these two substantial projects in the Asia-Pacific."

Robin Johnson, Managing Director
RJE Global

Efic helped RJE Global deliver on two significant projects in the Asia-Pacific.

RJE Global is a South Australian engineering, construction and project management company, specialising in prefabricating electrical infrastructure, including grid connection solutions for thermal power, solar and wind projects.

As part of its work in the Asia-Pacific, RJE Global secured two contracts that would provide significant improvements to the power facilities of Indonesia and the Federated States of Micronesia.

While the company's bank was supportive of the two large contracts, it was unable to provide the requested financial support without Efic's help. Efic was able to step in and provide a A$3 million Export Working Capital Guarantee and a US$6.27 million Bonding Facility, allowing the company to meet the equipment delivery costs and supporting bonding requirements associated with the contracts.

Industry:
Manufacturing

Product:
Export Working Capital Guarantee and Bonds

Support:
A$3m and US$6.27m


Michael White, General Manager
RJE Global

OUR GOVERNING PRINCIPLES

Our people

Efic's people and their development is one of the organisations strategic pillars and recognises that our business success relies on the quality and skill of our people, and their ability to deliver results for our clients and stakeholders.

We are committed to providing a learning and performance culture where our people have the freedom to create their own success and are provided with the support to achieve their career aspirations.

The People and Culture team partners with our leaders to embed a performance-based culture, strengthen employee engagement and build capabilities to deliver successful business outcomes for Efic, and our clients. We continue to attract and retain talent by valuing a culture of learning and development, diversity and inclusion, and health and wellbeing.

Workforce demographics

The number of our employees (as full-time equivalents) decreased slightly during the year, predominantly because of natural attrition (see Table 7).

Table 7: Number of full-time equivalent employees (as at 30 June 2017)

	30 June 2017	30 June 2016	30 June 2015
Employees (excluding short-term)	**98.1**	98.5	94.8
Short-term contract employees	**4.6**	6.6	4.6
Total	**102.7**	**105.1**	**99.4**

Diversity and inclusion

Efic is focused on building and maintaining a diverse workforce. Diversity builds employee engagement, enables our people to be more innovative, and positions us to meet the diverse needs of our clients.

Our diversity and inclusion strategy advocates for a constructive and inclusive culture that embraces different perspectives, identities and experience of our people. Efic's diversity and inclusion mission statement (below) reflects this by outlining our commitment to recognising the benefits of promoting a culture that embraces diversity and supports difference.

> *At Efic, we strive to provide a collaborative environment that is enriching, encouraging and respectful of different ideas, backgrounds and perspectives.*
>
> *We commit to build on these principles to empower all individuals to reach their full potential and do their best for our clients and business.*

We continued to provide equal opportunity in all aspects of employment, including conditions of employment, recruitment and selection, remuneration, learning and development, and promotion. These principles are supported by formal policies, and through the education and training of all employees on workplace behaviour, diversity and inclusion, and work, health and safety.

Over the past 12 months, we further developed policies and practices to continue to enhance diversity and inclusion at Efic, including:

- established a Diversity and Inclusion Council.
- monitored gender diversity targets for senior leadership roles.
- reported against our gender diversity targets to our Board on a bi-annual basis.
- ensured a 50 per cent gender split on all recruitment shortlists and on discussion panels at all Efic hosted events.

- secured memberships with diversity peak bodies and networks, including the Diversity Council Australia and Women in Banking and Finance.
- continued to provide flexible work arrangements.

Gender diversity

We implemented a range of initiatives to ensure our recruitment, talent, and learning and development processes align to our strategic objective of improving the representation of women in senior leadership positions.

We have made steady progress over the past 12 months including:

- 100 per cent of senior leadership vacancies were filled by women.
- 43 per cent of middle management vacancies were filled by women, strengthening our pipeline for senior leadership positions.
- 50 per cent of promotions to senior leadership positions were awarded to women.
- 80 per cent of females on parental leave returned and remained with the organisation.
- 45 per cent of our female employees work flexibly; this includes part-time and formal working from home arrangements.
- minimal turnover of females across the organisation at 3.8 per cent.
- establishment of a senior women's network within the organisation.

Indigenous diversity

Efic is committed to achieving 2.5 per cent Aboriginal and Torres Strait Islander representation among our staff by 2018.

Our Diversity and Inclusion Council will continue to drive initiatives to support the achievement of our Indigenous recruitment goal including:

- partnering with Indigenous recruitment agencies and government agencies to facilitate secondments, internships and rotations.
- establishing relationships with indigenous university student associations.
- investigating relevant placement and mentoring programs.
- leveraging our membership with the Diversity Council Australia.
- building internal knowledge of Efic's commitment to Indigenous employment to encourage employee referrals.
- increasing cultural awareness and celebration of Indigenous culture through targeted internal events and guest speakers.

Workforce diversity profile

We continued to have diverse representation across our workforce with 51 per cent of employees being female and 49 per cent of employees from a non-English speaking background or with parents of a non-English speaking background.

In accordance with the reporting requirements of the Equal Employment Opportunity *(Commonwealth Authorities) Act 1987 (Cth)*, our diversity profile is reported by broad job classification against designated groups, as shown in Table 8.

OUR
GOVERNING PRINCIPLES

Table 8: Workforce diversity profile at 30 June 2017

Classification	Female		Male		NESB		ATSI		PWD		Total staff	
Support	16	94%	1	6%	8	47%	0	nil	0	nil	17	**16%**
Technical	14	70%	6	30%	14	70%	0	nil	0	nil	20	**18%**
Middle Management	14	33%	29	67%	26	60%	0	nil	0	nil	43	**40%**
Leadership	11	39%	17	61%	5	18%	0	nil	0	nil	28	**26%**
Totals	**55**	**51%**	**53**	**49%**	**53**	**49%**	**0**	**nil**	**0**	**nil**	**108**	**(102.7 FTE)**

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

Learning and development

Our culture continued to enable our people to learn, grow, perform at their best, and deliver exceptional results for Efic and our clients. Investing in the development of our people is fundamental to this.

We offered a range of diverse development opportunities, including internal transfers, secondments, mentoring, formal education and on-the-job training, to build the skills and capabilities of our people to help them succeed.

Our learning curriculum continued to expand with a range of internal and external programs, to support our Corporate Plan and business objectives. We collaborated with the business to build a technical series that will continue to provide opportunities to leverage internal expertise and encourage accountability for others' learning.

This year we launched the Coaching for Performance leadership program for all people leaders. This program combined formal workshops, peer coaching and ongoing application to real business situations.

As part of our performance and development program, our people prepare a targeted development plan for the year ahead and continue to have regular career discussions with their managers. This process incorporates opportunities to develop and broaden skills through project work and secondments to other teams within the organisation.

We are also committed to supporting our people through our study assistance program, which provides financial support and paid study leave to those undertaking approved postgraduate courses in their area of expertise.

Health and wellbeing

Flexible working

We provide an agile working environment, giving our people options that best suit their preferred way of working, to help them manage their family and personal commitments.

25 per cent of our people have formal flexible working arrangements in place. We also continued to support other forms of flexible work practices including working from different locations, altering start and finish times, and providing access to a range of flexible leave options.

Efic has a comprehensive health and wellbeing program that offers our people improved health awareness, self-management skills, and healthy work practices. The program supports our increasingly agile work environment and provides our people with practical tools and resources.

Employee assistance program

Our employee assistance program continues to provide support to our people and their immediate families when needed, with access to a free confidential counselling service. Our people leaders also have 24/7 access to a manager assist program.

To enhance our employee assistance offering, we have expanded the program to include nutritional, financial and legal advice.

Employee benefits

We provide a range of employee benefits to help our people meet the needs of their individual circumstances. These include paid special leave, comprehensive family/carers leave provisions, the ability to purchase additional annual leave, and an income protection insurance policy.

Our employee benefits support a 'whole of life' approach and focus on learning, caring, rewarding and flexibility. Our benefits have grown to include gym and health provider discounts, which also supports our health and wellbeing program.

Work health and safety

Consultation

We regularly engage with our people on all work health and safety matters, including the adequacy of our facilities, and take steps to ensure a positive, risk-free work environment.

Our Work Health and Safety Management arrangements outline our work health and safety management framework, which is reviewed annually.

Our primary channel for consultation is through our Work Health and Safety Committee (WHSC), represented by both management and employees.

Our Board Charter describes our due diligence requirements under the *Work Health and Safety Act 2011 (Cth)* (WHS Act).

To assist our Board in meeting its due diligence requirements, the WHSC holds a meeting prior to each Board meeting.

The minutes of these meetings are available to staff, including a report, copy of the minutes and workplace inspection, and performance indicators that are tabled at the subsequent Board meeting.

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

Workplace hazards are prioritised according to the risk they pose to health and safety and are promptly dealt with.

Risk management

We take a pragmatic, risk-based approach to our WHS compliance framework and management practices to ensure our interventions are practical and help our people to make positive behavioural changes that enhance safety and wellbeing.

We provide our people with an agile work environment that has been designed in consultation with specialists who have reviewed plans and ensured designs are optimised for safety and best practice. The WHSC regularly collects feedback and reviews the use of agile workspaces.

Efic implements a risk and control matrix to record and monitor hazards and controls, which is formally reviewed by the WHSC on an annual basis. Given the nature of our operations, we have identified international travel as a risk that requires specialised monitoring. In response, we have a certified traveller program that all business travellers are required to complete on an annual basis before travelling overseas. Frequent travellers have access to an annual medical check and those travelling to remote locations have the option of taking a satellite phone.

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

Efic's travel coordinator is a member of the WHSC and ensures all travel-related issues are discussed including any employee concerns regarding travel.

OUR
GOVERNING PRINCIPLES

As part of our annual risk management practice, we engaged specialist consultants to complete a property risk assessment with no significant issues noted in the current period.

We promote a strong culture of incident notification and investigation, which includes reporting of 'near misses'. Incidents and 'near misses' are discussed at the WHSC to ensure appropriate responses are put in place, including proactive measures to reduce any potential risks identified through 'near misses'.

For our new employees we provide an in-depth induction program, which includes a work health and safety overview specific to Efic's operating environment. We also provide training on workplace behaviour as part of our ongoing compliance program, and our first aid officers are provided with regular training.

Health and safety outcomes

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

An indicator of our safety performance is in our low workers compensation claim history.

To date we have not been investigated, or received any notices, and there were no 'notifiable incidents' under the WHS Act during 2016-17.

Corporate responsibility

Our approach to corporate responsibility

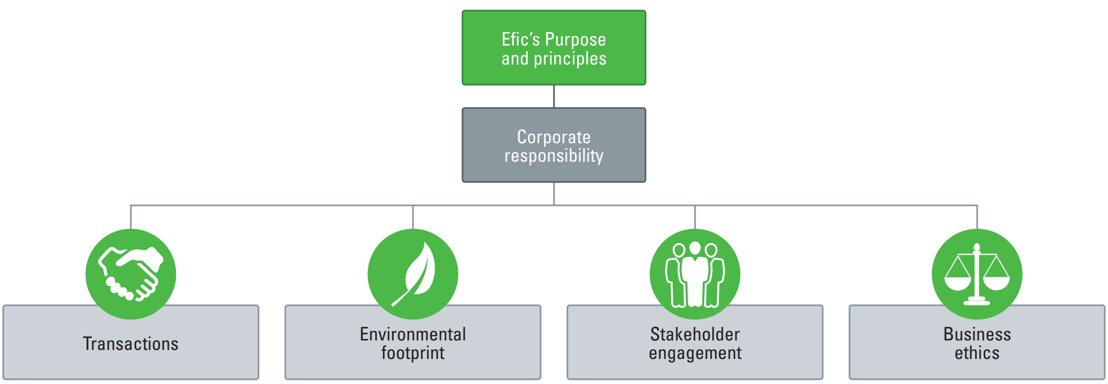
At Efic, we are committed to supporting the growth of Australian businesses internationally in a way that is ethically, environmentally and socially responsible.

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 fulfil these responsibilities. The key components of our corporate responsibility strategy are:

- environment and social responsibility – we practice responsible lending in the transactions we support.
- minimising the environmental footprint of our operations.
- stakeholder engagement – we endeavour to interact with our stakeholders in ways that are relevant to their needs.
- business ethics – we conduct our operations fairly, transparently and with integrity.

Figure 6: Efic's 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 development and implementation of our corporate responsibility strategy.

As external sustainability benchmarks evolve, our working group will recommend improvements in the way we manage our business. 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)* (EPBC Act) 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.

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 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 9 summarises the number and type of environmental assessments completed during 2016-17, 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. Transactions under the National Interest Account are also excluded from the table.

OUR
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Table 9: 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
2016-17					
All facilities	0	0	5	1	128
Project finance	0	0	0	Not applicable	Not applicable
Project-related corporate loans	0	0	0	Not applicable	Not applicable
2015-16					
All facilities	2	0	7	1	100
Project finance	1	0	0	Not applicable	Not applicable
Project-related corporate loans	0	0	0	Not applicable	Not applicable
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

Tables 5 and 6 on pages 26-35 have more information about our transactions in 2016-17, including location, industry type, sector and results of screening and classification.

One transaction associated with an export finance guarantee was identified to have a potential for environmental and/or social impacts. This was a transaction involving the supply of 20,000 dairy cattle to Sri Lanka. The cattle are being supplied to Sri Lankan dairy farms and are part of a Sri Lankan Government program to improve the domestic supply of fresh milk to its citizens.

The potential environmental and social issues associated with this transaction were examined as described in section 2.3 of our Procedure.

Our overall conclusion is that all transactions satisfied the requirements of our Policy and Procedure.

Our Policy includes a commitment to periodically engage an independent environmental and social expert to examine Efic's application of the Policy and Procedure.

The most recent audit was completed by Ernst & Young in September 2016. It concluded that we complied with our Policy and Procedure commitments and that our transaction reviews were properly completed in all material respects. This report is available on our website.

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.

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 2017, our building had a 3.5 star Nabers energy rating and a 3.0 star Nabers water rating.

Table 10 summarises the available information on our energy use, water use, solid waste generation and business travel in 2016-17, and includes comparative data for the previous two financial years.

Table 10: Our environmental footprint

Parameter	2014-15	2015-16	2016-17
Energy use, megajoules/m^2			
Efic occupancy[(a)], electricity	389	396	383
Building services[(b)], electricity	351	391	381
Building services[(b)], gas	94	196	97
Water (sewage data not available)			
Water, kilolitres[(c)]	4,516	5,749	5,500
Solid waste, tonnes			
Comingle (recycled)	16.2	3.5	0.6
Cardboard (recycled)	9.9	14.2	13.9
Waste to landfill	48.5	53.4	74.8
Total waste	**74.6**	**71.1**	**89.3**
Business travel by our employees			
Total domestic (million km)	0.82	1.02	1.4
Total international (million km)	1.71	1.43	0.99
Total (million km)	**2.53**	**2.45**	**2.39**

(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 meter is the building average. Due to timing differences the building services gas data is reported for the year May to April.

(c) The water figure represents total usage by Export House. It is not possible to separately identify water use by floor or by tenancy. Due to timing differences, water data is reported for the year May to April.

OUR GOVERNING PRINCIPLES

Electrical energy use in Export House has been generally consistent over the past three years. There was an increase in building services electrical energy consumption between 2014-15 and 2015-16 due to increased occupancy of previous vacant space in the building. Export House has had 100 per cent occupancy for the past two years and electrical energy usage has been consistent over that period.

Building services gas use shows an anomaly for the 2015-16 financial year when gas consumption was more than double the previous year. Efic completed an investigation and found incorrect programming of heating systems was causing unnecessary gas consumption. That fault was corrected resulting in a return to previous consumption levels.

Water consumption data shows an increase between 2014-15 and 2015-16, which can also be explained by increased occupancy.

We will continue to monitor gas, electricity and water use and identify any trends that can help to minimise future use including the use of alternate energy sources.

Since 2014, Efic has been sourcing a proportion of its electricity supply from green energy sources, such as mini hydro, wind power, solar, biogas and biomass. As at 30 June 2017, green energy sources account for 30 per cent of Efic's electricity supply.

Data on solid waste generation has been collected since January 2014. Waste generation amount and type has fluctuated over the three years of record and show a significant increase in total waste over the period, as well as a decrease in the amount of comingled recycling. Efic is considering how to decrease waste generation and how to increase the proportion recycled.

Our employees flew 2.39 million kilometres during 2016-17. The majority of this travel was associated with either due diligence for new transactions or the management of existing transactions. Travel miles, more particularly international travel, have decreased over the past three years, although domestic travel increased over the same period. Increased domestic travel is a result of Efic's increased emphasis on assisting Australian SMEs.

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

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 2016-17, covering them for liabilities incurred as an officer of Efic and related legal costs.

The scope of the indemnity is consistent with legislative requirements 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), for which premiums totalling $119,349 were paid for the financial year 2016-17.

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 2017.

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 87-146.

Freedom of Information

We are partially exempt from aspects of the 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.

However, we are 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 2016-17.

During the year ended 30 June 2017, 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 2017 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 agreement and an Additional Protocol on strengthened safeguards within the International Atomic Energy Agency.

We must also obtain a proliferation risk assessment from the DFAT and be satisfied, on the basis of that assessment, that the proliferation risk is acceptable.

Iran

A section 9 direction dated 15 February 2016 was in effect during the year ended 30 June 2017 in relation to trade with Iran. The direction revoked a previous section 9 direction dated 15 October 2008.

The direction states that we shall resume facilitating and encouraging Australian export trade to Iran, but shall not provide services or perform functions in circumstances where the service or function is in relation to a prohibited activity under the Autonomous Sanctions Regulations 2011 and the Charter of the United Nations (Sanctions – Iran) Regulations 2008, or where the service is provided to any entity engaged in such prohibited activities.

Zimbabwe

A section 9 direction dated 27 May 2009 was in effect during the year ended 30 June 2017 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 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.

OUR
GOVERNING PRINCIPLES

Democratic People's Republic of Korea

A section 9 direction dated 19 July 2009 was in effect during the year ended 30 June 2017 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 2017 in relation to new workplace bargaining arrangements for Commonwealth public sector employees.

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

Cuba

A section 9 direction dated 22 March 2016 was in effect during the year ended 30 June 2017 in relation to the 12 December 2015 Agreed Minutes between the Republic of Cuba and the Group of Creditors to Cuba.

The direction states that we are to exercise our powers and perform our functions in accordance with and to give effect to, the agreement between the Republic of Cuba and the Group of Creditors to Cuba recorded in the Agreed Minutes of 12 December 2015.

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 2017, 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 31 Efic Act directions

Section 31 of the Efic Act permits the Minister to issue directions to us to reduce or reschedule any actual or contingent liability of Efic made under Part 5 (National Interest transactions) of the Efic Act.

Please refer to the 'Financial matters' section on page 78.

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 $5.8 million was paid based on a direction from the Minister dated 5 October 2016 that 50 per cent of the 2015-16 Commercial Account profit be paid as a dividend.

At the date of publication, the dividend for the year ended 30 June 2017 had not been determined.

Section 61A Efic Act directions

Section 61A of the Efic Act permits the Minister to issue directions to us regarding the payment of a debt neutrality charge.

During the year ended 30 June 2017, a direction dated 18 June 2015 required Efic to pay a debt neutrality charge of 10 basis points on its cost of borrowing. The charge applies to new borrowings on all portfolios and existing debt that is rolled over or refinanced. The amount payable is $1.1 million.

Section 63A Efic Act directions

Section 63A of the Efic Act permits the Minister to issue directions to us regarding tax equivalent payments.

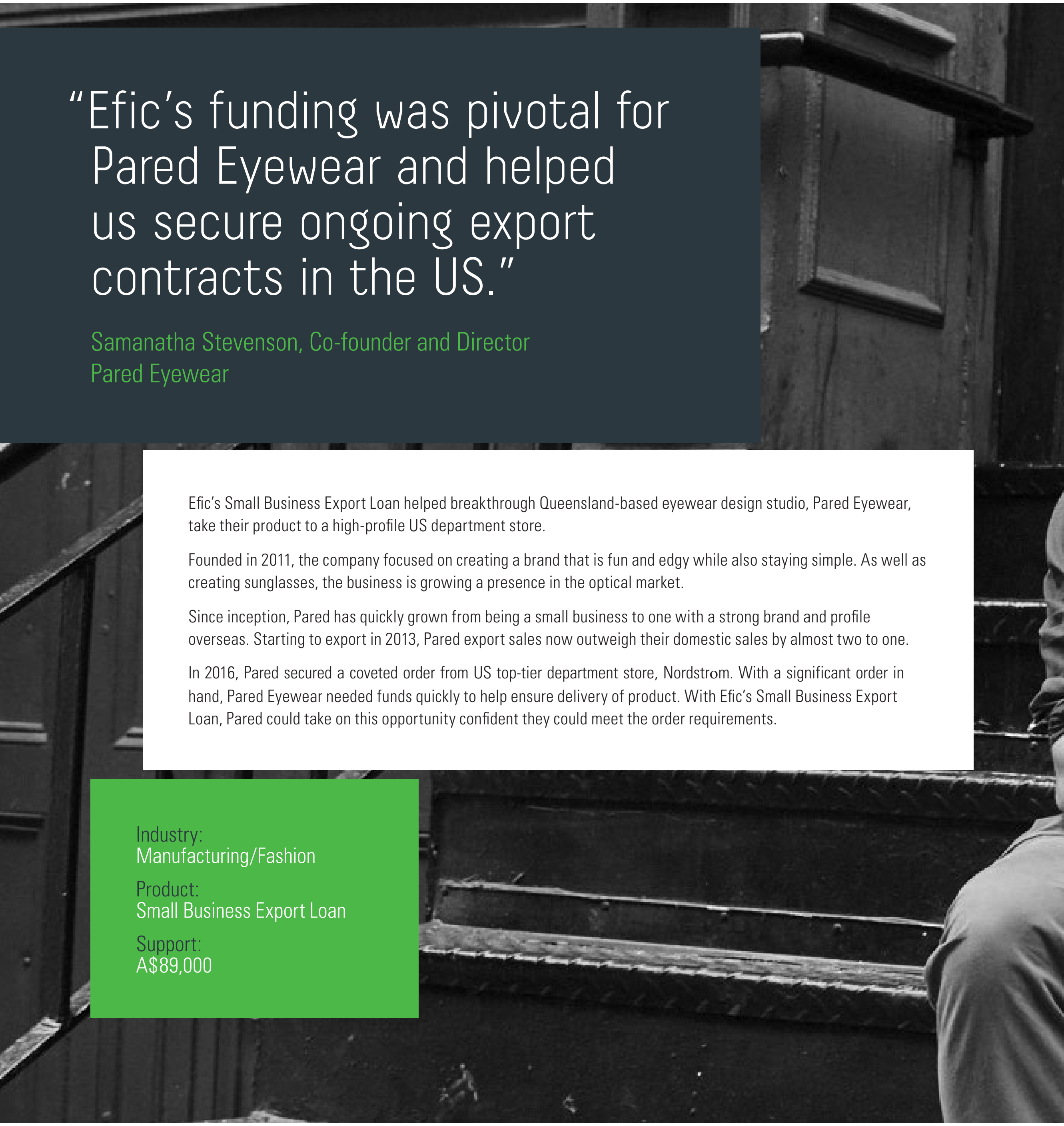
During the year ended 30 June 2017, a direction dated 18 June 2015 required Efic to pay a tax equivalent payment comprising:

- a payment in lieu of Commonwealth income tax at 30 per cent of accounting profits, and realised capital gains, with a capacity to carry tax losses forward.
- a payment in lieu of New South Wales payroll tax levied on wages, allowance, bonuses, fringe benefits and superannuation, at rates and thresholds specified in the 2015-16 NSW Budget.
- a payment in lieu of New South Wales land tax, at rates and thresholds specified in the 2015-16 NSW Budget.

The amount payable in lieu of Commonwealth income tax is $5.0 million, the amount payable in lieu of New South Wales payroll tax is $1.0 million and the amount payable in lieu of New South Wales land tax is $0.3 million.

CASE
STUDY

Pared Eyewear



"Efic's funding was pivotal for Pared Eyewear and helped us secure ongoing export contracts in the US."

Samanatha Stevenson, Co-founder and Director
Pared Eyewear

Efic's Small Business Export Loan helped breakthrough Queensland-based eyewear design studio, Pared Eyewear, take their product to a high-profile US department store.

Founded in 2011, the company focused on creating a brand that is fun and edgy while also staying simple. As well as creating sunglasses, the business is growing a presence in the optical market.

Since inception, Pared has quickly grown from being a small business to one with a strong brand and profile overseas. Starting to export in 2013, Pared export sales now outweigh their domestic sales by almost two to one.

In 2016, Pared secured a coveted order from US top-tier department store, Nordstrom. With a significant order in hand, Pared Eyewear needed funds quickly to help ensure delivery of product. With Efic's Small Business Export Loan, Pared could take on this opportunity confident they could meet the order requirements.

Industry:
Manufacturing/Fashion

Product:
Small Business Export Loan

Support:
A$89,000

CASE
STUDY

GD Pork

> "Efic's Export Contract Loan has been very important for us. Our increased production capacity will be a massive advantage in developing new export markets."

Torben Sorensen, Founder and Managing Director
GD Pork

Efic support provided GD Pork with the funds needed to continue with its current business commitments while expanding its operation capacity.

Founded in 2007 as a way to combine international expertise in pork production, with the clean and green environmental benefits of primary production in Western Australia, GD Pork exports about 75 per cent of its product to Singapore. With increasing demand for their product, GD Pork is undergoing a $24 million expansion to modernise its two existing farms.

GD Pork's bank was supportive of its expansion plans, and was able to provide a large proportion of the required funding. There was a shortfall, however, and so its bank referred GD Pork to Efic to see if we could help. With Efic's Export Contract Loan GD Pork was able to continue to develop its existing customers while undergoing its expansion.

Industry:
Agriculture, Forestry and Fishing

Product:
Export Contract Loan

Support:
A$2.3m

OUR 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 more information about 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 and processes.
- 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 detailed 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, several committees perform specific functions:

- the Executive Pre-Screening Committee, chaired by Efic's Managing Director, examines large potential transactions.
- the Risk and Compliance Committee, chaired by Efic's Chief Risk Officer, examines, monitors and regulates compliance risks.
- the Treasury Risk Review Committee, chaired by the Treasurer, examines treasury activities, limits, noteworthy transactions and current issues.
- the Work Health and Safety Committee, chaired by the Chief Financial Officer, examines all risks in the workplace (including in an agile environment) and reports any hazards or safety problems that may cause harm or injury to employees, contractors and visitors.

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.

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, competitive neutrality policies 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 foreign 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:

- meet our likely liabilities.
- 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 standards drawing upon both the prudential standards of the Australian Prudential Regulation Authority (APRA) and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision (Basel).

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 21 of the Financial Statements on pages 142-144.

Capital adequacy

Economic and regulatory capital are two terms often used in the analysis of capital that are conceptually similar but practically quite different. Regulatory capital is the mandatory capital the regulators (APRA and Basel) require to be maintained, while economic capital is the best estimate of required capital that financial institutions use internally to manage their own risk. Typically, regulatory capital is much higher than economic capital.

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

- 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 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.

OUR
RISK MANAGEMENT FRAMEWORK

Our capital base includes $200 million of callable (non-cash) capital with the balance of $467.2 million comprising retained earnings, reserves and contributed equity as cash capital.

Risk weighted assets increased over the year from $2.5 billion to $2.7 billion. Our capital adequacy ratio including callable capital is 25.2 per cent (26.1 per cent in 2016) and 17.6 per cent (18.2 per cent in 2016) on a cash capital basis. We have always maintained a buffer above the minimum 8 per cent to reflect the countercyclical nature of our business and the risk concentrations we have.

When assessing capital adequacy, the Board takes into account several factors.

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 do not 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 also 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 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 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' accounting standards, 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 do not make any collective provision for losses on National Interest Account facilities as the Commonwealth reimburses us for any losses.

OUR
RISK MANAGEMENT FRAMEWORK

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 ERS of 3.5.

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 Credit Default Swap (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 that 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 2017, taking both the National Interest Account and Commercial Account into consideration, 88.4 per cent were denominated in US dollars and 2.5 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 forward rate agreements 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 19 of the Financial Statements on pages 116-135 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 2016-17 included the issue of short-term Euro-commercial paper in USD, and short-term direct loans from banks. We were consistently able to borrow USD at margins slightly above or sub-LIBOR.

A debt neutrality charge of 10 basis points applies to new borrowings on all portfolios and existing debt that is rolled over or refinanced.

Investments and liquidity

At 30 June 2017, the face value of our investment and liquidity holdings on the Commercial Account was $1,091.1 million, comprising cash, bank deposits and investment securities.

Of this amount, $450.5 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, Cuban 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. At 30 June 2017, all previously rescheduled amounts had been paid on time as per the rescheduling agreements.

Indonesia

At 30 June 2017, our rescheduled loans to the Indonesian Government were $97.3 million on the National Interest Account and $2.7 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 2021. At 30 June 2017, all rescheduled amounts had been paid on time as per the rescheduling agreements.

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 2016-17, $7.6 million was cancelled under this program bringing the total cancelled to $75 million and completing the debt forgiveness program.

Egypt

Amounts arising from credit insurance claims paid in respect of wheat exports in the mid-1980s were repaid in full on 1 July 2016.

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 until January 2028.

The rescheduled debt balance at 30 June 2017 is US$0.5 million on the Commercial Account and US$130.7 million on the National Interest Account. At 30 June 2017, 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, Efic retains 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 $19.9 million taken up as income during 2016-17 on the National Interest Account.

Cuba

In the mid-1980s, Efic issued four National Interest Account loans to Banco Nacional de Cuba to support the sale of sugar cultivation and harvesting equipment. No repayments have been received on these loans since the late 1990s. In December 2015, the Paris Club's 'Group of Creditors of Cuba', which included Australia, agreed with Havana the terms upon which Cuba's outstanding debt would be rescheduled. Efic executed a bilateral agreement with Cuba in late May 2016 on terms consistent with those established by the Paris Club creditors. The debt is to be repaid over 18 years. The first repayment was received this year of $0.1 million with $9.5 million outstanding. The loans have had a 100 per cent provision in place since the payments ceased and this is maintained at 30 June 2017.

Dividends

Section 55 of the Efic Act requires our Board to make a written recommendation to 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.

A dividend of $5.8 million was paid in December 2016, based on a recommendation from the Board that 50 per cent of the 2015-16 Commercial Account profit be paid as a dividend.

At the date of publication, the dividend for the year ended 30 June 2017 had not been determined.

CASE STUDY

Australian shipbuilder Incat Tasmania provides environmentally friendly, lightweight ship solutions for ferry operators, special service providers and military.

"We've made a conscious decision to focus on eco operations and fuel efficiency, and continue to develop a range of lightweight, environmentally friendly fuel-efficient ships carrying heavier vehicle loads than ever before and at the lowest operational costs," says Incat's Founder and Chairman, Robert Clifford.

The company has an extensive history in Tasmania, and has come a long way since the September 1977 launch of the first high-speed catamaran at Prince of Wales Bay in Tasmania.

Over the past 25 years, Efic has supported over 20 vessel financings for Incat, and has seen the business grow and develop over this time.

This year, Efic provided two loans to Incat Tasmania to support the delivery of two 100+ metre, high-speed, wave-piercing catamarans for European operators Virtu Ferries and Naviera Armas, with a combined contract value of approximately EUR150 million.

"Virtu Ferries is amongst the oldest, most respected and most discerning fast ferry operators in the world. They operate a variety of high-speed craft services throughout the Mediterranean and Adriatic. This vessel is intended for their year-round lifeline service between Malta and the European Union," says Robert.

"Our vessels are well proven around the world in rough water conditions. In wanting to offer their passengers the very best in reliability and comfort, Naviera Armas sought the qualities of the wave-piercing catamaran, and even compared with their earlier Incat vessels this new generation craft for Armas will be a real step-up in terms of passenger comfort and economies of scale."

The global ship construction industry is highly competitive and securing large contracts can add pressure to business cashflow.

"Efic's role in providing financial support is an important part of Incat's export business success. Australia is recognised as a world-leading manufacturer of large high-speed lightweight craft. It is a challenging industry, and would be even more so without the support of major Export Credit Agencies. Efic's support for the construction of these new ferries has unquestionably assisted Incat in delivering these major orders," says Robert.

Khalil Khiran, Director, Corporate, Sovereign and Project Finance at Efic, managed the arrangement with Incat, "our long history with Incat is a testament to their success over the years. When working on large projects like this it is pleasing to see the impact made within the local community."

"With a 550-strong workforce at their Hobart shipyard, Incat Tasmania is expecting to increase this to over 700 at the peak of the production process for these two vessels, making it one of the largest private sector employers in Tasmania. This is fantastic news for the region," says Khalil.

Efic's financial assistance has also enabled Incat to positively plan its forward order position, "With a fast ferry market that is the best it has been for the past 10 years, we are aggressively pursuing new opportunities which will provide medium to long term certainty for our growing workforce well into the mid-2020s," says Robert.

> "Efic's role in providing financial support is an important part of Incat's export business success."
>
> Robert Clifford, Founder and Chairman Incat

Incat Tasmania

CASE STUDY

In just under 30 years of operation, Austal has become one of Australia's leading shipbuilders and defence prime contractors. Commencing operation in Perth, Western Australia, Austal now has shipyards in the USA, the Philippines and China.

"Australia's shipbuilding industry is absolutely critical to developing our island nation's sovereign capability and maritime self-sufficiency," says David Singleton, Austal Chief Executive Officer.

"Since 1988, Austal has delivered 266 vessels to more than 100 operators in 44 countries. Approximately 80% of Austal's global production is delivered to overseas customers and export sales continue to underpin our proven business model and future growth plans," says David.

"Efic has been helping Austal win export orders since 1994 and has helped fund 18 contracts, comprising a total of 33 vessels, worth over A$1.234 billion. Efic's contribution to Austal's export business cannot be understated."

"The support from Efic has helped Austal grow internationally through the provision of competitive finance for our customers and reliable, valuable advice and professional support whenever and wherever we needed it. This has in turn led to the creation of many hundreds of jobs, stable employment, investment in research and development and advanced manufacturing, and opportunities across the Australian supply chain," says David.

Efic's most recent funding support for Austal was for a A$108 million contract to design, build and sustain a new 109 metre high-speed catamaran for Fjord Line of Norway.

"This all-aluminium ferry design incorporates key innovations including Austal's largest ever vehicle carrying capacity of 404 cars, increased fuel efficiency and improved manoeuvring capability in strong winds," says David.

"The vessel will be operating on the Skagerrak Sea between Hirtshals, Denmark and Kristiansand, Norway. Passenger comfort was a key consideration for Fjord Line, with Austal's customised layout and interior design focusing on delivering greater natural light, seating and public spaces - including retailing (duty free store) and entertainment areas."

The contract from Fjord Line is Austal's eighth very large high-speed commercial ferry (over 100 metres in length). The vessel will join Fjord Line's fleet of four ferries operating in the Scandinavian region following delivery from Austal's Henderson, Western Australia shipyard in January 2020.

Phil Paterson, Director, Corporate, Sovereign and Project Finance at Efic, managed the Austal financing support and says the opportunities within the local community are a fantastic outcome of the contract.

"Austal's latest contract will provide genuine opportunities for the local community in Western Australia. Austal will be recruiting 100 new apprentices, many of which will work on the Fjord Line project," says Phil.

"Austal employs over 670 people at the Henderson shipyard, so the benefits to the local community from a contract of this size and value, in terms of employment and supply chain opportunities, are substantial. A large number of Australian suppliers are anticipated to be engaged for the 109 metre Fjord Line project; with many hundreds of indirect jobs created throughout supporting industry," says Phil.

With the Government's $89 billion Naval Shipbuilding Plan recently announced, David says Australia's shipbuilding industry is playing a key, nation building role and driving new growth in manufacturing, "In addition, the commercial fast ferry and offshore work boat market segments are key growth areas for Austal and will provide export orders in to the future," says David.

"Efic has been helping Austal win export orders since 1994 and has helped fund 18 contracts, comprising a total of 33 vessels, worth over A$1.234 billion."

David Singleton, CEO
Austal

Austal

Australian BORDER FORCE
CAPE ST GEORGE
THE AUSTRALIAN SHIPBUILDER
AUSTAL

TEN-YEAR SUMMARY

Commercial Account

Years ended 30 June

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Signings	**396**	390	179	577	514	990	593	697	377	365
Export contracts and overseas investments supported	**996**	1,475	823	2,138	2,075	4,278	3,473	3,561	817	2,219
Net interest income	**21.4**	23.7	26.5	22.6	32.8	38.1	39.6	38.3	44.5	32.2
Net premiums and fees	**24.1**	26.7	26.4	27.2	14.4	16.5	14.5	32.0	11.0	4.6
Fair value other financial instruments	**0.0**	0.1	(0.2)	(2.0)	(3.0)	(4.1)	(6.1)	(7.4)	(4.2)	(1.6)
Other income	**2.9**	2.6	2.5	4.1	4.7	3.1	3.0	2.6	3.0	2.9
Total revenue	**48.4**	53.1	55.2	51.9	48.9	53.6	51.0	65.5	54.3	38.1
Operating expenses	**(32.4)**	(34.0)	(31.5)	(27.9)	(26.9)	(26.7)	(24.5)	(23.8)	(20.6)	(18.8)
Tax equivalent charges	**(1.3)**	(1.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange profit / (loss)	**1.9**	(1.6)	(5.4)	0.2	0.6	0.0	0.0	0.0	(0.1)	0.0
(Charge) / credit for sundry allowances	**0.0**	0.1	(0.1)	0.0	0.0	0.1	3.6	(3.4)	(0.2)	0.0
Profit/ (loss) from the discontinued credit insurance business	**0.0**	0.1	0.0	0.0	0.0	(0.2)	0.1	0.0	0.2	0.4
Operating profit before tax equivalent	**16.6**	16.5	18.2	24.2	22.6	26.8	30.2	38.3	33.6	19.7
Income tax equivalent	**(5.0)**	(5.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit for Efic	**11.6**	11.5	18.2	24.2	22.6	26.8	30.2	38.3	33.6	19.7
Dividend (paid in subsequent years)	**Not decided**	(5.8)	(13.6)	(18.2)	(11.3)	(26.8)	(30.2)	(28.7)	(16.8)	(9.8)
Dividend payout ratio	**Not decided**	50%	75%	75%	50%	100%	100%	75%	50%	50%
Special dividend / Capital injection	**0.0**	0.0	200.0	0	(200.0)	0	0	0	0	0
Equity	**451.3**	444.8	436.8	225.9	216.3	418.1	408.1	407.6	376.7	331.2
Return on average equity (% pa) before tax equivalent	**4%**	4%	5%	11%	7%	6%	7%	10%	9%	6%
Capital adequacy ratio including callable capital	**25.2%**	26.1%	30.5%	22.5%	21.2%	31.0%	34.6%	37.3%	31.2%	34.5%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	813	867	878	594	535	458	361	342	227	145
Funded EFG's	72	99	117	123	149	101	102	115	55	0
Guarantees and other off-balance-sheet exposures	420	436	438	663	654	513	362	403	514	510
Exposures reinsured	634	673	601	478	362	327	112	87	206	212
Rescheduled debts	1	3	8	13	16	20	24	22	24	25
Total Commercial Account facilities	**1,940**	**2,079**	**2,042**	**1,871**	**1,716**	**1,419**	**961**	**969**	**1,026**	**892**

National Interest Account

Years ended 30 June

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Signings	**49**	0	0	0	0	13	0	274	200	4
Export contracts and overseas investments supported	**2,667**	0	0	0	0	240	0	2,411	530	18
Exports supported by Australian content by drawdown	**1,723**	6	12	305	904	1,005	338	0	0	21
Net interest income (including grant amortised)	**0.9**	1.4	1.8	2.1	2.1	1.2	1.0	2.9	3.0	0.3
Net premiums and fees	**13.9**	14.4	12.2	9.8	7.7	5.3	5.0	6.9	2.2	2.4
Fair value other financial instruments	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue	**14.8**	15.8	14.0	11.9	9.8	6.5	6.0	9.8	5.2	2.7
Operating expenses	**(1.4)**	(1.2)	(1.0)	(1.6)	(2.2)	(1.4)	(1.5)	(2.5)	(2.7)	(1.8)
Foreign exchange profit/(loss)	**(0.1)**	(0.1)	(0.3)	(0.2)	(0.1)	(0.2)	2.5	0.7	(2.9)	2.1
(Charge) / credit for specific provisions	**(7.5)**	(19.7)	(14.3)	(9.6)	(8.3)	(8.1)	(7.5)	0.1	0.2	1.8
Profit/ (loss) from the discontinued credit insurance business	**19.9**	19.4	17.6	15.5	14.8	19.8	8.2	1.3	0.0	0.0
Operating profit attributable to the Commonwealth	**25.7**	14.2	16.0	16.0	14.0	16.6	7.7	9.4	(0.2)	4.8
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	527	597	665	625	670	590	567	722	898	893
Guarantees and other off-balance-sheet exposures	10	11	12	11	11	6	0	1	4	8
Exposures reinsured	0	0	0	0	5	10	18	33	45	43
Rescheduled debts	179	215	238	232	72	87	101	101	111	111
Total National Interest facilities	**716**	**822**	**915**	**867**	**758**	**693**	**686**	**858**	**1,058**	**1,055**

FINANCIAL STATEMENTS

STATEMENT BY BOARD MEMBERS AND CHIEF FINANCIAL OFFICER

In the opinion of the members of the Board and the Chief Financial Officer of the Export Finance and Insurance Corporation (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 2017 and the financial position of the Corporation at 30 June 2017;

(b) the financial statements for the year ended 30 June 2017 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* (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

Stuart Neilson
Chief Financial Officer

24 August 2017

INDEPENDENT
AUDITOR'S REPORT

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Trade, Tourism and Investment

Opinion

In my opinion, the financial statements of the Export Finance and Insurance Corporation for the year ended 30 June 2017:

(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 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Export Finance and Insurance Corporation, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- 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 the financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Export Finance and Insurance Corporation in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2017 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Directors' Responsibility for the Financial Statements

As the Accountable Authority of the Export Finance and Insurance Corporation, the Directors 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 the Directors determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITOR'S REPORT

In preparing the financial statements, the Directors are responsible for assessing the Export Finance and Insurance Corporation's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Directors are also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Clea Lewis

Clea Lewis

Executive Director

Delegate of the Auditor General

Canberra

25 August 2017

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Note	Commercial Account **30 June 2017 $ m**	Commercial Account 30 June 2016 $ m	National Interest Account **30 June 2017 $ m**	National Interest Account 30 June 2016 $ m
Interest income	3(i)	**138.9**	135.2	**17.5**	20.3
Interest expense	3(ii)	**(117.5)**	(111.5)	**(16.6)**	(18.9)
Net interest income		**21.4**	23.7	**0.9**	1.4
Fair value movement of third-party loans and guarantees	3(iii)	**24.0**	26.7	**-**	-
Fair value movement of other financial instruments	3(iv)	**-**	0.1	**-**	-
Foreign exchange gain / (loss)		**1.9**	(1.6)	**(0.1)**	(0.1)
Other revenue	3(v)	**3.0**	2.7	**33.8**	33.8
Operating income		**50.3**	51.6	**34.6**	35.1
Operating expenses	3(vi)	**(32.4)**	(34.0)	**(1.4)**	(1.2)
State-tax equivalent charges	3(vii)	**(1.3)**	(1.2)	**-**	-
Net operating income		**16.6**	16.4	**33.2**	33.9
Credit to sundry allowances	3(viii)	**-**	0.1	**-**	-
Net rescheduled loans and debt forgiveness	3(ix)	**-**	-	**(7.5)**	(19.7)
Profit before tax-equivalent		**16.6**	16.5	**25.7**	14.2
Income tax-equivalent charge		**(5.0)**	(5.0)	**-**	-
Profit from ordinary activities		**11.6**	11.5	**25.7**	14.2
National Interest Account attributable directly to the Commonwealth		**-**	-	**(25.7)**	(14.2)
Net profit available to the Commonwealth		**11.6**	11.5	**-**	-
Other comprehensive income					
Items not subject to subsequent reclassification to profit or loss:					
Gain on revaluation of land and buildings		**-**	12.3	**-**	-
Items subject to subsequent reclassification to profit or loss:					
Net fair value loss taken to equity on cash flow hedge		**(0.3)**	(0.4)	**-**	-
Net fair value gain/(loss) on available-for-sale investments		**1.0**	(1.8)	**-**	-
Total other comprehensive income for the period		**0.7**	10.1	**-**	-
Total comprehensive income for the period available to the Commonwealth		**12.3**	21.6	**-**	-

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	Commercial Account		National Interest Account	
		30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Assets					
Cash and liquid assets	1(j)	**3.1**	1.3	**-**	-
Receivables from other financial institutions	4, 1(k)	**328.1**	290.1	**-**	-
Available-for-sale investment securities	6, 1(l)	**804.8**	875.3	**-**	-
Loans and receivables at amortised cost	7, 1(m)	**12.1**	20.9	**513.8**	588.7
Loans and receivables designated at fair value through profit or loss	8, 1(n)	**1,228.5**	1,335.3	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	1(o)	**537.3**	627.3	**-**	-
Derivative financial assets	9, 1(p)	**127.3**	185.9	**-**	-
Property, plant and equipment	10, 1(q)	**62.5**	66.8	**-**	-
Intangible assets and goodwill	11, 1(r)	**1.1**	1.4		
Other assets	12	**1.5**	1.6	**18.4**	19.8
Total assets		**3,106.3**	3,405.9	**532.2**	608.5
Liabilities					
Payables to other financial institutions	13, 1(s)	**28.3**	44.0	**-**	-
Amounts payable to the Commonwealth	5	**-**	-	**12.0**	11.6
Borrowings from Commercial Account	1(t)	**-**	-	**518.1**	594.2
Borrowings designated at fair value through profit or loss	14, 1(u)	**2,314.1**	2,491.2	**-**	-
Guarantees designated at fair value through profit or loss	15, 1(v)	**9.6**	9.7	**-**	-
Derivative financial liabilities	9, 1(p)	**254.7**	374.9	**-**	-
Sundry provisions and allowances	16	**11.4**	10.7	**-**	-
Other liabilities	17	**36.9**	30.6	**2.1**	2.7
Total liabilities		**2,655.0**	2,961.1	**532.2**	608.5
Net assets		**451.3**	444.8	**-**	-
Equity					
Contributed equity		**206.0**	206.0	**-**	-
Reserves		**130.5**	129.8	**-**	-
Retained profits		**114.8**	109.0	**-**	-
Total equity		**451.3**	444.8	**-**	-

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Retained Profits	Asset Revaluation Reserves	Available-for-sale Investment Reserve	Cash Flow Hedge Reserve (Note 19)	Other Reserves	Contributed Equity	Total Equity
Commercial Account	**$ m**	**$ m**	**$ m**	**$ m**	**$ m**	**$ m**	**$ m**
Opening balance as at 30 June 2016	**109.0**	**62.6**	**0.6**	**0.4**	**66.2**	**206.0**	**444.8**
Comprehensive income							
Other comprehensive income	**-**	**-**	**1.0**	**(0.3)**	**-**	**-**	**0.7**
Profit for the period	**11.6**	**-**	**-**	**-**	**-**	**-**	**11.6**
Total comprehensive income	**11.6**	**-**	**1.0**	**(0.3)**	**-**	**-**	**12.3**
Transactions with the Commonwealth							
Dividends paid 50% of 2015-16 profit	**(5.8)**	**-**	**-**	**-**	**-**	**-**	**(5.8)**
Closing balance available to the Commonwealth 30 June 2017	**114.8**	**62.6**	**1.6**	**0.1**	**66.2**	**206.0**	**451.3**
Commercial Account							
Opening balance as at 30 June 2015	111.1	50.3	2.4	0.8	66.2	206.0	436.8
Comprehensive income							
Other comprehensive income	-	12.3	(1.8)	(0.4)	-	-	10.1
Profit for the period	11.5	-	-	-	-	-	11.5
Total comprehensive income	11.5	12.3	(1.8)	(0.4)	-	-	21.6
Transactions with the Commonwealth							
Dividends paid 75% of 2014-15 profit	(13.6)	-	-	-	-	-	(13.6)
Closing balance available to the Commonwealth 30 June 2016	109.0	62.6	0.6	0.4	66.2	206.0	444.8

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 $6 million of capital advanced by the Commonwealth and an equity injection of $200 million paid in July 2014 that 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.

As agreed with the Minister for Trade and Investment, Efic paid a dividend for the year ended 30 June 2016 based on the recommendation from the Board that 50% of the 2015-16 profit be paid as a dividend and accordingly a dividend of $5.8 million was paid in December 2016.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2017

	Note	Commercial Account		National Interest Account	
		30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Cash flows from operating activities					
Inflows:					
Premium and fees received*		**39.0**	40.2	**13.1**	13.2
Interest received		**132.2**	132.0	**11.9**	11.2
Insurance claim recoveries		**0.1**	0.1	**29.6**	18.7
Guarantees and associated costs recovered		**0.5**	4.3	**-**	-
Sundry income*		**3.1**	2.9	**-**	-
Rescheduled debt repayments		**2.6**	4.9	**12.3**	23.4
Net repayments/(disbursements) of loans		**124.7**	(34.9)	**46.0**	59.4
Net decrease/(increase) in other debtors and prepayments		**5.8**	2.2	**-**	-
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(9.4)**	(5.1)	**-**	-
Interest and other costs of finance paid		**(109.5)**	(103.9)	**(17.6)**	(19.7)
Guarantees called and associated costs		**-**	(4.8)	**-**	-
Payments to creditors and employees*		**(29.5)**	(30.8)	**-**	-
Net decrease/(increase) in payables to the Commonwealth		**-**	-	**(8.8)**	1.8
Net cash from/(used by) operating activities	24	**159.6**	7.1	**86.5**	108.0

* Grossed up for Goods and Services Tax

Cash flows from investing activities					
Inflows:					
Proceeds from available-for-sale investments		920.4	1,203.5	-	-
Proceeds from sale of property, plant and equipment		0.1	0.1	-	-
Outflows:					
Payments for available-for-sale investments		(853.2)	(1,243.0)	-	-
Payments for property, plant and equipment		(0.5)	(3.1)	-	-
Net cash used by investing activities		**66.8**	(42.5)	**-**	-

	Note	Commercial Account		National Interest Account	
		30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		**-**	-	**9.1**	21.4
Receipts from National Interest Account		**1.5**	1.1	**-**	-
Receipts from Northern Australia Infrastructure Facility		**1.4**	-	**-**	-
Outflows:					
Net proceeds/(repayments) of borrowings		**(173.2)**	162.1	**(59.7)**	(96.0)
Dividend payments to the Commonwealth		**(5.7)**	(13.6)	**-**	-
Other payments to the Commonwealth		**(7.1)**	-	**(34.4)**	(32.3)
Payments to Commercial Account		**-**	-	**(1.5)**	(1.1)
Net cash from/(used by) financing activities		**(183.1)**	149.6	**(86.5)**	(108.0)

Net increase/(decrease) in cash equivalents held		**43.3**	114.2	-	-
Cash equivalents at beginning of financial year		**291.4**	170.5	**-**	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		**(3.5)**	6.7	**-**	-
Cash equivalents at end of financial year	24	**331.2**	291.4	**-**	-

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

Note 1 Summary of significant accounting policies

The Export Finance and Insurance Corporation (Efic) is a body corporate established by a law of the Commonwealth and prescribed in the Export Finance and Insurance Corporation Act 1991 (Efic Act). Efic is classified as a Corporate Commonwealth entity under the provisions of the Public Governance, Performance and Accountability Act 2013 (PGPA Act).

Efic is a specialist financier delivering simple and creative finance solutions to Australian companies when their bank can't help. Efic helps Australian exporters win business, grow internationally and achieve export success.

As the Australian Government's export credit agency, Efic supports Australian export trade on a commercial basis. Efic works directly with businesses and their banks to provide financial support to Australian based companies that are exporting, are involved in a global supply chain or want to grow internationally. Through loans, guarantees, bonds and insurance products, Efic helps Australian exporters and subcontractors take advantage of new contract opportunities that may otherwise have been out of reach.

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 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
- *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR)* for reporting periods ending on or after 1 July 2015

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 Trade and Investment (Minister) enabling Efic to undertake business activities under Part 5 of the Efic Act which the Minister considers to be 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.

Note 1 Summary of significant accounting policies (continued)

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.

(b) New Australian Accounting Standards (AAS)

Consistent with Government policy, 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 in later years. 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 will apply the new standard in the 2018-19 financial year.

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 will apply the new standard in the 2018-19 financial year.

(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 and known as the Development Importy Finance Facility.

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, New Zealand dollar and the Japanese Yen. The relevant exchange rates used are:

	2017	2016
Average rates during year		
US$ / A$	**0.7540**	0.7285
Euro / A$	**0.6918**	0.6564
NZD / A$	**1.0587**	1.0909
JPY / A$	**82.237**	84.968
Rates at 30 June		
US$ / A$	**0.7699**	0.7437
Euro / A$	**0.6730**	0.6700
NZD / A$	**1.0505**	1.0494
JPY / A$	**86.152**	76.415

(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 under section 63A, Efic is subject to tax-equivalent payments under competitive neutrality arrangements as outlined below.

Efic is also 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.

Note 1 Summary of significant accounting policies (continued)

(i) Competitive neutrality

The competitive neutrality arrangements impose a mandatory obligation on Efic to pay amounts as determined by the Minister each financial year.

Under section 61A of the Efic Act, Efic has been instructed by the Minister to pay a debt neutrality charge to the Commonwealth that consists of:

- A payment of 10 basis points on Efic's cost of borrowing, which applies to all new borrowings and to existing debt that is rolled over or refinanced.

Under section 63A of the Efic Act, Efic has been instructured by the Minister to pay to the Commonwealth a tax-equivalent payment that consists of:

- A payment in lieu of Commonwealth income tax at 30% of accounting profits, and realised capital gains;
- A payment in lieu of New South Wales payroll tax; and
- A payment in lieu of New South Wales land tax.

(j) 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.

(k) 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.

(l) 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 20.

(m) 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.

(n) 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 20.

Note 1 Summary of significant accounting policies (continued)

(o) 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 20.

(p) 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, 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 20.

(q) 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.

(r) Intangible assets (software costs)

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by the Corporation, and where it is probable that the future economic benefits will flow from its use over more than one year. Costs associated with maintaining the software are recognised as an expense as incurred.

Computer software and other intangible assets are stated at cost less amortisation and impairment losses, if any.

Capitalised software costs are amortised on a systematic basis, using the straight-line method over its useful life of five years.

(s) 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.

Note 1 Summary of significant accounting policies (continued)

(t) 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.

(u) 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 20.

(v) 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 20.

(w) 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.

(x) Sundry creditors

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

(y) 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.

(z) 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.

(aa) Events after the reporting period

There have been no material events occurring after the reporting period that impact these financial statements for the year ended 30 June 2017.

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 2017, and it has been determined that no investment is considered to be impaired. On a portfolio basis there has been an appreciation in the value of the available-for-sale investments since purchase.

Plant and equipment

The valuation of plant and equipment is based on 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 2016 by Mr Benjamin Masters AAPI, Registered Valuer No. 16930 and Mr Jonathan Petsalis AAPI, Registered Valuer No.12849 of CIVAS (NSW) Pty Limited. On a income approach and discounted cash flow analysis with reference to its highest and best use, the land and buildings were valued at $57,000,000.

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 20.

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 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
(i) Interest income				
Receivables from other financial institutions	**2.3**	0.9	**-**	-
Available-for-sale investment securities	**19.8**	25.8	**-**	-
Loans at amortised cost	**0.2**	0.1	**17.5**	20.3
Loans and receivables designated at fair value through profit or loss	**23.9**	16.3	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	**16.1**	18.3	**-**	-
Derivative financial instruments receivable	**76.6**	73.8	**-**	-
Total interest income	**138.9**	135.2	**17.5**	20.3
(ii) Interest expense				
Payables to other financial institutions	**(0.4)**	(0.3)	**-**	-
Borrowings from Commercial Account	**-**	-	**(16.6)**	(18.9)
Borrowings at amortised cost	**(0.1)**	(0.1)	**-**	-
Borrowings designated at fair value through profit or loss	**(68.5)**	(64.0)	**-**	-
Derivative financial instruments payable	**(47.4)**	(46.2)	**-**	-
Debt neutrality charge	**(1.1)**	(0.9)	**-**	-
Total interest expense	**(117.5)**	(111.5)	**(16.6)**	(18.9)
(iii) Fair value movement of third-party loans and guarantees				
Net premium and fees	**17.4**	80.3	**-**	-
Reinsurance	**(2.5)**	(20.0)	**-**	-
Interest	**(1.3)**	0.3	**-**	-
Credit risk	**13.6**	(31.2)	**-**	-
Claims paid	**-**	(4.8)	**-**	-
Claims recovered	**0.5**	4.3	**-**	-
Specific events	**(3.7)**	(2.2)	**-**	-
Total fair value movement of third-party loans and guarantees	**24.0**	26.7	**-**	-
(iv) Fair value movement of other financial instruments				
Loans to National Interest Account designated at fair value through profit or loss	**(12.6)**	(10.3)	**-**	-
Borrowings designated at fair value through profit or loss	**51.5**	(27.2)	**-**	-
Derivative financial instruments	**(38.9)**	37.6	**-**	-
Total fair value movement of other financial instruments	**-**	0.1	**-**	-

Note 3 Revenue and expenses (continued)

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
(v) Other revenue				
Premium and fees	**-**	-	**13.9**	14.4
Rental income	**2.8**	2.6	**-**	-
Sundry income	**0.1**	-	**-**	-
Recoveries from credit insurance	**0.1**	0.1	**19.9**	19.4
Total other revenue	**3.0**	2.7	**33.8**	33.8

(vi) Operating expenses				
Staff costs	**(18.3)**	(17.7)	**-**	-
Depreciation and amortisation	**(5.1)**	(4.2)	**-**	-
Advertising and promotional costs	**(2.2)**	(2.6)	**-**	-
Superannuation costs	**(1.8)**	(1.8)	**-**	-
Computer and communication costs	**(1.8)**	(1.8)	**-**	-
Professional fees	**(1.4)**	(1.8)	**-**	-
Property costs	**(1.1)**	(1.4)	**-**	-
Travel costs	**(0.9)**	(1.0)	**-**	-
Provision for employee entitlements	**(0.5)**	(0.5)	**-**	-
Credit information	**(0.2)**	(0.5)	**-**	-
Other expenses	**(2.1)**	(2.2)	**-**	-
Northern Australia Infrastructure Facility recovery	**1.6**	0.3	**-**	-
National Interest Account recovery/(expense)	**1.4**	1.2	**(1.4)**	(1.2)
Total operating expenses	**(32.4)**	(34.0)	**(1.4)**	(1.2)

(vii) State tax-equivalent charges				
Payroll tax-equivalent charge	**(1.0)**	(1.0)	**-**	-
Land tax-equivalent charge	**(0.3)**	(0.2)	**-**	-
Total state tax-equivalent charges	**(1.3)**	(1.2)	**-**	-

Note 3 Revenue and expenses (continued)

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
(viii) Credit/(charge) to sundry allowances				
Allowances for unrecoverable costs	**-**	0.1	**-**	-
Total credit/(charge) to sundry allowances	**-**	0.1	**-**	-

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
(ix) Net rescheduled loans and debt forgiveness				
Recoveries of Loans	**-**	-	**0.1**	-
Debt forgiveness	**-**	-	**(7.6)**	(19.7)
Total rescheduled loans and debt forgiveness	**-**	-	**(7.5)**	(19.7)

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 $7.6 million (2016: $19.7m) was cancelled, bringing the total cancelled to $75 million and completing the debt forgiveness program.

Note 4 Receivables from other financial institutions

		Commercial Account		National Interest Account	
	Notes	**30 June 2017 $ m**	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
	1(k)				
Overnight deposits		**137.4**	129.1	**-**	-
Fixed cash deposits		**190.7**	161.0	**-**	-
Total receivables from other financial institutions		**328.1**	290.1	**-**	-

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Maturity analysis of receivables from other financial institutions				
At call	**148.7**	129.1	**-**	-
Due in less than 3 months	**129.2**	23.4	**-**	-
Due after 3 months to 1 year	**50.2**	137.6	**-**	-
Total receivables from other financial institutions	**328.1**	290.1	**-**	-

These receivables are from various banking Institutions all rated AA-.

Note 5 Amounts payable to the commonwealth

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Commonwealth opening balance payable	-	-	11.6	8.3
Net payments to the Commonwealth	**-**	-	**(25.3)**	(10.9)
	-	-	**(13.7)**	(2.6)
Profit for the year on National Interest Account	**-**	-	**25.7**	14.2
Total amounts payable to the Commonwealth	**-**	-	**12.0**	11.6

Note 6 Available-for-sale investment securities

		Commercial Account		National Interest Account	
	Note	**30 June 2017 $ m**	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
	1(l)				
Discount securities		**189.1**	307.5	-	-
Floating rate notes		**512.3**	390.0	-	-
Fixed rate bonds		**103.4**	177.8	-	-
Total available-for-sale investment securities		**804.8**	875.3	-	-
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**34.9**	318.2	**-**	-
Due after 3 months to 1 year		**370.7**	292.7	**-**	-
Due after 1 year to 5 years		**399.2**	264.4	**-**	-
Total available-for-sale investment securities		**804.8**	875.3	**-**	-

Refer to Note 19 for further information regarding credit risk and market risk.

Note 7 Loans and receivables at amortised cost

	Note	Commercial Account 30 June 2017 $ m	Commercial Account 30 June 2016 $ m	National Interest Account 30 June 2017 $ m	National Interest Account 30 June 2016 $ m
	1(m)				
Gross export finance loans		**-**	-	**536.3**	606.1
Gross funded export finance guarantees		**12.1**	20.9	**-**	-
Gross rescheduled credit insurance debts		**0.6**	0.7	**169.8**	204.9
Loans and receivables gross		**12.7**	21.6	**706.1**	811.0
Unearned premiums		**-**	-	**(4.3)**	(5.1)
Specific provision for impairment		**(0.6)**	(0.7)	**(179.3)**	(202.2)
Deferred income		**-**	-	**-**	(0.3)
Unamortised grants	1(e)	**-**	-	**(8.7)**	(14.7)
Total loans and receivables at amortised cost		**12.1**	20.9	**513.8**	588.7
Maturity analysis loans and receivables gross					
Due in 3 months or less		**-**	-	**6.0**	18.6
Due after 3 months to 1 year		**8.1**	8.4	**132.7**	98.3
Due after 1 year to 5 years		**4.3**	12.8	**303.1**	369.8
Due after 5 years		**0.3**	0.4	**264.3**	324.3
Total loans and receivables gross		**12.7**	21.6	**706.1**	811.0
Restructured exposures included above		**0.6**	0.7	**276.6**	376.7

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.

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 2017 $ m	Commercial Account 30 June 2016 $ m	National Interest Account 30 June 2017 $ m	National Interest Account 30 June 2016 $ m
Specific provision				
Specific provision opening balance	**0.7**	0.7	**202.2**	212.3
Foreign exchange movement	**-**	0.1	**(6.0)**	6.8
Provision written back	**(0.1)**	(0.1)	**(16.9)**	(16.9)
Specific provision closing balance	**0.6**	0.7	**179.3**	202.2

	Commercial Account 30 June 2017 $ m	Commercial Account 30 June 2016 $ m	National Interest Account 30 June 2017 $ m	National Interest Account 30 June 2016 $ m
Impaired loans				
Impaired loans	**0.6**	0.7	**179.3**	202.2
Specific provision for impairment	**(0.6)**	(0.7)	**(179.3)**	(202.2)
Carrying value of impaired loans	**-**	-	**-**	-
Interest foregone on impaired loans	**-**	-	**0.1**	0.2

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

	Notes	Commercial Account 30 June 2017 $ m	Commercial Account 30 June 2016 $ m	National Interest Account 30 June 2017 $ m	National Interest Account 30 June 2016 $ m
Gross export finance loans		**1,070.8**	1,131.1	-	-
Gross funded export finance guarantees		**193.4**	233.0	-	-
Gross rescheduled credit insurance debts		-	2.6	-	-
Loans and receivables gross	1(n)	**1,264.2**	1,366.7	-	-
Fair value net premium and fees		**35.1**	50.6	-	-
Fair value interest income		**2.8**	3.9	-	-
Fair value of credit risk		**(70.0)**	(84.1)	-	-
Fair value of specific events		**(3.6)**	(1.8)	-	-
Total loans and receivables at fair value		**1,228.5**	1,335.3	-	-
Maturity analysis loans and receivables gross					
Overdue		**0.3**	4.2	-	-
Due in 3 months or less		**29.6**	23.1	-	-
Due after 3 months to 1 year		**114.5**	98.7	-	-
Due after 1 year to 5 years		**637.2**	605.6	-	-
Due after 5 years		**482.6**	635.1	-	-
Total loans and receivables gross		**1,264.2**	1,366.7	-	-
Restructured exposures included above		**6.3**	7.0	-	-
Maturity analysis of overdue loans and receivables gross					
Less than 30 days		**0.1**	0.4	-	-
30 to 60 Days		-	0.9	-	-
61 to 90 Days		-	2.6	-	-
Over 90 Days		**0.2**	0.3	-	-
Total overdue loans and receivables gross		**0.3**	4.2	-	-

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 $0.3 million relates to five SME export finance loans where payment was not received on time. For these overdue loans Efic is working with the client to receive payment in full.

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 19 for further information regarding credit risk including maximum exposures and market risk.

Note 9 Derivative financial instruments

	Notes	Commercial Account 30 June 2017 $ m	Commercial Account 30 June 2016 $ m	National Interest Account 30 June 2017 $ m	National Interest Account 30 June 2016 $ m
	1(p)				
Derivative financial assets					
Interest rate swaps		**60.1**	79.4	**-**	-
Cross-currency swaps		**67.1**	103.8	**-**	-
Forward foreign exchange contracts		**0.1**	-	**-**	-
Options		**-**	2.7	**-**	-
Total derivative financial assets		**127.3**	185.9	**-**	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		**(1.1)**	5.9	**-**	-
Due after 3 months to 1 year		**45.2**	48.5	**-**	-
Due after 1 year to 5 years		**81.0**	127.7	**-**	-
Due after 5 years		**2.2**	3.8	**-**	-
Total derivative financial assets		**127.3**	185.9	**-**	-
Derivative financial liabilities					
Interest rate swaps		**17.5**	30.9	**-**	-
Cross-currency swaps		**232.7**	331.8	**-**	-
Forward foreign exchange contracts		**4.5**	12.2	**-**	-
Total derivative financial liabilities		**254.7**	374.9	**-**	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**(5.8)**	90.9	**-**	-
Due after 3 months to 1 year		**15.9**	5.0	**-**	-
Due after 1 year to 5 years		**140.3**	158.5	**-**	-
Due after 5 years		**104.3**	120.5	**-**	-
Total derivative financial liabilities		**254.7**	374.9	**-**	-

A derivative financial asset arises when the underlying value of the contract results in a overall receipt of funds by Efic. Efic's derivatives are undertaken to hedge Efic's borrowings, loans or investments. Efic has a interest rate swap where the floating interest is paid in August, November, February and May whereas the fixed interest is received in November and May. While the interest rate swap is in an asset position, the structure of the swap results in an anomaly where the interest is paid out in less than three months and the interest receipt is in the three months to one year.

A derivative financial liability arises when the underlying value of the contract results in a overall payment obligation by Efic. Efic's derivatives are undertaken hedge Efic's borrowings, loans or investments. There are cross currency contracts where fixed interest is received in August and February whereas floating interest is paid in December and June. While the cross currency swaps are in a liability position, the structure of the swap results in an anomaly where the interest is received in less than three months and the interest payment is in the three months to one year.

Refer to Note 19 for further information regarding credit risk, liquidity risk and market risk.

Note 10 Property, plant and equipment

	Notes	Commercial Account		National Interest Account	
		30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
	1(q)				
Freehold land and building, at valuation		**57.0**	57.0	**-**	-
Accumulated depreciation		**(2.9)**	-	**-**	-
Net book value - land and building		**54.1**	57.0	**-**	-
Plant and equipment, at valuation		**16.5**	17.3	-	-
Accumulated depreciation		**(8.1)**	(7.5)	**-**	-
Net book value - plant and equipment		**8.4**	9.8	**-**	-
Total property, plant and equipment		**62.5**	66.8	**-**	-

	Land and buildings $ m	Plant and equipment $ m	Total $ m
Gross value			
Balance as at 30 June 2016	57.0	17.3	74.3
Additions	-	0.5	0.5
Disposals	-	(1.3)	(1.3)
Gross value as at 30 June 2017	**57.0**	**16.5**	**73.5**
Accumulated depreciation			
Balance as at 30 June 2016	-	(7.5)	(7.5)
Depreciation charged for assets held at 1 July 2016	(2.9)	(1.9)	(4.8)
Depreciation recovered on disposals	-	1.3	1.3
Depreciation as at 30 June 2017	**(2.9)**	**(8.1)**	**(11.0)**
Net book value as at 1 July 2016	57.0	9.8	66.8
Net book value as at 30 June 2017	**54.1**	**8.4**	**62.5**

An independent valuation of land and buildings was carried out in June 2016 by Mr Benjamin Masters AAPI, Registered Valuer No. 16930. On an income approach and discounted cash flow analysis with reference to its highest and best use, the land and buildings were valued at $57,000,000.

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:

	30 June 2017 $ m	30 June 2016 $ m
Leased accommodation		
Freehold land and building, at valuation	**39.0**	39.0
Accumulated depreciation	**(2.0)**	-
Written-down value	**37.0**	39.0
Depreciation expense	**2.0**	1.6

Note 11 Intangible assets

		Commercial Account		National Interest Account	
	Notes	**30 June 2017 $ m**	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
	1(r)				
Cost		**1.5**	1.5	**-**	-
Accumulated amortisation and impairment		**(0.4)**	(0.1)	**-**	-
Net book value - intangible assets		**1.1**	1.4	**-**	-

	Intangible Asset $ m
Gross value	
Balance as at 30 June 2016	1.5
Additions - internally developed software	-
Gross value as at 30 June 2017	**1.5**
Accumulated amortisation and impairment losses	
Balance as at 30 June 2016	(0.1)
Amortisation	(0.3)
Impairment loss	-
Amortisation and impairment as at 30 June 2017	**(0.4)**
Net book value as at 1 July 2016	1.4
Net book value as at 30 June 2017	**1.1**

Note 12 Other assets

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Accrued interest receivable	**-**	0.1	**2.0**	2.8
Sundry debtors and prepayments	**1.5**	1.5	**16.4**	17.0
Total other assets	**1.5**	1.6	**18.4**	19.8

Note 13 Payables to other financial institutions

		Commercial Account		National Interest Account	
	Note	**30 June 2017 $ m**	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
	1(s)				
Overnight borrowings		**16.2**	23.1	**-**	-
Floating rate borrowing*		**12.1**	20.9	**-**	-
Total payables to other financial institutions		**28.3**	44.0	**-**	-
Maturity analysis of payables to other financial institutions					
At call		**9.6**	18.9	**-**	-
Due in 3 months or less		**6.6**	4.2		
Due after 3 months to 1 year		**8.1**	8.4	**-**	-
Due after 1 year to 5 years		**4.0**	12.5	**-**	-
Total payables to other financial institutions		**28.3**	44.0	**-**	-

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

Note 14 Borrowings designated at fair value through profit or loss

		Commercial Account		National Interest Account	
	Note	**30 June 2017 $ m**	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
	1(u)				
Borrowings		**2,314.1**	2,491.2	**-**	-
Total borrowings at fair value		**2,314.1**	2,491.2	**-**	-

Note 14 Borrowings designated at fair value through profit or loss (continued)

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Borrowings designated at fair value through profit or loss				
Structured borrowings				
Japanese yen	**106.0**	134.3	**-**	-
Total structured borrowings	**106.0**	134.3	**-**	-
Non-structured borrowings				
Australian dollar	**1,020.8**	1,241.8	**-**	-
New Zealand dollar	**149.5**	148.0	**-**	-
Total non-structured borrowings	**1,170.3**	1,389.8	**-**	-
Euro commercial paper				
US dollar	**1,037.8**	967.1	**-**	-
Total euro commercial paper	**1,037.8**	967.1	**-**	-
Total borrowings at fair value	**2,314.1**	2,491.2	**-**	-
Maturity analysis of borrowings				
Due in 3 months or less	**863.8**	1,034.3	**-**	-
Due after 3 months to 1 year	**225.1**	184.5	**-**	-
Due after 1 year to 5 years	**915.0**	942.8	**-**	-
Due after 5 years	**310.2**	329.6	**-**	-
Total borrowings at fair value	**2,314.1**	2,491.2	**-**	-

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 and on existing debt that is rolled over or refinanced, is payable to the Commonwealth.

Refer to Note 19 for further information regarding credit risk, liquidity risk, market risk and contractual amounts.

Note 15 Guarantees designated at fair value through profit or loss

		Commercial Account		National Interest Account	
	Note	**30 June 2017 $ m**	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
	1(v)				
Fair value of credit risk		**8.4**	10.7	**-**	-
Fair value of specific events		**2.3**	0.5	**-**	-
Fair value of net premium receivable		**(1.1)**	(1.5)	**-**	-
Total guarantees designated at fair value through profit or loss		**9.6**	9.7	**-**	-

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

Refer to Note 19 for further information regarding credit risk, market risk and maximum exposures.

Note 16 Sundry provisions and allowances

		Commercial Account		National Interest Account	
	Note	**30 June 2017 $ m**	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
	1(w)				
Employee entitlements		**4.1**	3.6	**-**	-
Provision for tax equivalent charges		**7.3**	7.1	-	-
Total sundry provisions and allowances		**11.4**	10.7	**-**	-

Note 17 Other liabilities

		Commercial Account		National Interest Account	
	Note	**30 June 2017 $ m**	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
	1(x)				
Sundry creditors		**36.9**	30.6	**-**	-
Interest payable		-	-	**2.1**	2.7
Total other liabilities		**36.9**	30.6	**2.1**	2.7

Note 18 Contingencies and commitments

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Contingent liabilities				
Guarantees*	**272.6**	249.5	**10.3**	11.4
Bonds	**39.8**	78.1	**-**	-
Medium-term insurance	**350.7**	363.0	**-**	-
Total contingent liabilities	**663.1**	690.6	**10.3**	11.4

* Guarantees include facilities signed under risk participation agreements.

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

Commitments to provide financial facilities				
Loans	**247.9**	157.5	**15.4**	-
Funded guarantees	**73.1**	1.5	**-**	-
Guarantees*	**43.0**	96.0	**1.0**	1.4
Bonds	**-**	4.2	**-**	-
Total commitments to provide financial facilities	**364.0**	259.2	**16.4**	1.4

* 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	**-**	0.1	**-**	-
Operating lease payable				
Due in 1 year or less	**0.4**	0.2	**-**	-
Due after 1 year to 2 years	**0.2**	0.1	**-**	-
Due after 2 years to 5 years	**-**	0.1	**-**	-
Total commitments payable	**0.6**	0.5	**-**	-

Commitments receivable				
Operating lease receivable				
Due in 1 year or less	**3.1**	2.9	**-**	-
Due after 1 year to 2 years	**2.7**	2.9	**-**	-
Due after 2 years to 5 years	**2.8**	4.9	**-**	-
Due after 5 years	**0.8**	1.2	**-**	-
Total commitments receivable	**9.4**	11.9	**-**	-

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

Note 19 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. Derivative transactions include:

- interest rate swaps and forward rate agreements 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 foreign 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. Efic has previously 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 2017 $ m**	30 June 2016 $ m
Credit risk exposures			
Receivables from other financial institutions	4, 1(k)	**328.1**	290.1
Available-for-sale investment securities	6, 1(l)	**804.8**	875.3
Loans and receivables at amortised cost	7, 1(m)	**12.1**	20.9
Loans and receivables designated at fair value through profit or loss	8, 1(n)	**1,228.5**	1,335.3
Derivative financial assets	9, 1(p)	**127.3**	185.9
Total*		**2,500.8**	2,707.5
Contingent liabilities	18	**663.1**	690.6
Commitments	18	**364.0**	259.2
Total		**1,027.1**	949.8
Total credit risk exposure		**3,527.9**	3,657.3

* 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.

Note 19 Financial risk management (continued)

> 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 Commonwealth and state or territory governments, Authorised Deposit-taking Institutions rated BBB- or above and other entities with credit ratings the equivalent of AA- or above. However, if after purchase or a contracting 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).

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, the Board does not permit proprietary trading and 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

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. The Board also sets triggers that require information to be notified to the Board. A treasury report, addressing prudential controls, risk, limits and triggers 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.

Note 19 Financial risk management (continued)

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

	Note	**30 June 2017 $ m**	30 June 2016 $ m
Available-for-sale investment securities			
Australian Authorised Deposit-taking Institutions			
AA-		**315.8**	277.1
A+		**73.6**	143.3
A		**33.8**	18.2
A-		**-**	315.6
BBB+		**195.1**	14.9
BBB		**34.9**	-
Other financial institutions or foreign entities			
AA-		**151.6**	106.2
Exposure to credit risk of available-for-sale investment securities	6, 1(l)	**804.8**	875.3

	Note	**30 June 2017 $ m**	30 June 2016 $ m
Derivative financial assets			
Australian Authorised Deposit-taking Institutions			
AA-		**88.9**	115.6
Other financial institutions or foreign entities			
AA-		**18.4**	36.6
A+ *		**15.0**	6.9
A *		**5.0**	26.8
Exposure to credit risk for derivative financial assets	9, 1(p)	**127.3**	185.9

* At time of purchase all derivatives with other financial institutions or foreign entities were rated at AA- or better.

For treasury exposures there are no overdue or restructured amounts.

Note 19 Financial risk management (continued)

> Exposures to clients

Efic's principal exposure to credit risk arises from the financing and credit facilities extended to clients. On the Commercial Account, loans written off during the year or credit facilities called that were not subsequently recovered within the year were nil (2016: $0.5 million).

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

	Note	**30 June 2017 $ m**	30 June 2016 $ m
Gross exposures			
Export finance loans	8, 1(n)	**1,070.8**	1,131.1
Funded export finance guarantees	8, 1(n)	**193.4**	233.0
Rescheduled credit insurance debts	8, 1(n)	**-**	2.6
Funded export finance guarantees at amortised cost	7	**12.1**	20.9
Rescheduled credit insurance debts at amortised cost	7	**0.6**	0.7
Guarantees	18	**272.6**	249.5
Medium-term insurance	18	**350.7**	363.0
Bonds	18	**39.8**	78.1
Total gross exposures		**1,940.0**	2,078.9
Reinsured exposures included above		**634.3**	673.3

Note 19 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 2017 $ m	**30 June 2017 % of total**	30 June 2016 $ m	30 June 2016 % of total
Country exposures				
Australia*	**735.5**	**37.9**	711.4	34.2
Canada	**233.8**	**12.1**	242.0	11.6
Mongolia	**129.9**	**6.7**	134.5	6.5
China	**122.8**	**6.3**	130.1	6.3
Papua New Guinea	**114.7**	**5.9**	128.1	6.2
Japan	**91.9**	**4.7**	95.1	4.6
Chile	**81.2**	**4.2**	100.9	4.9
United Kingdom	**73.4**	**3.8**	73.9	3.6
Malaysia	**60.4**	**3.1**	67.2	3.2
Belgium	**58.4**	**3.0**	60.5	2.9
Bermuda	**57.1**	**2.9**	63.3	3.0
France	**40.9**	**2.1**	42.4	2.0
Sri Lanka	**38.9**	**2.0**	43.2	2.1
Russia	**28.5**	**1.5**	36.3	1.7
Trinidad and Tobago	**24.3**	**1.3**	42.0	2.0
Turkey	**20.9**	**1.1**	31.2	1.5
Vietnam	**10.8**	**0.6**	9.2	0.4
Indonesia	**10.2**	**0.5**	18.1	0.9
Taiwan	**3.5**	**0.2**	3.7	0.2
Denmark	**-**	**-**	41.8	2.0
Other	**2.9**	**0.1**	4.0	0.2
Total country exposures	**1,940.0**	**100.0**	2,078.9	100.0
Reinsured exposures included above	**634.3**		673.3	

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

Note 19 Financial risk management (continued)

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

	30 June 2017 $ m	30 June 2016 $ m
Allowance for credit risk by product		
Export finance loans	**(65.3)**	(77.8)
Funded export finance guarantees	**(4.8)**	(6.1)
Rescheduled credit insurance debts	**-**	(0.2)
Guarantees	**(7.1)**	(8.9)
Medium-Term Insurances	**(0.4)**	(0.6)
Bonds	**(0.8)**	(1.2)
Allowance for credit risk closing balance	**(78.4)**	(94.8)

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

	30 June 2017 $ m	30 June 2016 $ m
Allowance for credit risk for gross exposures		
Allowance for credit risk opening balance	**(94.8)**	(62.8)
New exposures	**(7.7)**	(44.0)
Repayments	**11.6**	13.6
Change in risk grade	**(1.6)**	(13.1)
Change in term to maturity	**8.9**	9.7
Change in probability of default rates	**0.6**	3.0
Change in risk grade due to reinsurance/specific events	**-**	0.1
Exchange rate movements	**4.6**	(1.3)
Allowance for credit risk closing balance	**(78.4)**	(94.8)

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 on the Commercial Account. Any significant concentration risk on the Commercial Account is taken into account in assessing the amount of capital which Efic requires to conduct its Commercial Account activities.

Note 19 Financial risk management (continued)

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 category are as follows:

	Note	**30 June 2017 $ m**	30 June 2016 $ m
Gross exposures loans and receivables*			
Risk category 1 (AA- to AAA)		**174.6**	176.4
Risk category 2 (A- to A+)		**378.2**	355.2
Risk category 3 (BBB- to BBB+)		**266.3**	335.5
Risk category 4 (BB- to BB+)		**28.5**	37.8
Risk category 5 (B- to B+)		**117.5**	172.2
Risk category 6 (CCC+)		**296.3**	286.2
Risk category 7 (C to CCC)		**0.3**	3.4
Risk category 8 Doubtful		**2.5**	-
Gross exposures loans and receivables	8, 1(n)	**1,264.2**	1,366.7

* There are no exposures in categories 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 category is as follows:

	Note	**30 June 2017 $ m**	30 June 2016 $ m
Contingent liabilities*			
Risk category 1 (AA- to AAA)		**365.9**	342.7
Risk category 2 (A- to A+)		**124.7**	131.5
Risk category 3 (BBB- to BBB+)		**70.0**	79.3
Risk category 4 (BB- to BB+)		**-**	10.0
Risk category 5 (B- to B+)		**54.5**	74.7
Risk category 6 (CCC+)		**46.6**	50.5
Risk category 7 (C to CCC)		**1.4**	1.9
Total contingent liabilities	18	**663.1**	690.6

* There are no exposures in categories 8 and 9.

Note 19 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 2017 $ m**	30 June 2016 $ m
Commitments*			
Risk category 1 (AA- to AAA)		**89.2**	206.9
Risk category 2 (A- to A+)		**50.2**	14.8
Risk category 5 (B- to B+)		**2.2**	11.6
Risk category 6 (CCC+)		**222.4**	25.9
Total commitments	18	**364.0**	259.2

* There are no exposures in categories 3,4,7,8 and 9.

> Retained sector exposure

The sectors that represent more than 15% of Efic's Commercial Account retained exposure are the Mining LNG and Sovereign sectors. At 30 June 2017, the exposure to the Mining LNG sector accounted for $371.5 million, representing 19.1% of Efic's total retained exposure (2016: $402.6 million, representing 28.6% of the total), and the exposure to the Sovereign sector accounted for $320.3 million, representing 16.5% of Efic's total retained exposure (2016: $261.8 million, representing 18.6% 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, or reduce concentration risk to a counterparty with the same or lower risk. As can be seen from the table below, Efic has reinsured exposures with counterparties in risk categories 2, 3, 4, and 6 to reinsurers in risk categories 1 or 2.

	30 June 2017 $ m	30 June 2016 $ m
Reinsurance		
Reinsured to		
Risk category 1 (AA- to AAA)	**301.9**	323.8
Risk category 2 (A- to A+)	**332.4**	349.5
Reinsured from		
Risk category 2 (A- to A+)	**(292.2)**	(302.5)
Risk category 3 (BBB- to BBB+)	**(125.4)**	(134.5)
Risk category 4 (BB- to BB+)	**(35.2)**	(46.5)
Risk category 6 (CCC+)	**(181.5)**	(189.8)
Total reinsurance	**-**	-

The above tables do not take into account the value of any collateral or security held which may include first-ranking mortgage over assets financed by Efic, standby documentary credits, third-party guarantees and recourse to companies and company directors. No collateral has been called and held at year end. For the bond product in the normal course of business we do hold cash security deposits which at the 30 June 2017 were $14.9 million (2016: $19.4 million).

Note 19 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. Structured finance loans are for equipment finance where the loan repayments are soley reliant on the underlying transaction. On the National Interest Account, there was debt forgiveness of $7.6 million during the year (2016: $19.7 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 2017 $ m**	30 June 2016 $ m
Gross exposures			
Export finance loans	7, 1(j)	**536.3**	606.1
Rescheduled credit insurance debts	7, 1(j)	**169.8**	204.9
Guarantees	18	**10.3**	11.4
Total gross exposures		**716.4**	822.4

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

	30 June 2017 $ m	**30 June 2017 % of total**	30 June 2016 $ m	30 June 2016 % of total
Country exposures				
Papua New Guinea	**286.6**	**40.0**	320.2	38.9
Indonesia	**197.8**	**27.6**	263.0	32.0
Iraq	**169.8**	**23.7**	192.5	23.4
Australia*	**44.1**	**6.2**	11.4	1.4
Cuba	**9.5**	**1.3**	9.7	1.2
China	**8.6**	**1.2**	13.3	1.6
Egypt	**-**	**-**	12.3	1.5
Total country exposures	**716.4**	**100.0**	822.4	100.0

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

(c) Rescheduled debt exposures

Indonesia: At 30 June 2017, our rescheduled loans to the Indonesian Government were $97.3 million (2016: $122.2 million) on the National Interest Account and $2.7 million (2016: $4.4 million) on the Commercial Account. Scheduled payments from Indonesia due from December 1998 to December 2003 have been rescheduled on three occasions in the Paris Club of which one has been fully repaid. The two remaining rescheduled repayment schedules require six-monthly payments until June 2019 and June 2021 respectively depending on the rescheduling agreement. As at 30 June 2017 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Note 19 Financial risk management (continued)

Iraq: The rescheduled debt balance at 30 June 2017, is US$0.5 million (2016: US$0.5 million) on the Commercial Account and US$130.7 million (2016: US$143.2 million) on the National Interest Account. At 30 June 2017, 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 significantly impacting the likelihood 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 $19.9 million taken up as income during 2016-17 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 on 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 calls for six-monthly payments until January 2028.

Cuba: At 30 June 2017, the rescheduled debt balance was $9.5m (2016: $9.7 million), all rescheduled amounts have been paid on time as per the rescheduling agreements. Efic executed a bilateral agreement with Cuba in late May 2016 on terms consistent with those established by the Paris Club creditors. The debt is to be repaid over 18 years. The loans have had a 100% provision in place and this is maintained at 30 June 2017.

(iii) Liquidity risk

Prudent liquidity risk management on the Commercial Account is achieved by maintaining sufficient cash and marketable securities to meet any sudden shortfalls in the ability to fund Efic. Efic also has the explicit guarantee of the Commonwealth of Australia, which is rated AAA and therefore in normal markets there is no significant liquidity risk for Efic. Section 61 of the Efic Act states that 'Efic must not borrow or raise money except under section 58 or 59'. Section 58 allows the Finance Minister to lend money to Efic and section 59 allows Efic to borrow or raise money, subject to written approval of the Finance Minister. To date, Efic has funded its activities under section 59 and does not borrow directly from the Commonwealth of Australia. Notwithstanding the above, Efic maintains a liquid investment portfolio.

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

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

	Contractual undiscounted principal and interest			
30 June 2017	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	**3.1**	-	-	-
Receivables from other financial institutions	**278.1**	**50.2**	-	-
Available-for-sale investment securities	**38.9**	**382.6**	**406.2**	-
Loans and receivables at amortised cost	-	**8.1**	**4.3**	**0.3**
Loans and receivables designated at fair value through profit or loss	**31.3**	**131.1**	**798.8**	**536.6**
Loans to National Interest Account designated at fair value through profit or loss	**6.8**	**125.7**	**264.8**	**177.7**
Derivative financial instruments receivable				
- Contractual amounts receivable	**285.9**	**504.1**	**1,933.9**	**522.6**
Total undiscounted financial assets	**644.1**	**1,201.8**	**3,408.0**	**1,237.2**

Note 19 Financial risk management (continued)

30 June 2017	Contractual undiscounted principal and interest 3 months or less $ m	3 months to 1 year $ m	1 year to 5 years $ m	Greater than 5 years $ m
Undiscounted financial liabilities				
Payables to other financial institutions	**16.1**	**8.2**	**4.1**	**-**
Borrowings designated at fair value through profit or loss				
- Euro commercial paper	**857.3**	**194.8**	**-**	**-**
- Non structured borrowings	**7.0**	**30.0**	**866.1**	**377.2**
- Structured borrowings	**0.6**	**1.6**	**103.3**	**-**
Derivative financial instruments payable				
- Contractual amounts payable	**281.3**	**474.8**	**1,984.4**	**624.4**
Total undiscounted financial liabilities	**1,162.3**	**709.4**	**2,957.9**	**1,001.6**
Net undiscounted financial assets/(liabilities)	**(518.2)**	**492.4**	**450.1**	**235.6**

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 funding longer term assets. The majority of the Euro Commercial Paper maturing ($857.3 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 $71.2 million and the derivative liabilities would be $36.9 million.

As at 30 June 2017, Efic holds collateral of $9.6 million (2016: $12.4m) and Efic has posted collateral of $32.1 million (2016: $49.9m) on derivative transactions.

30 June 2016	Contractual undiscounted principal and interest 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	1.3	-	-	-
Receivables from other financial institutions	152.6	138.2	-	-
Available-for-sale investment securities	324.2	299.0	269.0	-
Loans and receivables at amortised cost	-	8.5	12.9	0.5
Loans and receivables designated at fair value through profit or loss	28.6	108.5	644.2	672.3
Loans to National Interest Account designated at fair value through profit or loss	19.6	90.2	326.3	217.7
Derivative financial instruments receivable				
- Contractual amounts receivable	484.9	195.3	1,308.7	410.7
Total undiscounted financial assets	1,011.2	839.7	2,561.1	1,301.2

Note 19 Financial risk management (continued)

30 June 2016	3 months or less $ m	3 months to 1 year $ m	1 year to 5 years $ m	Greater than 5 years $ m
	Contractual undiscounted principal and interest			
Undiscounted financial liabilities				
Payables to other financial institutions	23.1	8.5	12.7	-
Borrowings designated at fair value through profit or loss				
- Euro commercial paper	826.9	141.2	-	-
- Non structured borrowings	208.1	29.7	888.9	391.2
- Structured borrowings	0.6	14.4	117.5	-
Derivative financial instruments payable				
- Contractual amounts payable	569.6	152.2	1,306.3	510.5
Total undiscounted financial liabilities	1,628.3	346.0	2,325.4	901.7
Net undiscounted financial assets/(liabilities)	(617.1)	493.7	235.7	399.5

(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 and cross-currency swaps 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:

	Note	**30 June 2017 $ m**	30 June 2016 $ m
Cash flow hedge reserve			
Opening balance cash flow hedge reserve		**0.4**	0.8
Transferred to interest expense		**(0.2)**	(0.8)
Transferred to interest income		**0.4**	0.9
Net unrealised change in cash flow hedges		**(0.5)**	(0.5)
Closing balance cash flow hedge reserve		**0.1**	0.4

Fair value hedges are intended to hedge the exposure to variability in fair value movements that are attributable to future interest cash flows only. No fair value hedges are curently held.

Note 19 Financial risk management (continued)

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, except for capital and reserves as shown in the table below.

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.

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 2017	**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	**3.1**	-	-	-	-
Receivables from other financial institutions	**327.5**	-	-	-	-
Available-for-sale investment securities	**699.2**	**46.5**	**53.5**	-	**100.0**
Loans and receivables designated at amortised cost	**12.7**	-	-	-	-
Loans and receivables designated at fair value through profit or loss	**1,255.0**	**9.2**	-	-	**9.2**
Loans to National Interest Account designated at fair value through profit or loss	**411.0**	**39.3**	**67.1**	**0.7**	**107.1**
Total financial assets	**2,708.5**	**95.0**	**120.6**	**0.7**	**216.3**
Financial liabilities					
Payables to other financial institutions	**28.2**	-	-	-	-
Derivative financial instruments					
- Cross-currency swaps	**772.6**	-	**(237.1)**	**(335.0)**	**(572.1)**
- Foreign exchange swaps	**5.0**	-	-	-	-
- Interest rate swaps*	**382.6**	**48.7**	**(431.9)**	**0.6**	**(382.6)**
Borrowings designated at fair value through profit or loss	**1,140.9**	-	**737.1**	**335.0**	**1,072.1**
Other monetary liabilities	**24.7**	-	-	-	-
Total financial liabilities	**2,354.0**	**48.7**	**68.1**	**0.6**	**117.4**
Interest exposures	**354.5**	**46.3**	**52.5**	**0.1**	**98.9**
Capital and reserves portfolio	**350.5**	**46.5**	**53.5**	-	**100.0**
Net interest exposures	**4.0**	**(0.2)**	**(1.0)**	**0.1**	**(1.1)**

* Notional principal amounts.

Note 19 Financial risk management (continued)

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.

	Contractual undiscounted principal exposure				
30 June 2016	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	1.3	-	-	-	-
Receivables from other financial institutions	290.0	-	-	-	-
Available-for-sale investment securities	696.9	141.1	31.2	-	172.3
Loans and receivables designated at amortised cost	21.6	-	-	-	-
Loans and receivables designated at fair value through profit or loss	1,338.1	19.1	9.5	-	28.6
Loans to National Interest Account designated at fair value through profit or loss	439.8	43.7	104.1	6.6	154.4
Total financial assets	2,787.7	203.9	144.8	6.6	355.3
Financial liabilities					
Payables to other financial institutions	44.0	-	-	-	-
Derivative financial instruments					
- Cross-currency swaps	856.6	-	(237.3)	(335.0)	(572.3)
- Foreign exchange swaps	12.9	-	-	-	-
- Interest rate swaps*	315.7	62.9	(385.6)	7.0	(315.7)
Borrowings designated at fair value through profit or loss	1,274.2	-	737.2	335.0	1,072.2
Other monetary liabilities	19.4	-	-	-	-
Total financial liabilities	2,522.8	62.9	114.3	7.0	184.2
Interest exposures	264.9	141.0	30.5	(0.4)	171.1
Capital and reserves portfolio	262.2	141.1	31.2	-	172.3
Net interest exposures	2.7	(0.1)	(0.7)	(0.4)	(1.2)

* 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 below percentage changes are the recommendations for interest rate sensitivity provided by the Commonwealth.

Note 19 Financial risk management (continued)

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.

30 June 2017	**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	**100.0**				
Change of 30 basis points interest margin		**-**	**-**	**(0.3)**	**0.3**
Floating rate investments	**350.5**				
Change of 30 basis points interest margin		**0.9**	**(0.9)**	**(0.1)**	**0.1**

30 June 2016	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	172.3				
Change of 30 basis points interest margin		-	-	(0.4)	0.4
Floating rate investments	262.2				
Change of 30 basis points interest margin		0.7	(0.7)	(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 2017, 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 other 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).

Note 19 Financial risk management (continued)

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.

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

	Exposure at risk 2017 $ m	Exposure at risk 2016 $ m	**Increase in basis points Effect on equity 2017 $ m**	**Decrease in basis points Effect on equity 2017 $ m**	Increase in basis points Effect on equity 2016 $ m	Decrease in basis points Effect on equity 2016 $ m
Investment portfolio						
Fixed rate investments	**100.0**	172.3				
Change of 50 basis points credit margin			**(0.5)**	**0.6**	(0.7)	0.7
Change of 120 basis points credit margin			**(1.3)**	**1.3**	(1.6)	1.7
Change of 200 basis points credit margin			**(2.2)**	**2.2**	(2.7)	2.8
Floating rate investments	**1,026.7**	986.9				
Change of 50 basis points credit margin			**(3.4)**	**3.4**	(3.1)	3.1
Change of 120 basis points credit margin			**(8.2)**	**8.2**	(7.4)	7.4
Change of 200 basis points credit margin			**(13.7)**	**13.7**	(12.3)	12.3

Note 19 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 2017	**USD A$ m**	**EUR A$ m**	**NZD A$ m**	**JPY A$ m**	**Other A$ m**
Financial assets exposure in foreign currencies					
Cash and liquid assets	-	0.1	0.4	-	1.3
Receivables from other financial institutions	262.0	35.7	-	-	-
Available-for-sale investment securities	17.6	-	-	-	25.4
Loans at amortised cost	12.1	-	-	-	-
Loans and receivables designated at fair value through profit or loss	1,094.3	-	-	2.1	1.5
Loans to National Interest Account designated at fair value through profit or loss	448.7	54.6	-	-	-
Derivative financial instruments receivable	624.1	-	148.2	105.1	-
Other assets	-	-	-	-	-
Total financial assets exposure in foreign currencies	**2,458.8**	**90.4**	**148.6**	**107.2**	**28.2**
Financial liabilities exposure in foreign currencies					
Payables to other financial institutions	24.0	-	-	2.1	2.2
Borrowings designated at fair value through profit or loss	1,037.8	-	149.5	106.0	-
Guarantees designated at fair value through profit or loss	6.0	1.4	(0.1)	-	(0.4)
Derivative financial instruments payable	1,415.0	89.4	-	-	25.5
Other liabilities	3.9	0.4	0.3	-	0.5
Total financial liabilities exposure in foreign currencies	**2,486.7**	**91.2**	**149.7**	**108.1**	**27.8**
Net foreign exchange exposures in foreign currencies	**(27.9)**	**(0.8)**	**(1.1)**	**(0.9)**	**0.4**

As shown by the above table the net foreign exchange exposure as at 30 June 2017 is minimal in value for all currencies other than USD of $27.9 million. The imbalance in this currency is largely due to movements in credit risk provisioning.

Note 19 Financial risk management (continued)

30 June 2016	Foreign currency fair value exposures USD A$ m	EUR A$ m	NZD A$ m	JPY A$ m	Other A$ m
Financial assets exposure in foreign currencies					
Cash and liquid assets	-	0.1	0.1	-	0.6
Receivables from other financial institutions	274.3	-	-	-	-
Available-for-sale investment securities	45.2	-	-	-	27.1
Loans at amortised cost	20.9	-	-	-	-
Loans and receivables designated at fair value through profit or loss	1,222.6	39.7	-	-	3.3
Loans to National Interest Account designated at fair value through profit or loss	550.5	68.9	-	-	-
Derivative financial instruments receivable	620.1	-	144.4	132.0	-
Other assets	0.1	-	-	-	-
Total financial assets exposure in foreign currencies	2,733.7	108.7	144.5	132.0	31.0
Financial liabilities exposure in foreign currencies					
Payables to other financial institutions	39.9	0.6	-	-	3.5
Borrowings designated at fair value through profit or loss	946.2	-	148.0	134.3	-
Guarantees designated at fair value through profit or loss	6.9	1.8	(0.2)	-	0.1
Derivative financial instruments payable	1,758.2	109.6	-	-	27.2
Other liabilities	7.2	0.4	0.1	-	0.1
Total financial liabilities exposure in foreign currencies	2,758.4	112.4	147.9	134.3	30.9
Net foreign exchange exposures in foreign currencies	(24.7)	(3.7)	(3.4)	(2.3)	0.1

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 currencies that are material to Efic's accounts.

Note 19 Financial risk management (continued)

Sensitivity analysis for foreign exchange on the Commercial Account:

30 June 2017	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	**10.2**	**(27.9)**	**2.6**	**(3.2)**
Exposure to EUR	**10.2**	**(0.8)**	**0.1**	**(0.1)**
Exposure to NZD	**10.2**	**(1.1)**	**0.1**	**(0.1)**
Exposure to JPY	**10.2**	**(0.9)**	**0.1**	**(0.1)**

30 June 2016	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	10.5	(24.7)	2.3	(2.9)
Exposure to EUR	10.5	(3.7)	0.4	(0.4)
Exposure to NZD	10.5	(3.4)	0.2	(0.3)
Exposure to JPY	10.5	(2.3)	0.3	(0.4)

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

	USD 30 June 2017 A$ m	EUR 30 June 2017 A$ m	USD 30 June 2016 A$ m	EUR 30 June 2016 A$ m
Financial assets exposure				
Loans and receivables	**434.7**	**49.6**	524.0	62.3
Other assets	**17.9**	**0.3**	12.8	0.1
Total financial assets exposure	**452.6**	**49.9**	536.8	62.4
Financial liabilities exposure				
Borrowings from Commercial Account	**434.7**	**49.6**	524.1	62.3
Other liabilities	**1.9**	**0.1**	2.5	0.1
Total financial liabilities exposure	**436.6**	**49.7**	526.6	62.4
Net foreign exchange exposures	**16.0**	**0.2**	10.2	-

The majority of the exposure relates to USD cash received in June that will be converted to AUD and passed onto the Commonwealth. The policy of the Commonwealth is not to hedge these exposures.

Note 19 Financial risk management (continued)

Sensitivity analysis for foreign exchange on the National Interest Account:

30 June 2017	**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	**10.2**	**16.0**	**(1.5)**	**1.8**

30 June 2016	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	10.5	10.2	(1.0)	1.2

Note 20 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 2017	**Level 1 $ m**	**Level 2 $ m**	**Level 3 $ m**	**Total $ m**
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	**1,228.5**	**1,228.5**
Loans to National Interest Account designated at fair value through profit or loss	-	**537.3**	-	**537.3**
Interest rate swaps	-	**60.1**	-	**60.1**
Cross-currency swaps	-	**55.5**	**11.6**	**67.1**
Forward foreign exchange contracts	-	**0.1**	-	**0.1**
Available-for-sale financial assets				
Discount securities	-	**189.1**	-	**189.1**
Floating rate notes	-	**469.2**	**43.1**	**512.3**
Fixed rate bonds	-	**103.4**	-	**103.4**
Total	-	**1,414.7**	**1,283.2**	**2,697.9**
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	**(2,208.1)**	**(106.0)**	**(2,314.1)**
Guarantees designated at fair value through profit or loss	-	-	**(9.6)**	**(9.6)**
Interest rate swaps	-	**(17.5)**	-	**(17.5)**
Cross-currency swaps	-	**(232.7)**	-	**(232.7)**
Forward foreign exchange contracts	-	**(4.5)**	-	**(4.5)**
Total	-	**(2,462.8)**	**(115.6)**	**(2,578.4)**

Note 20 Fair value of financial instruments (continued)

30 June 2016	Fair value exposures by hierarchy Level 1 $ m	Level 2 $ m	Level 3 $ m	Total $ m
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	1,335.3	1,335.3
Loans to National Interest Account designated at fair value through profit or loss	-	627.3	-	627.3
Interest rate swaps	-	79.4	-	79.4
Cross-currency swaps	-	80.3	23.5	103.8
Forward foreign exchange contracts	-	-	-	-
Option	-	2.7	-	2.7
Available-for-sale financial assets				
Discount securities	-	307.5	-	307.5
Floating rate notes	-	247.3	142.7	390.0
Fixed rate bonds	-	127.4	50.4	177.8
Total	-	1,471.9	1,551.9	3,023.8
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	(2,356.9)	(134.3)	(2,491.2)
Guarantees designated at fair value through profit or loss	-	-	(9.7)	(9.7)
Interest rate swaps	-	(30.9)	-	(30.9)
Cross-currency swaps	-	(331.8)	-	(331.8)
Forward foreign exchange contracts	-	(12.2)	-	(12.2)
Total	-	(2,731.8)	(144.0)	(2,875.8)

Note 20 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 2016 $ 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 2017 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	1,335.3	252.4	(311.9)	(42.0)	-	-	(5.3)	1,228.5
Cross-currency swaps	23.5	-	0.8	(11.7)	-	-	(1.0)	11.6
Available-for-sale financial assets								
Floating rate notes	142.7	-	(96.5)	(2.7)	(0.2)	(0.2)	-	43.1
Fixed rate bonds	50.4	-	(50.0)	-	(0.1)	-	(0.3)	-
	1,551.9	252.4	(457.6)	(56.4)	(0.3)	(0.2)	(6.6)	1,283.2
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(134.3)	-	11.8	15.3	-	0.1	1.1	(106.0)
Guarantees designated at fair value through profit or loss*	(9.7)	-	-	0.3	-	-	(0.2)	(9.6)
Cross-currency swaps	-	-	-	-	-	-	-	-
	(144.0)	-	11.8	15.6	-	0.1	0.9	(115.6)
Total net level 3	1,407.9	252.4	(445.8)	(40.8)	(0.3)	(0.1)	(5.7)	1,167.6

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

Note 20 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 2015 $ 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 2016 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	1,172.1	530.8	(395.6)	35.3	-	-	(7.3)	1,335.3
Cross-currency swaps	8.8	0.6	-	19.3	-	-	(5.2)	23.5
Available-for-sale financial assets								
Floating rate notes	222.4	53.7	(133.1)	(9.4)	(0.2)	9.2	0.1	142.7
Fixed rate bonds	50.1	-	-	-	0.2	-	0.1	50.4
	1,453.4	585.1	(528.7)	45.2	-	9.2	(12.3)	1,551.9
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(113.7)	-	-	(23.6)	-	-	3.0	(134.3)
Guarantees designated at fair value through profit or loss*	(10.5)	-	-	(0.3)	-	-	1.1	(9.7)
Cross-currency swaps	(1.8)	-	0.2	1.7	-	(0.1)	-	-
	(126.0)	-	0.2	(22.2)	-	(0.1)	4.1	(144.0)
Total net level 3	1,327.4	585.1	(528.5)	23.0	-	9.1	(8.2)	1,407.9

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

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.

Note 20 Fair value of financial instruments (continued)

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 2017 $ m	**Effect of reasonable alternative assumptions $ m**	At 30 June 2016 $ m	Effect of reasonable alternative assumptions $ m
Level 3 Financial assets				
Loans and receivables designated at fair value through profit or loss	**1,228.5**	**(18.5)**	1,335.3	(18.8)
Cross-currency swaps	**11.6**	**0.2**	23.5	0.1
Available-for-sale financial assets				
Floating rate notes	**43.1**	**-**	142.7	0.1
Fixed rate bonds	**-**	**-**	50.4	0.1
Level 3 Financial liabilities				
Borrowings designated at fair value through profit or loss	**(106.0)**	**0.2**	(134.3)	(0.3)
Guarantees designated at fair value through profit or loss	**(9.6)**	**(3.0)**	(9.7)	(3.6)
Cross-currency swaps	**-**	**-**	-	-

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

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

Private placements, classified as available-for-sale investments, do not have a quoted market price, however a market rate is determined by calculating a yield. The yield includes an estimation for credit spreads which are determined by comparing the private issue to public issues of similar entities. The credit spreads were adjusted by 10 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 20 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 21 Capital equivalent

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Capital available				
Equity at start of period	**444.8**	436.8	**-**	-
Profit	**11.6**	11.5	**-**	-
Net gain on cash flow hedges	**(0.3)**	(0.4)	**-**	-
Net gain/(loss) on available-for-sale investments	**1.0**	(1.8)	**-**	-
Asset revaluation reserve	**-**	12.3	**-**	-
Dividend payable/paid	**(5.8)**	(13.6)	**-**	-
Equity at end of period	**451.3**	444.8	**-**	-
Eligible allowance for credit risk in capital	**15.9**	15.2	**-**	-
Efic capital	**467.2**	460.0	**-**	-
Callable capital	**200.0**	200.0	**-**	-
Capital available (including callable capital)	**667.2**	660.0	**-**	-
Capital required				
Export finance	**154.2**	141.3	**-**	-
Treasury	**30.7**	35.0	**-**	-
Other assets	**5.6**	5.6	**-**	-
Operational capital	**10.6**	9.8	**-**	-
Capital before concentration capital	**201.1**	191.7	**-**	-
Concentration capital	**159.6**	172.1	**-**	-
Total capital required	**360.7**	363.8	**-**	-
Capital ratios				
Risk weighted assets	**2,652.4**	2,528.1	**-**	-
Capital adequacy ratio (excluding callable capital)	**17.6%**	18.2%	**-**	-
Capital adequacy ratio (including callable capital)	**25.2%**	26.1%	**-**	-

Commercial Account

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%.

Note 21 Capital equivalent (continued)

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

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. Concentration risks, potential currency movements and large exposures all impact on Efic's business and capital is required as a buffer to these risks.

> Concentration Risk

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.

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).

The amount of capital that Efic has set aside for concentration capital risk at 30th June 2017 is $159.6 million which is 50% of the maximum exposure to the mining LNG sector.

> Currency Movement

Efic is unusual in that approximately 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.

> 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.

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.

Note 21 Capital equivalent (continued)

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
- 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 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 2017, Efic's capital requirement based on risk weighted assets of $2.7 billion (2016 - $2.5 billion) is $360.7 million (2016 - $363.8 million) compared with available capital of $667.2 million (2016: $660.0 million). The capital adequacy ratio is 17.6% excluding callable capital and 25.2% including callable capital (2016: 18.2% and 26.1% 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.

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 22 Remuneration of external auditors

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Auditor's remuneration				
Amounts received or due and receivable by the Corporation's auditors for:				
Other services	**35,745**	34,000		
An audit or review of the financial report of the Corporation	**220,000**	220,000	**-**	-
Total audit remuneration	**255,745**	254,000	**-**	-

The Corporation's auditor is the Australian National Audit Office (ANAO) who has retained KPMG to assist with the assignment.

Note 23 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 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Key Management Remuneration Expenses for the Reporting Period				
Short-term employee benefits	**3,564,960**	3,334,374	**-**	-
Post-employment benefits	**257,439**	249,183	**-**	-
Termination benefits	**-**	13,060	**-**	-
Total remuneration	**3,822,399**	3,596,617	**-**	-
Total number of senior management personnel	**15**	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 24 Reconciliation of operating profit to net cash flows from operating activities

	Commercial Account		National Interest Account	
	30 June 2017 $ m	30 June 2016 $ m	**30 June 2017 $ m**	30 June 2016 $ m
Operating profit from ordinary activities	**11.6**	11.5	**25.7**	14.2
Reclassification on non-cash items				
Depreciation	**5.1**	4.2	**-**	-
Employee entitlements	**0.5**	0.5	**-**	-
Amortisation of deferred income	**-**	(0.2)	**(5.3)**	(8.1)
Credit risk movement	**(13.6)**	31.2	**-**	-
Foreign exchange (gains)/losses	**(1.9)**	1.6	**0.1**	0.1
Unearned premium	**-**	-	**(0.5)**	(0.6)
Fair value movement of third-party loans and guarantees	**15.9**	(25.8)	**-**	-
Fair value movement of other financial instruments	**-**	(0.1)	**-**	-
Specific provision	**3.7**	2.2	**7.6**	19.7
Provision for competitive neutrality charges	**7.4**	7.1	**-**	-
Other	**(2.2)**	2.7	**0.6**	(0.1)
Reclassification on cash items				
Net movement in receivables/payables	**5.8**	2.2	**-**	-
Net repayments of loan balances	**124.7**	(34.9)	**46.0**	59.4
Rescheduled debt repayments	**2.6**	4.9	**12.3**	23.4
Net cash inflows/(outflows) from operating activities	**159.6**	7.1	**86.5**	108.0
Reconciliation of cash				
Cash at end of financial year is reconciled to the related items in the Balance Sheet as follows:				
Cash	**3.1**	1.3	**-**	-
Receivables from other financial institutions	**328.1**	290.1	**-**	-
Cash (including liquid funds) at end of financial year	**331.2**	291.4	**-**	-
Financing facilities				
Borrowing facilities available to Efic at end of financial year				
Overdraft facilities	**0.3**	0.3	**-**	-
Amount of facilities used	**-**	-	**-**	-
Amount of facilities unused	**0.3**	0.3	**-**	-

INDEX OF
STATUTORY REPORTING REQUIREMENTS

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

Table 11: Index of statutory reporting requirements

Part A:
PGPA Act, Public Governance, Performance and Accountability Rule 2014

Section	Subject	Location	Page
s.17BE (h) – (i)	The annual report must detail any significant issues reported to the Minister.	No issues reported	-
s.17BE(j)	The annual report must detail particulars of the Board.	Our Board	44-50
s.17BE (k) – (l)	The annual report must detail particulars of Efic's organisational structure.	Our organisational structure	51
s.17BE (m) – (p)	The annual report must outline the main corporate governance practices.	Our business Our Board Our governing principles	40-43 44-49 56-67
s.17BE (q) – (s)	The annual report must detail any judicial and administrative decisions or reviews or reports having a significant effect on Efic.	Judicial and administrative decisions and reviews	64
s.17BE(t)	The annual report must detail any indemnity applied during the financial year.	Indemnity and insurances	64
s.17BE(u)	The annual report must include an index of Efic's statutory reporting requirements.	Index of Statutory Reporting Requirements	148-150

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STATUTORY REPORTING REQUIREMENTS

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	Corporate responsibility	60-64
Export Finance and Insurance Corporation Act 1991			
s.9(4)	Particulars of Ministerial directions issued under section 9(2)	Particulars of directions by the Minister	65-67
s.70(2)	Financial effect on the operations of EFIC of each Ministerial direction issued under section 9(2)	Particulars of directions by the Minister	65-67
s.85(2)(a)	Particulars of Ministerial directions issued under section 9(2)	Particulars of directions by the Minister	65-67
s.85(2)(b)	Statement of principal objectives	Purpose and principles Annual Performance Statement	2-3 4-9
s.85(2)(c)	Assessment of principal objectives achieved	Annual Performance Statement	4-9
Equal Employment Opportunity (Commonwealth Authorities) Act 1987			
s. 9(4)	Report on Equal Employment Opportunity program	Our people	56-59
Work Health and Safety Act 2011			
Sch2, Pt 4, Clause 4(2)	Work health and safety initiatives, outcomes, statistics and investigations	Our people	59-60

ABBREVIATIONS AND ACRONYMS

Table 12: 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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