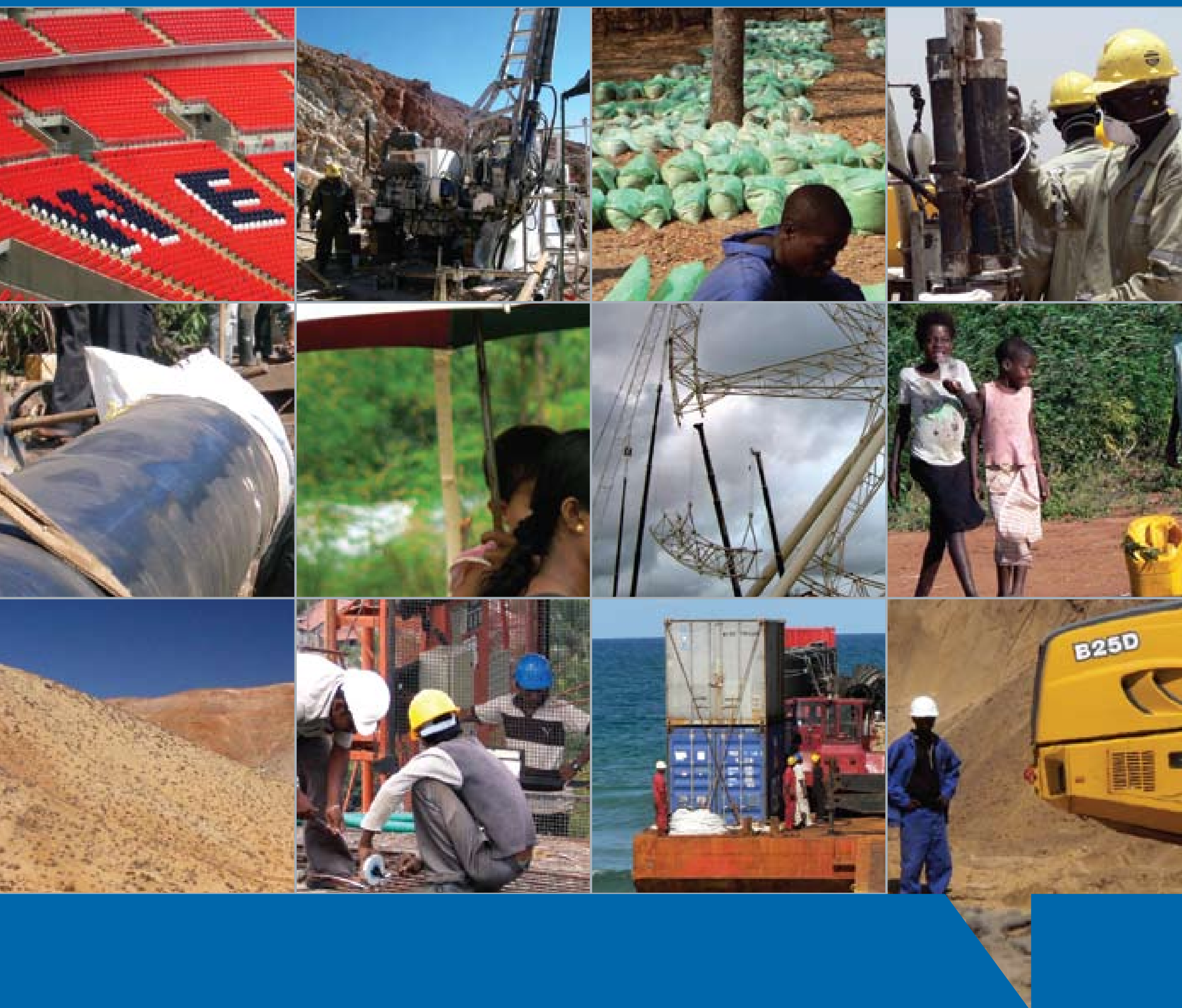
Australia's Export Credit Agency. Take on the World. Talk to EFIC.

EFIC Annual Report 2008



Australian Government

Export Finance and Insurance Corporation

Contents

Report of Operations

Mission

To support the growth of Australian businesses internationally.

We seek to create opportunities for our clients when the private market lacks capacity or willingness, filling the 'market gap' on a commercial basis.

We bridge the gap by drawing on over 50 years' experience in assessing risk in markets around the world. By providing financial solutions through innovative products and services, risk management options and professional advice, we act as a catalyst to help our clients and allies develop new markets and build private market capacity.

Intensively managing risk allows EFIC to be profitable in its operations and provide support to Australian exporters and investors.

In achieving this mission, we strive to make EFIC an interesting, dynamic and satisfying place to work.

Report of Operations

Summary and Statement by the Board

In the financial year to 30 June 2008, EFIC provided facilities totalling $365 million (2006–07: $545 million) on the Commercial Account and supported export contracts of $2.2 billion (2006–07: $1.4 billion). EFIC recorded a profit on the Commercial Account of $19.7 million.

EFIC's activities are focused on the Government's mandate to support the growth of Australian businesses internationally by creating opportunities for exporters and investors where the private market is unable or unwilling to provide the necessary support. EFIC fills this 'market gap' on a commercial basis while it seeks to assist clients develop new markets and build private market capacity.

During the year, EFIC supported $2.2 billion of exports and overseas investments, an increase of 62 per cent over the previous year. EFIC has largely avoided the problems many financial institutions have faced over the past 12 months, although turbulence in world financial markets continues to influence EFIC's operating environment. This volatility may further increase the demands on EFIC to work with banks and insurers to address the needs of Australian companies seeking to export and invest overseas; however, it also represents an environment of heightened risk to the Corporation, which compels EFIC to manage tightly its limited risk capacity.

Results from activities during the year include a profit on the Commercial Account of $19.7 million (2006–07: $40.7 million, including a one-off profit adjustment of $16.3 million). The profit from activities under the National Interest Account is transferred to the Australian Government and does not form part of EFIC's net profit or reserves.

As evidenced by the Corporation's results, EFIC has a strong Risk Management Framework to manage risk. The assessment and underwriting of risk is central to EFIC's financial management as is maintaining appropriate capital and reserves to support the level of risk that it accepts. As a result, EFIC reported a Capital Adequacy Ratio of 21.7 per cent. New accounting standards, notably AASB7, required EFIC to report in the notes to the accounts for the first time how management perceives, manages and measures risk. EFIC has reported its exposure to credit risk, liquidity risk and market risk covering both interest rate and foreign exchange risk.

The Board is confident that EFIC has the appropriate controls in place at this point of heightened risk in the credit cycle and that the Corporation is poised to respond responsibly to the needs of Australian companies exporting and investing overseas. At the same time, we are fully aware that EFIC is not immune to market volatility and of the risks to EFIC if there is a downturn in the credit cycle resulting in financial loss.

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

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

Peter Young
CHAIRMAN

Angus Armour
MANAGING DIRECTOR

14 AUGUST 2008

Year in Review

In 2007–08, EFIC supported $2.2 billion of exports and overseas investments, an increase of 62 per cent over the previous reporting period, through new facilities totalling $365 million. EFIC also supported a further $18 million of exports and investments on the National Interest Account, through new facilities totalling $4 million. The Commercial Account recorded a profit of $19.7 million and had a Capital Adequacy Ratio of 21.7 per cent.

Turbulence in world financial markets continued to influence EFIC's operating environment. The tightening credit conditions and a lower risk tolerance in global financial markets created opportunities for EFIC to collaborate with banks and insurers to meet the needs of profitable Australian companies exporting and investing overseas. The rising Australian dollar impacted the reported level of facilities that EFIC signed as most facilities are denominated in foreign currencies, and in particular US dollars, but reported in local currency. During the year the Australian dollar appreciated 13.4 per cent against the US dollar.

EFIC continued to provide strong support to Australia's manufacturing, construction and engineering services sectors reflected in both the number of signings and dollar value. The largest single transaction was in the engineering services sector and involved the provision of a loan to support Australian participation in the construction of an aluminium smelter in the Middle East. This region dominated new signings by dollar value, while EFIC also facilitated exports and investments across diverse markets in Asia, North America, South America, the Caribbean and Europe.

Alongside its facilities for larger enterprises, EFIC continued to support the international growth of Australia's small and medium enterprises (SMEs) through the provision of various bonds, EFIC Headway guarantees and export finance guarantees. The number of banks distributing EFIC Headway increased to nine during the year.

During the year, Ms Yasmin Allen completed her term on the EFIC Board. Yasmin made a valuable contribution during her six years on the Board, including as a member of the Audit Committee. Also during the year, Mr Ralph Hillman left the Executive team. Ralph was appointed Executive Director, Government and Industry Relations, in 2004, overseeing EFIC's alliances and partnerships and contributing valuable experience to EFIC.

EFIC enters the new financial year with a healthy pipeline of prospective transactions, including potential clients requiring large structured trade and project finance facilities, as well as SMEs requiring smaller facilities.

Report of Operations

Performance against Principal Objectives

Objectives

Support Australian exports and overseas investments

Objectives

To work within the market gap

Objectives

Generate sustainable profit at the highest possible level within prevailing policy and pricing constraints

Key Performance Indicators	Outcomes
■ Support exports and overseas investments in aggregate of $1.4 billion through structured trade and project finance facilities.	■ Supported exports and overseas investments in aggregate of $2.1 billion through structured trade and project finance facilities.
■ Provide 25 structured trade and project finance facilities.	■ EFIC provided 29 structured trade and project finance facilities.
■ Sign $450 million in aggregate of new structured trade and project finance facilities.	■ Signed $348.2 million in aggregate of new structured trade and project facilities, of which $4 million represented new National Interest Account signings.
■ Support exports and overseas investments in aggregate of $0.1 billion through EFIC Headway facilities.	■ Supported exports and overseas investments in aggregate of $0.1 billion through EFIC Headway facilities.
■ Provide 54 EFIC Headway facilities.	■ EFIC provided 31 EFIC Headway facilities.
■ Sign $25 million in aggregate of new EFIC Headway facilities.	■ Signed $21 million in aggregate of new EFIC Headway facilities.

Key Performance Indicators	Outcomes
■ Maintain EFIC's Weighted Average Risk Grade within the 4 to 4.5 band, where 4 is equivalent to a rating of BB/Ba and 5 is equivalent to B/B.	■ EFIC's Weighted Average Risk Grade during the year was between 4.1 and 4.6 (4.6 at June 2008) or, including reinsurance, was between 3.5 and 3.8 (3.8 at June 2008).

Key Performance Indicators	Outcomes
■ Achieve budgeted profit of $16.0 million.	■ Commercial Account profit for the year was $19.7 million.
■ Maintain Capital Adequacy Ratio of above 16 per cent of Risk Weighted Assets.	■ Capital Adequacy Ratio was 21.7 per cent of Risk Weighted Assets.
■ 50 per cent (by dollar value) of transactions entered into involve EFIC sharing risk with other financial institutions.	■ More than 50 per cent (by dollar value) of transactions entered into involved EFIC sharing risk with other financial institutions.

Report of Operations

Summary of Results

New Business and Exports Supported

EFIC provided financial facilities for 29 structured trade and project finance transactions. Of these, 22 were on the Commercial Account and seven shared over the Commercial and National Interest Accounts. EFIC also provided 31 EFIC Headway facilities. A list of facilities signed during the year can be found in the Business Overview section on page 27.

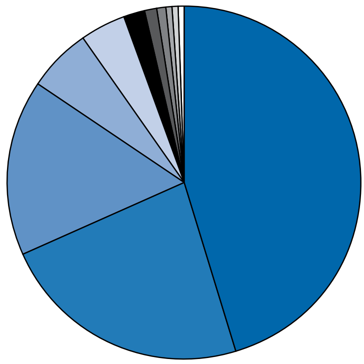
Engineering services and construction were the main sectors for signings in terms of value, accounting for 71 per cent of total signings. Manufacturing and construction were the main sectors for signings in terms of number, accounting for 73 per cent of total signings. The following charts illustrate the value and number of signings over the year by both sector supported and facility type.

SIGNINGS BY SECTOR SUPPORTED

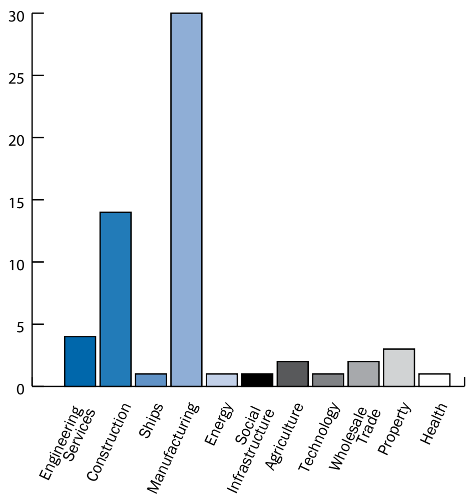
		Value %	Number #
Engineering Services		46.80%	4
Construction		23.70%	14
Ships		16.00%	1
Manufacturing		6.10%	30
Energy		4.00%	1
Social Infrastructure		1.90%	1
Agriculture		0.60%	2
Technology		0.50%	1
Wholesale Trade		0.20%	2
Property		0.20%	3
Health		0.10%	1

SIGNINGS BY SECTOR SUPPORTED (CONTINUED)

Value of Signings by Sector Supported



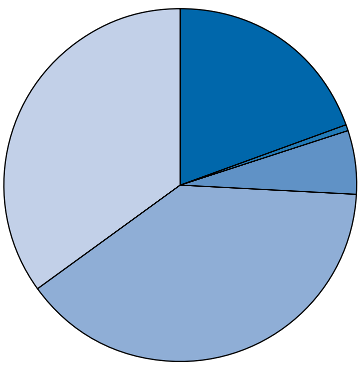
Number of Signings by Sector Supported



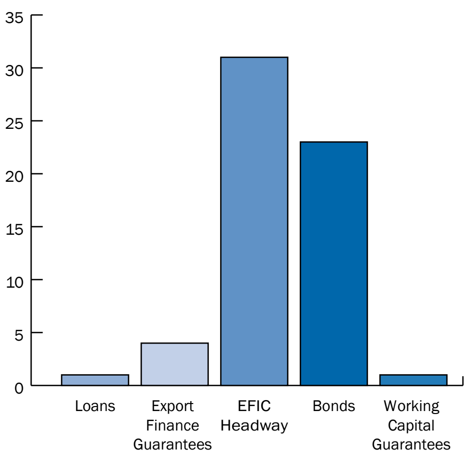
SIGNINGS BY FACILITY TYPE

		Value %	Number #
Loans		39.10%	1
Export Finance Guarantees		34.90%	4
EFIC Headway		5.80%	31
Bonds		19.70%	23
Working Capital Guarantees		0.50%	1

Value of Signings by Facility Type



Number of Signings by Facility Type



Commercial Account

During the year, EFIC signed 29 new Commercial Account facilities supporting 20 clients and 31 EFIC Headway facilities (including renewals), totalling $365 million. The facilities underpinned exports and overseas contracts for Australian companies totalling $2.2 billion.

The 2007–08 profit of $19.7 million was above budget of $16 million but below the 2006–07 profit of $40.7 million. However, the 2006–07 profit included a net $16.3 million one-off profit due to the implementation of new funding arrangements between the National Interest Account and the Commercial Account (see New Funding Arrangements on page 12). Profitability was also impacted by a higher allowance for credit risk (as explained under Allowance for Credit Risk on page 9).

National Interest Account

EFIC signed seven National Interest Account facilities totalling $4 million, supporting export contracts of $18 million. These facilities were written under standing Ministerial Directions.

The National Interest Account recorded a profit of $4.8 million in 2007–08, a decrease on the

Report of Operations

Summary of Results

2006–07 profit of $70.4 million. However, the 2006–07 profit included a net $60.5 million one-off profit due to the implementation of new funding arrangements between the Commercial Account and the National Interest Account (see New Funding Arrangements on page 12).

As outlined in EFIC's Exposures section on page 18, the loan portfolio on the National Interest Account comprises loans supported by aid grants made under the now discontinued Development Import Finance Facility (DIFF) of AusAID, the Australian Government's overseas aid agency, and rescheduled credit insurance debts.

Operations

EFIC's core business is providing finance, guarantees, insurance and bonding facilities to support Australian companies exporting or investing overseas. The objective of EFIC's solutions is to facilitate and encourage Australian exports and overseas investment as well as mitigate the risks faced by Australian companies undertaking contracts and investments overseas.

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

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

EFIC remains committed to meeting the needs of its clients by offering a variety of products, services and solutions. Recent years have seen changes in the types of facilities required by EFIC's clients, and their destination markets. Political Risk Insurance (PRI) transactions dominated EFIC's signings in 2006–07, whereas no PRI transactions were finalised in 2007–08. Instead, loans and export finance guarantees (EFGs) accounted for 74 per cent of signings in 2007–08. One large loan transaction in the engineering services sector is prominent in this year's signings, accounting for 39 per cent of total signings by value.

A number of promising transactions are in the pipeline for 2008–09; however, facilities in support of more complex structured trade transactions may involve negotiations that extend over long periods, and when individual projects are large, they can introduce significant volatility into EFIC's signings forecasts. One of EFIC's functions is to encourage banks, other financiers and insurers to support exports and overseas investments. The Corporation's participation in a larger transaction can often encourage private financiers to share the risks involved. The EFG facility, which provides explicitly for bank risk participation, supports this objective. EFIC has also used facultative reinsurance over the years, drawing risk-sharing capacity on a transaction-by-transaction basis, normally involving overseas specialised primary insurers and other ECAs. This approach encourages increased private sector support for exports and overseas investments, reduces the amount of EFIC's risk concentrations and preserves the availability of EFIC's capital for further EFIC support.

During the year, EFIC has continued to promote the EFIC Headway product, a guarantee facility to assist SME exporters to grow their business. EFIC has used its strong relationships with banks and allies that support EFIC Headway and that are active in the market to seek feedback, which has led to implementation of a number of product enhancements to further assist SME exporters.

Outstanding Exposures

Details of exposures on the Commercial Account and the National Interest Account are set out in the EFIC's Exposures section on page 16.

On the Commercial Account, the Corporation's exposure remains predominantly to private sector companies, both clients and reinsurers, although EFIC continues to accept risks on governments and public sector entities in developing countries. EFIC's largest industry exposure is to ship operators. At 30 June 2008, they represented 18 per cent of total Commercial Account exposures. However, as this year's signings translate to exposure in later years, the risk profile of EFIC will change.

On the National Interest Account, nearly all the exposures are to overseas governments, the largest being the Government of Indonesia.

Allowance for Credit Risk

The underlying profitability of EFIC in the longer term depends, primarily, upon actual losses in the medium-term business. A major influence in determining EFIC's past profits from year to year, however, has been the allowance for credit risk in respect of our exposures.

The accounting standards require a credit risk component to be incorporated into the fair value calculation. EFIC assesses credit risk in light of the expected losses over the life of facilities. EFIC has developed a model that takes into account the magnitude and nature of the exposures, their risk grade, type and maturity. EFIC estimates the magnitude of the losses using external data for losses of similarly graded risks. When it is likely that a loan or debt will not be recovered in full due to a specific event, the model is not used and instead EFIC determines an appropriate amount to set aside for expected loss.

EFIC's allowance for credit risk on its Commercial Account in 2007–08 was $46.3 million. This was a $17.9 million increase over the year largely due to the growth in new exposures. The allowance for credit risk provides for possible loan defaults as well as potential claims in relation to off-balance-sheet facilities, such as EFGs.

Report of Operations

Summary of Results

The main variables impacting the level of expected loss from year to year are the rate of growth in exposures and the risk profile of the portfolio (which in turn is affected by the business mix and foreign exchange rates).

EFIC provided $2.7 million for specific events in 2007-08 of which $2.0 million was paid on a claim for an export working capital guarantee. After recoveries and foreign exchange adjustments, the decrease for specific events was $1.6 million.

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

EFIC closely monitors the financial health and risk grade of each of the counterparties to which it is exposed. At year end, the Weighted Average Risk Grade of EFIC's Commercial Account exposures (including political risk insurance policies and reinsurers) remained at an EFIC risk score (ERS) of approximately 4. An ERS 1 is equivalent to a rating of AAA through /AA- (Aaa through Aa3) from the major ratings agencies, while ERS 7 is the lowest grade before default. An ERS of 4 is the equivalent of BB+ / BB- (Ba1 / Ba3).

Reschedulings

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

INDONESIA

At 30 June 2008, EFIC's loans to the Indonesian Government were $813 million on the National Interest Account and $17 million on the Commercial Account. The National Interest Account loans were predominantly loans supported by aid grants and approved under the now discontinued DIFF of AusAID. The loans have various maturities, the longest having a final repayment in 2024.

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

EGYPT

At 30 June 2008, EFIC was owed $100 million and US$34 million by the Egyptian Government ($25 million on the Commercial Account and the balance on the National Interest Account). These

amounts arose from credit insurance claims paid in respect of wheat exports in the mid-1980s. These debts were subject to rescheduling at Paris Club meetings of Egypt's government creditors in 1987 and 1991 (with partial debt forgiveness agreed at the latter meeting), and are repayable by 2016. As at the 30 June 2008, all rescheduled amounts have been paid on time as per the rescheduling agreements.

IRAQ

Between 1987 and 1992, EFIC paid credit insurance claims, mostly on the National Interest Account, in respect of non-payment by the Iraqi Government for exports from Australia. These credit insurance claims were expensed as paid. The prevailing situation in Iraq following the claim payments prevented EFIC and the Government from pursuing recovery of this money. After the passage of UN Resolution No. 1546 and transfer of full sovereignty to the interim Iraqi Government, the country's external debt was restructured in the Paris Club.

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

Australian equivalents to International Financial Reporting Standards (AIFRS)

EFIC's Commercial Account financial statements for the year ending 30 June 2008 have been prepared in accordance with AIFRS. The adoption of fair value results in up-front recognition of fees, interest income and expense. A credit risk component is included in the valuation to reflect the impact of expected loss on the fair value. All derivative financial instruments are designated at fair value through the profit and loss account. All investments, including capital and reserves are carried at market value with changes in market value going to equity.

The National Interest Account financial statements continue to adopt an accruals approach measuring all loans and borrowings at amortised cost. The National Interest Account does not hold derivative financial instruments.

Summary of Results

AASB7 Financial Instruments: Disclosures

AASB7 is a new standard effective 2007–08 but applicable to comparatives for 2006–07. The standard requires EFIC to report in the notes to the financial statements how management perceives, manages and measures risk. In particular, it requires quantitative and qualitative disclosures about the exposure to liquidity risk, credit risk and market risk. For each type of risk EFIC has disclosed:

- the exposures to the risk and how they arise;
- our objectives, policies and processes for managing the risk;
- the methods used to measure the risk; and
- any changes from the previous period.

These disclosures are reported in Note 18 in the Financial Statements.

There was also a small change to another standard, AASB101, which now requires information to be included on Capital Adequacy, how it is measured and monitored. This information is reported in Note 19 in the Financial Statements.

New Funding Arrangements

New funding arrangements between the Commercial Account and National Interest Account came into effect on 1 May 2007. These amendments were made to implement one of the outcomes of the 2006 EFIC Review. This year's financial statements therefore reflect the first full year that the new arrangements have been in place.

EFIC's Commercial Account funds the National Interest Account at an agreed benchmark rate. EFIC's Commercial Account accepts all risks and financial results whether from counterparties, derivatives, foreign exchange movements, interest rate movements or otherwise, associated with contracts and arrangements that EFIC enters into to fund the National Interest Account. The National Interest Account uses these funds to finance transactions directed or approved by the Minister for Trade on the National Interest Account.

Business Overview

An Overview of EFIC's Role

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

The EFIC Act charges EFIC with undertaking four key functions:

- to facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in export trade;
- to encourage banks and other financial institutions in Australia to finance or assist in financing exports;
- to manage the Australian Government's aid-supported mixed credit program (a facility that has now been discontinued, although loans are still outstanding under it); and
- to provide information and advice regarding insurance and financial arrangements to support Australian exports.

EFIC operates primarily in that part of the market that is not served by the private market – the 'market gap'. At the same time, EFIC is a self-funding organisation operating in accordance with commercial principles.

The market gap has widened for EFIC as a result of the recent volatility in world financial markets. Credit remains tight and the banking sector has generally become more selective in its lending practices. EFIC's role is to complement, not compete with, private financiers and insurers. As its appetite for risk changes EFIC has a range of solutions that may assist exporters grow their businesses internationally.

Business Overview

An Overview of EFIC's Role

Accountability

During the review year, the Hon Simon Crean MP, Minister for Trade, and his predecessor from the former Government, the Hon Warren Truss MP, were responsible for EFIC. The Corporation forms part of the Foreign Affairs and Trade portfolio.

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

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

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

Financial Services

EFIC provides the following specialised financial services in support of Australian exports and overseas investments:

- Medium- to long-term finance facilities: finance (generally for more than two years) to buyers of Australian exports, or to their financiers, to assist with the purchase of exports. The exports financed this way are usually capital goods and services. The finance is normally provided as a loan to an overseas buyer or a borrower on its behalf, or as a guarantee to a bank lending to an overseas buyer.
- EFIC Headway: a short-term guarantee facility supporting general export funding that enables Australian banks to lend additional funds to SME exporters without requiring additional security.
- Insurance products: including medium- to long-term PRI in respect of overseas investment, finance and commodity hedging for overseas projects, and plant and equipment operating overseas; medium-term insurances, such as export payments insurance, for payment terms of more than two years; and insurance for unfair bond calls.
- Bonding: performance and other types of bonds and bonding line facilities, including a US bonding line.

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

At 30 June 2008, EFIC's equity, including retained profits, totalled $331 million. In addition, the EFIC Act provides that $200 million of callable capital is available to EFIC from the Commonwealth, which helps underpin EFIC's activities in supporting exports and overseas investments.

The Commonwealth also guarantees to EFIC's creditors the payment of all monies payable by EFIC. This guarantee has never been called.

Regulations under the EFIC Act set upper limits on the aggregate value of facilities which may be entered into by EFIC. EFIC operates within these limits.

EFIC writes most new transactions on its Commercial Account, where the EFIC Board and management take decisions to accept eligible business and where the risks and financial results are to EFIC's account.

The EFIC Act also provides for EFIC to enter into transactions on the National Interest Account. The Minister for Trade takes the decisions regarding National Interest business. EFIC manages the day-to-day operation of National Interest business.

Transactions are usually referred to the Minister for consideration on the National Interest Account where the size or risk exceeds EFIC's commercial parameters, and are subject to the Minister's consideration of whether entry into them would be in the national interest.

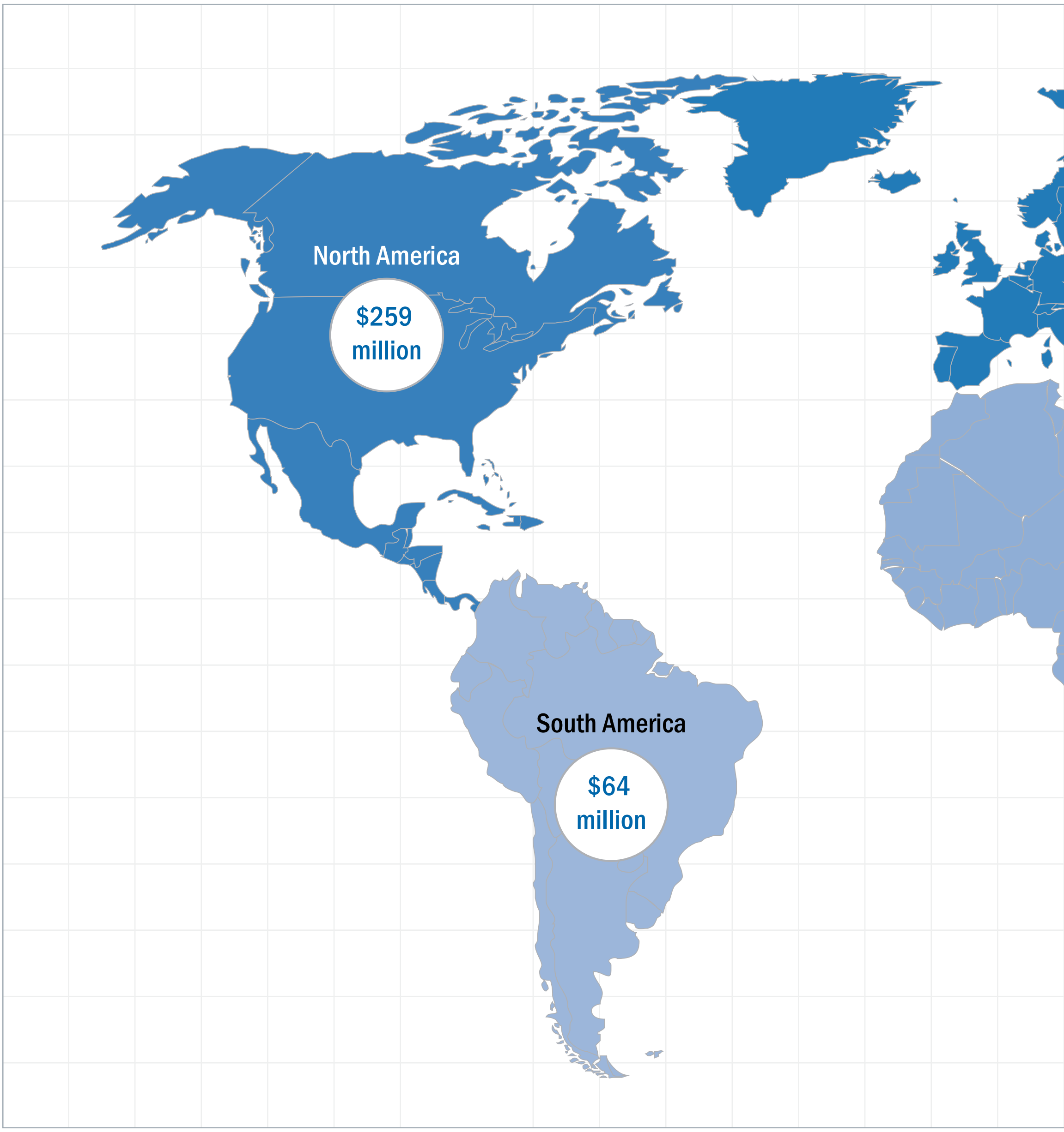
The Australian Government is responsible for the financial consequences of National Interest Account transactions. EFIC remits to the Australian Government the revenue from the portfolio and the Australian Government reimburses EFIC for the costs of servicing the portfolio and for any losses arising from the portfolio.

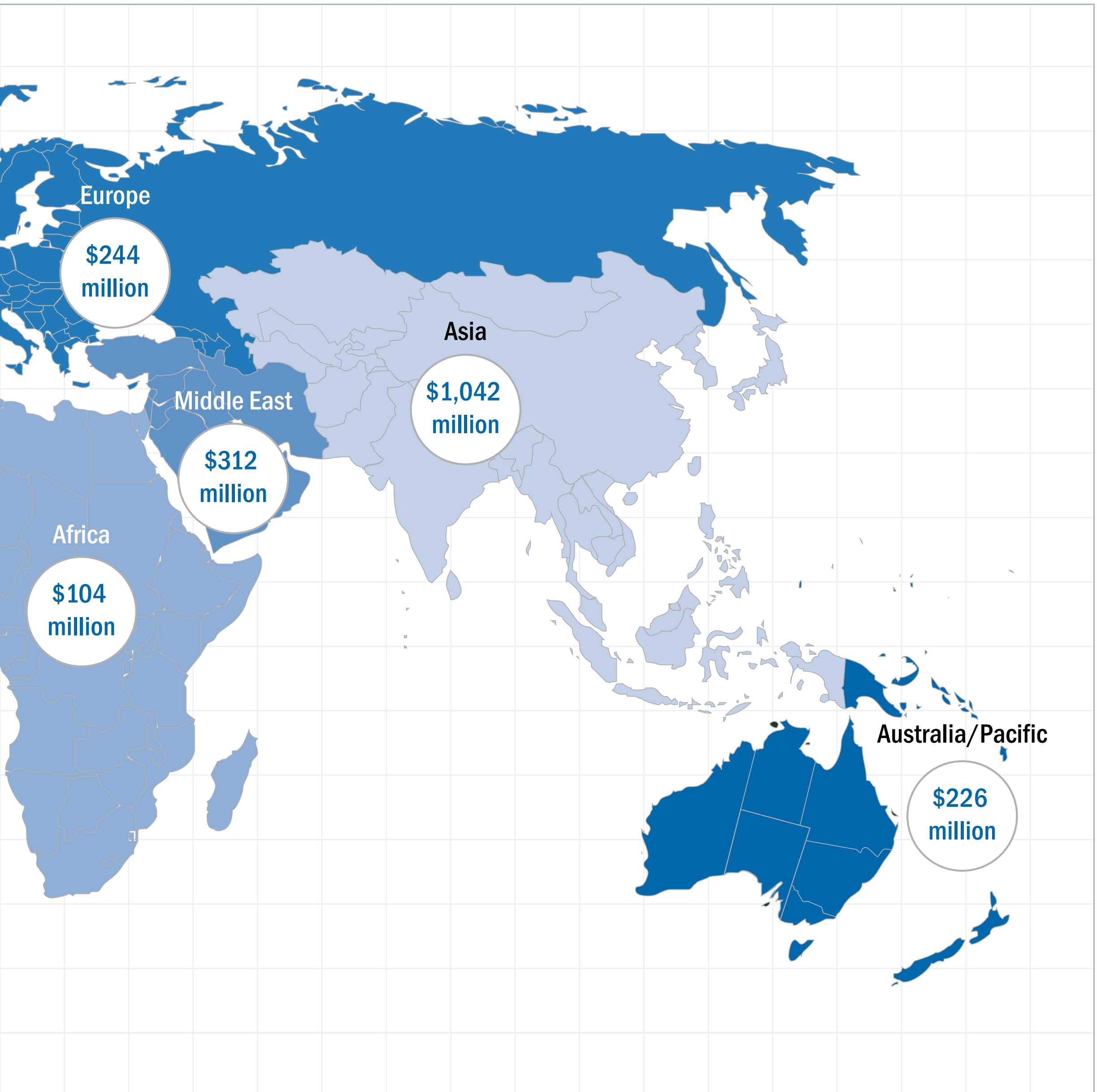
The results of the Commercial Account and the National Interest Account are identified separately in EFIC's financial statements. Because the Australian Government is responsible for the National Interest Account, EFIC's net operating profit taken up in equity reflects only its Commercial Account activities. The National Interest Account profit is directly attributable to the Commonwealth and is not reflected in EFIC's equity.

Business Overview

Profile: Exposures by Region

As at 30 June 2008, EFIC managed maximum exposures of $2.3 billion across 27 countries.




Europe
$244
million
Asia
$1,042
million
Middle East
$312
million
Africa
$104
million
Australia/Pacific
$226
million

Business Overview

EFIC's Exposures

Commercial Account

EFIC's Commercial Account exposures of $901 million from its structured trade and project finance facilities are loans, guarantees, political risk insurance, bonds, medium-term export payments insurance and other insurance. The facilities vary in maturity up to 15 years, but typical loan and guarantee facilities are for ten years on an amortising basis. The average remaining maturity of facilities outstanding at 30 June 2008 was 3.1 years; however, it was 6.1 years on a weighted average basis.

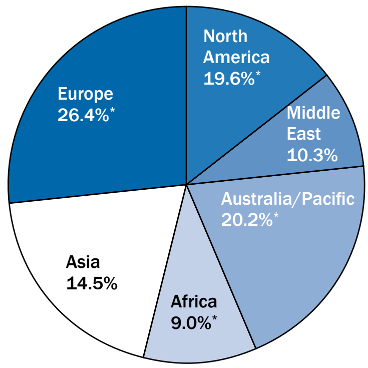
The exposures are mainly risks on the overseas purchasers of Australian capital goods exports, the majority of which are in the private sector.

The distributions by geographical region, industry sector and facility type at 30 June 2008 are shown in the following charts.

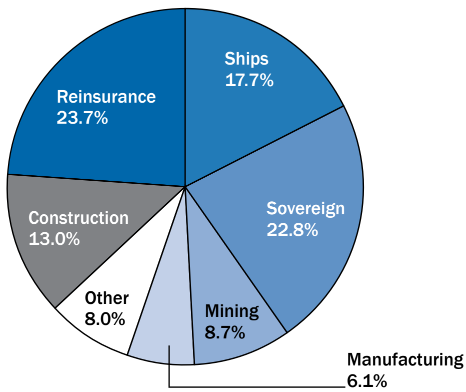
COMMERCIAL ACCOUNT AT 30 JUNE 2008

Exposures by Region

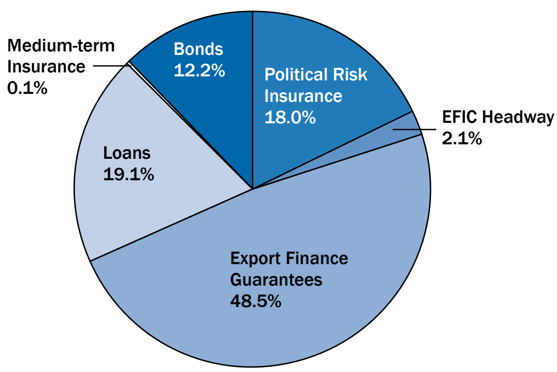
*includes exposures that have been reinsured.



Exposures by Industry Risk



Outstanding Facilities by Type



National Interest Account

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

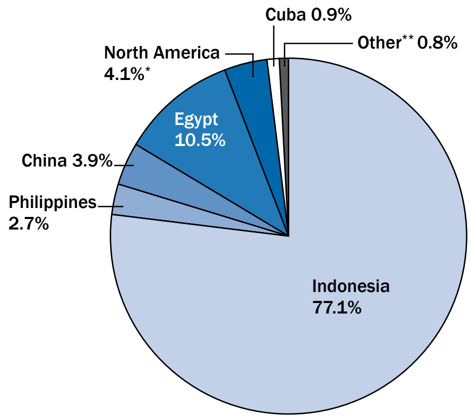
The exposures arose mainly from two sources:

- loans supported by aid grants made under the now discontinued DIFF of AusAID. Reflecting the priorities of Australia's overseas aid program at the time, these loans include exposures of $813 million to Indonesia and $29 million to the Philippines (exclusive of reinsurance sourced from North America); and
- rescheduled credit insurance debts. In the mid to late 1980s and early 1990s, EFIC paid credit insurance claims on exports to Egypt. These debts were subsequently rescheduled through the Paris Club. Egypt has paid all amounts due under the rescheduling agreement in full and on time.

NATIONAL INTEREST ACCOUNT AT 30 JUNE 2008

Exposures by Region

*includes exposures that have been reinsured.
**excludes Iraq, which is treated as a contingent asset



Risk Management Framework

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

A key element in this Framework is the Risk Control Matrix (RCM), which sets out each of the risks that the business faces as well as the mitigants in place and the people responsible for managing the risks. It also includes management's ratings regarding the likelihood and consequences of each risk. By identifying individuals and management practically responsible, the RCM operates to engender a culture of risk awareness.

Risks are classified depending on their nature: strategic, reputation, credit, country, market and operational. Operational risks are broken down into a number of sub-categories: general processes, external regulation, internal policies, domestic and international laws, and event.

Various probability factors are allocated to each risk event as well as the likelihood of the risk event occurring given existing controls. In this regard, the RCM attempts to capture all of the risks EFIC is managing.

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

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

Further information on EFIC's Risk Management Framework is available on the EFIC website (www.efic.gov.au).

Capital Adequacy

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

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

EFIC's lending business is essentially like a wholesale corporate banking business, although the risk profile is different from that of a typical bank. EFIC has a more concentrated portfolio of generally longer-dated and higher-risk exposures, consistent with its role of working beyond the limits of the commercial market.

EFIC has therefore, based its assessments of capital adequacy upon the prudential standards and calculations used for regulating banks. The EFIC Board has endorsed a model that takes into account the Australian Prudential Regulation Authority (APRA) guidelines and the Basel II framework implemented for international banks by the Basel Committee on Banking Supervision. The model covers credit risk, operational risk, market risk and credit concentration risk. EFIC assigns probability of default statistics and loss given default ratios, to each of its facilities and calculates an amount of capital accordingly, with the riskier, longer-dated facilities requiring more capital than the less risky, shorter-dated facilities. In the model, EFIC does not include callable capital as eligible capital when calculating the capital adequacy ratio.

EFIC has used probability of default statistics published by the major ratings agencies and Berne Union statistics to assist in constructing the model.

The Board reviews the model and calculations annually and is satisfied that, during the year, EFIC's capital was adequate to support the risks the Corporation assumed. EFIC will continue to review its capital adequacy in light of its risk profile (both current and projected), the amount of risk concentration in the portfolio and any further external developments.

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

Large Exposures

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

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

For large exposure purposes, the Board includes as eligible capital the $200 million of callable

Corporate Matters

capital that is available from the Commonwealth in accordance with the provisions of Section 54 of the EFIC Act.

Treasury Activities

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

Foreign Exchange and Interest Rate Management

The loans EFIC has provided to clients and the rescheduled debts are mostly denominated in foreign currencies. Currently, taking both National Interest and Commercial Accounts into account, 61 per cent are denominated in US dollars and 30 per cent are in euros.

EFIC funds its assets in matched currencies, either by borrowing in the appropriate currency or more usually by borrowing in another currency and using cross-currency swaps or foreign exchange markets to eliminate the foreign exchange exposure. In this way, EFIC's exposure to movements in foreign exchange rates is minimised.

Similarly, EFIC uses interest rate swaps and futures to match the interest rate profiles of its liabilities with those of its loans.

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

Notes 17 and 18 of the Financial Statements provide further details of EFIC's financial exposures.

Borrowings

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

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

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

EFIC also is allowed to raise funds from its approved commercial paper borrowing facilities in advance of actual loan funding needs. This facility was introduced in 1990 to maintain a minimum market presence and therefore enhance the effectiveness of EFIC's funding ahead of permanent funding requirements. When coupled with the appropriate cross-currency swap, these issues provided funding at an attractive sub-LIBOR margin.

EFIC continued to issue short-term euro-commercial paper. Issues were mainly in US dollars.

There was a small reduction in the loan asset portfolio in US dollar terms in 2007–08 and new borrowings were required only to refinance maturing borrowings. New capital market issues under EFIC's medium-term note (MTN) program in the year ended 30 June 2008 raised $31 million compared with $59 million in 2006–07. EFIC made seven issues compared with one in 2006–07. All other funding activities of the year were confined to the short-dated commercial paper market and direct loans from banks.

Due to the flight to quality investments caused by the financial turmoil during the year, our sub-LIBOR margins on our commercial paper issuance were higher than normal.

The MTN issues were swapped into simple floating interest rate obligations at an attractive sub-LIBOR rate, principally in US dollars, reflecting the currency of the majority of EFIC's assets.

The new capital market issues in the year were:

Arranger	Term (years)	Amount (currency)	Amount ($million)	Equivalent (US$ million)
Merrill Lynch International	19*	JPY	500	4.533
Citigroup Global Markets Ltd	10	JPY	500	4.679
Mitsubishi-UFJ Securities Int. Ltd	20*	JPY	500	4.677
Shinkin International Ltd	20*	JPY	500	4.627
Shinkin International Ltd	15*	JPY	300	2.982
Shinkin International Ltd	20*	JPY	300	2.913
Shinkin International Ltd	15*	JPY	600	5.776
Total				**US$30 million**
Equivalent to				**A$31 million**

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

Business Overview

Corporate Matters

Investments and Liquidity

At 30 June 2008, EFIC held on the Commercial Account $998 million of cash, bank deposits and investment securities. Of this amount, $328 million represented cash capital and reserves, while the remainder represented liquidity held to maintain a minimum market presence or to refinance borrowings.

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

Dividends

The EFIC Act requires the Board to make a recommendation to the Minister for Trade on the payment of a dividend to the Commonwealth. During the year, the Minister for Trade confirmed that EFIC would pay a dividend of $20.4 million for the year ending 30 June 2007, representing 50 per cent of the Commercial Account profit for that year.

At the date of publication, the Minister for Trade had not yet made a determination in respect of the year ended 30 June 2008.

Effects of Providing Non-Commercial Services (Community Service Obligations)

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

Export Trends and Economic Environment

After a number of years of strong world growth, low inflation and financial stability, the world economic environment has deteriorated rapidly over the past year. The pace of world growth has slowed since the second half of 2007 against a backdrop of financial market turmoil and gloomy economic prospects for much of the developed world.

The much anticipated US economic slowdown now appears to be evident in official statistics, and other major developed economies also look to be softening. At the same time, inflationary pressures have been building in many countries, reflecting tight spare capacity and rising energy and food prices. Amidst these gloomy developments, emerging market economies have shown some resilience, although it is yet to be seen whether they too will be affected by the economic slowdown sweeping through much of the developed world.

The initial optimism that the turmoil in credit markets would be short lived and limited to US sub-prime mortgages has evaporated. Investors, consumers, banks and financial institutions around the world are now engaged in a painful and protracted process of deleveraging and risk re-pricing, which is causing volatility in share, bond, currency and commodity markets as investors flee to quality.

Business Overview

Business Origination

The Structured Trade and Project Finance team originates, structures and executes transactions for clients across a broad range of industries. During the past 12 months this team has responded to the tightening of credit conditions in the capital markets and has supported a number of transactions which would, had liquidity been less constrained, have been satisfied in the private market. These included a large project financing in the Gulf, supporting Australian engineering services, and an acquisition financing for a strategic investment in the construction industry, also in the Gulf region.

Work continued on a number of significant resource projects in Africa, providing good prospects for new EFIC facilities in the coming financial year. Private sector capacity or willingness to support resource projects with long-term financing, heavily reliant on commodity prices, is being tested in the current market environment. Unlike previous years, when private market appetite was strong, EFIC anticipates greater demand for ECA assistance in bringing these financings to conclusion.

EFIC has seen increased demand in the past 12 months for bonding of large contracts won by emerging contractors. These transactions support pioneering projects, where very specific technology, developed in Australia, has prevailed over well-established global competitors. Contracts range from complex steel fabrication and mineral processing technology, to horticultural expertise for large-scale indoor and outdoor developments.

In 2007–08, the origination of transactions among small and medium enterprises (SMEs) has been combined with the marketing of the EFIC Headway product. This approach has enabled a more focused campaign, directing the efforts towards the delivery of solutions for clients requiring assistance with the financing of their growing export businesses. This also allows for greater involvement with EFIC's key alliance partners including banks, industry bodies and other arms of government, with the objective of reaching and assisting larger numbers of SMEs participating in exporting activities.

EFIC once again provided support to Australia's specialised shipbuilding industry, with the provision of an export finance guarantee facility to finance patrol boats purchased by the Government of Trinidad and Tobago. Several proposals are under negotiation with industry participants, where EFIC may be called on to assist with the buyer financing requirements.

While the project and acquisition finance facilities accounted for the bulk of EFIC's new business by dollar value, contract bonds again featured prominently by facility type. Performance bonds, which provide overseas buyers with financial security in relation to an exporter's ability to perform their export contract, represented the majority of the contract bonds issued.

Facilities Signed

Exporter/Investor	Sector	Goods/Services	Country	Facility Type[1]	Amount A$ million equivalent	Environmental Category (see Appendix 5)
COMMERCIAL ACCOUNT						
Aircraft Support Industries Pty Ltd	Construction	Aircraft hanger fit-out	Singapore	Bond	0.2	C
Alfasi Group	Construction	Design and construct exhibition centre	Singapore	Bonds x 3	19.0	C
Auran Games Pty Ltd	Technology	Software development	USA	WCG	2.0	C
Austal Ships Pty Ltd	Ships	Six fast patrol boats	Trinidad and Tobago	EFG	58.3	C
BP Solar Pty Ltd	Energy	Solar power drip irrigation system	Sri Lanka	EFG	14.5	B
Bronx International Pty Ltd	Manufacturing	Galvanising line	Ukraine	Bonds x 2	1.8	C
Bronx International Pty Ltd	Manufacturing	Paint line	Argentina	Bond	0.5	C
Bronx International Pty Ltd	Manufacturing	Galvanising line	Slovakia	Bond	1.9	C
EW Cox International Pty Ltd	Construction	Building maintenance system	Russia	Bonds x 2	1.0	C
Fairclough Corporation Pty Ltd	Manufacturing	Rail flaw detection units	Japan	Bonds x 2	0.3	C
Gekko Systems Pty Ltd	Manufacturing	Mineral Processing equipment	Argentina	Bond	1.0	C
Kempe Engineering Services (Australia) Pty Ltd	Engineering Services	Anode service plant for an aluminium smelter	Qatar	Bonds x 3	28.2	A
Leightons Group	Construction	Al Habtoor Group Project Management and Engineering Services	UAE	EFG	47.7	C
McConnell Dowell Corporation Ltd	Construction	Supply and assembly of pipe stacks	Singapore	Bond	11.9	C

Facilities Signed

FACILITIES SIGNED (CONTINUED)

Exporter/Investor	Sector	Goods/Services	Country	Facility Type[1]	Amount A$ million equivalent	Environmental Category (see Appendix 5)
Pavement Management Services Pty Ltd	Construction	Road management system	UAE	Bond	0.5	C
Plenary Group Pty Ltd	Social Infrastructure	Project development services	Canada	EFG	7.1	B
Prema Birkdale Horticulture	Construction	Ornamental horticultural plants and services	Macau SAR, China	Bonds x 3	5.5	C
Refrigeration Engineering Pty Ltd	Manufacturing	Refrigeration equipment	Iran	Bond	0.1	C
Refrigeration Engineering Pty Ltd	Manufacturing	Refrigeration equipment	Singapore	Bond	0.1	C
WorleyParsons Ltd	Engineering Services	Aluminium smelter	UAE	Loan	142.6	A
Total medium- to long-term financial facility signings on Commercial Account (29 facilities[2])					344.2	
Total medium- to long-term financial facility signings on National Interest Account (7 facilities[2])					4.0	
Total medium- to long-term financial facility signings (29 facilities[2])					348.2	
Various EFIC Headway clients	Various	Various	Various	EFIC Headway guarantee (31)[3]	21.0	N/A
Total Facilities[4]					**369.2**	

1 EFG – Export Finance Guarantee
WCG – Working Capital Guarantee
2 Seven facilities were shared over the Commercial Account and National Interest Account.
3 Includes renewals of existing facilities
4 The value of export and investment contracts which will be supported through the above facilities is $2.2 billion

WorleyParsons

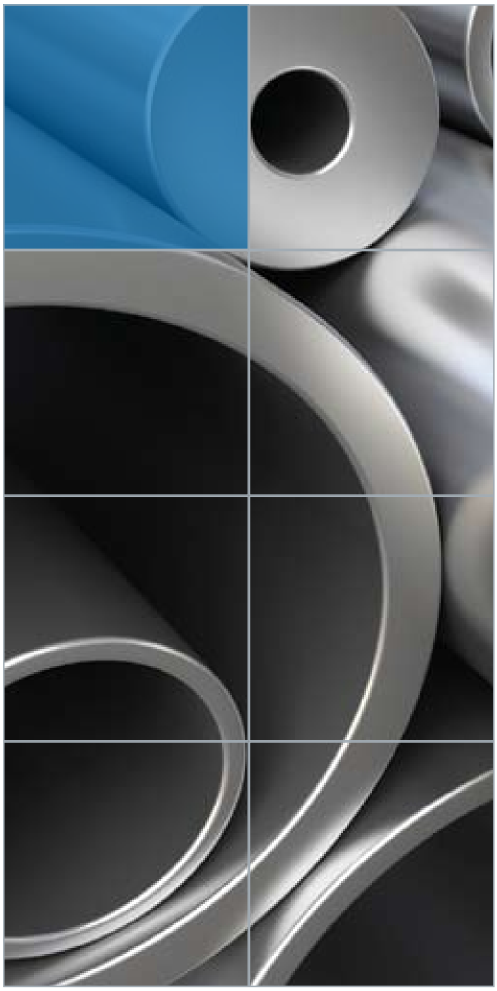
EFIC provided project finance to support Australian participation in the construction of a large-scale aluminium smelter in the United Arab Emirates.

EFIC's loan of US$125 million to Emirates Aluminium Company (EMAL) supports Sydney-based WorleyParsons' joint venture with SNC-Lavalin of Canada to provide engineering, procurement and construction management services for the first phase of the project in Abu Dhabi.

EMAL, a joint venture equally owned by Mubadala Development Company and Dubai Aluminium Company Limited, is constructing the smelter. It has obtained limited recourse financing facilities totalling US$4.9 billion, the largest single commercial financing to date for any project in the Arabian Gulf.

'We worked with EFIC for 12 months in the lead-up to our success on EMAL,' said Stuart Clough, the bid manager for WorleyParsons. 'We knew EMAL were very keen for financing by export credit agencies in their complex project funding package. EFIC were proactively involved in supporting EMAL's needs and thus those of WorleyParsons.'

As part of the overall financing package, EFIC is participating in the provision of a US$1.8 billion, 16-year amortising loan.



EFIC is among the lead financiers taking part in the international syndicate of private and public lenders who are financing the project.

The smelter at Al Taweelah is expected to produce 700,000 tonnes of aluminium per year once the first phase of the project is complete. On completion of the planned second phase, it is expected to become the world's largest single-site smelter with a total annual production of 1.4 million tonnes.

Business Overview

Partnerships with Australian Business

BP Solar

EFIC assisted BP Solar Pty Ltd with the second phase of its US$32.2 million project to provide solar-powered drip irrigation systems to Sri Lankan farmers.

EFIC provided an export finance guarantee worth up to US$13.7 million to HSBC, which is partly funding the purchase of BP Solar's Australian-made irrigation kits by the Sri Lankan Ministry of Agricultural Development and Agrarian Services.

Phase 2 of the project involves the design, manufacture, supply and installation of 5,000 solar-powered drip irrigation kits in rural Sri Lanka. This builds on the success of Phase 1, which saw the deployment of 5,000 systems to Sri Lankan farmers. EFIC also supported Phase 1 through an export finance guarantee to Citibank.

The project uses Australian know-how to reduce fossil-fuel consumption and improve the livelihoods of remote farming communities in Sri Lanka.

'The irrigation project is helping Sri Lankan farmers to increase their crop yield while at the same time improving water conservation and land management,' said Les Poole, Director of BP Solar's Global Emerging Markets Team. 'EFIC's continued support of this project has made it possible to build on the success of Phase 1.'

EFIC previously worked with Sydney-based BP Solar on solar-enabled socio-economic development projects such as solar-powered homes and community lighting to remote communities in Sri Lanka, Indonesia and the Philippines.

Intellection

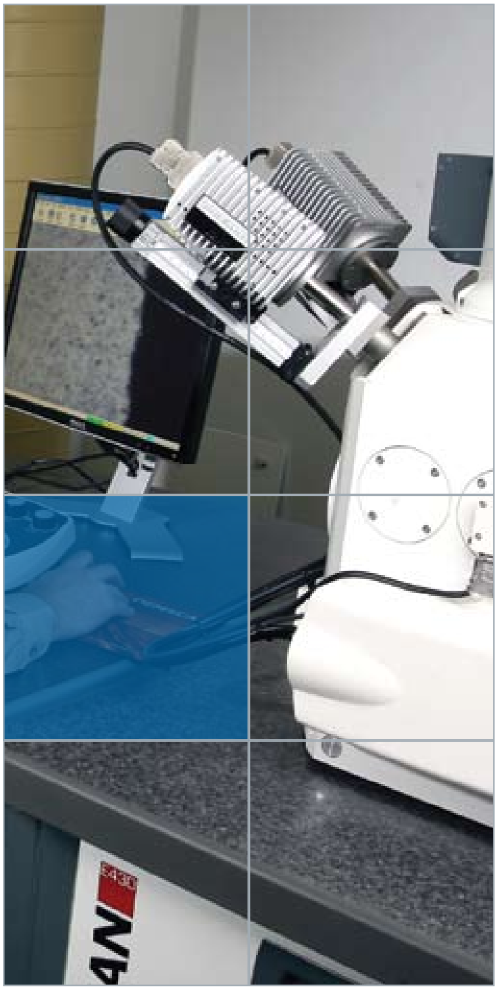
With additional working capital finance from HSBC, made available through EFIC Headway, Brisbane's Intellection Pty Ltd is expanding its US operations as a base for leveraging export opportunities in the Americas.

Intellection is one of Australia's fastest-growing start-up companies with world-leading automated mineral analysis technology that is enjoying strong demand worldwide due to the minerals and energy boom. Intellection's world-leading technology known as QEMSCAN® – *Quantitative Evaluation of Materials by Scanning Electron Microscope* – is used by its customers in mining, oil and gas exploration, clean coal electricity generation and post-mining environmental restoration.

In just five years since start-up, Intellection has grown dramatically to become an export force in the United States, Canada, Chile, South Africa, the United Kingdom, Russia, China and India.

EFIC Headway, a financial guarantee from EFIC to a participating bank, enables small to medium-sized exporters like Intellection to boost their access to working capital finance from their bank, without the need to provide additional security.

'EFIC Headway gave us the ability to plan a fairly aggressive market entry strategy in the US with the confidence that the funding was there,' said Chris Staples, Intellection's chief executive officer.



Business Overview

Partnerships with Australian Business

Alfasi Group

EFIC provided performance and advance payment bonds to assist Alfasi, a Melbourne-based construction and engineering group, with its large contract in Singapore.

The Alfasi Group won a $105 million contract to fabricate, supply and erect structural steel for a multi-storey convention centre as part of a multi-billion dollar casino, hotel and shopping centre complex in Singapore, due for completion in mid-2009. This is easily the largest project in the Alfasi Group's 28-year history, with around 50 of the group's 250-plus staff assigned to the contract.

The contract required $18.2 million of performance and advance payment bonds. EFIC issued the bonds to the buyer, Marina Bay Sands Corporation, facilitating an advance payment to Alfasi under the contract.

'We came to EFIC because we found it difficult to procure bonds for the Singapore project, since most banks in Asia are looking for dollar-for-dollar security,' said company founder and co-director Avri Alfasi.

The group's international operations are based in Singapore. Until recently, Alfasi's largest export contract involved sub-contracting to another EFIC client, Chadwick Technology, to fabricate structural steelwork and install the roof and ceiling of the new Bangkok International Airport terminal.

Image © Alfasi Group. 2008.

Alfasi has also fabricated and installed structural steel for several high-profile domestic projects including Melbourne's Docklands Stadium, the Great Northern Stand of the Melbourne Cricket Ground and terminals for the Brisbane International and Sydney Domestic airports.

Plenary Group

EFIC provided a demand guarantee in support of a commitment by the Plenary Group to contribute equity to a Public Private Partnership (PPP) project in Ontario, Canada.

The C$6.9 million (A$7.1 million) demand guarantee supports a commitment by the Plenary Group to contribute equity to the C$236 million New Data Centre Project for Ontario's Ministry of Government Services. This project forms part of Ontario's PPP program.

Under the terms of the contract, the Plenary Group will design, construct, finance and operate the data centre for the Ontario Government under a 30-year operating concession. However, EFIC's guarantee will be released upon construction completion, scheduled for May 2010.

'EFIC's guarantee has allowed us to free up capital for our Canadian operations,' said John O'Rourke, Principal of Plenary Group. 'Thanks to EFIC, we'll be able to use this capital to develop other PPP projects in the Canadian market.'

The Plenary Group was established in Melbourne in 2004 and in Canada the following year. Its primary focus is to develop and own social infrastructure under PPP programs in Australia and Canada. The Group's existing portfolio includes hospitals, schools, courts, police stations, water, waste water and waste treatment.

Appendices

Appendix 1: Corporate Governance

The Board of EFIC is responsible for managing the affairs of the Corporation and overseeing its operations. This includes establishing its strategies, monitoring its performance, making decisions on large transactions or exposures, and making dividend recommendations to the Government. The Board is responsible for the corporate governance of EFIC and met nine times in the review year.

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

The membership of the Board is set out in Appendix 2 of this report.

The Corporation has adopted a code of conduct for its employees and there are various obligations on employees and Board members arising from the EFIC Act and the CAC Act. In addition, the Board is rigorous in ensuring that a Board member does not participate in discussions or decisions where there is, or may be, a conflict between that member's interests and the interests of EFIC or a client of EFIC.

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

Principle 1

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

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

- legal framework in which EFIC and the Board operate, including the way that conflicts of interest are managed, and detailing the statutory confidentiality obligations applying to Board members and employees;
- policies and procedures adopted by the Board;
- corporate plan and business strategy;
- financial information presented to the Board; and
- circumstances in which a Board member can seek independent professional advice at EFIC's expense.

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

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

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

1.6 The Managing Director and senior executives undertook an integrated leadership training program during the review year.

Appendices

Appendix 1: Corporate Governance

Principle 2

STRUCTURE THE BOARD TO ADD VALUE

2.1 A majority of the Board consists of independent members.

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

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

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

2.4 Management provides the Board with comprehensive and timely information on relevant matters to enable the Board to discharge its duties effectively, including provision of Board papers one week before each Board meeting. Directors are able to obtain additional information upon request.

Principle 3

PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

3.1 EFIC has a Code of Conduct.

3.2 In addition, EFIC's Corporate Responsibility Policy (CRP) sets out many of the principles that enable EFIC to attain an appropriate balance between the responsibilities EFIC owes to its varied stakeholders. It assists EFIC to balance the need to achieve its mandate of facilitating and encouraging Australian export trade and overseas investment for its clients, while fulfilling its responsibilities to its broader, non-client stakeholders. The CRP covers:

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

Further details on EFIC's CRP are available in Appendix 5. The CRP is also published on the EFIC website.

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

Principle 4

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 EFIC has had an Audit Committee since inception. Details of Audit Committee members and their qualifications are listed in Appendix 2. The Board has set out the accountabilities of the Committee in a Charter. That Charter is available on EFIC's website. The Committee has broad responsibilities to the Board regarding risk oversight and management, including:

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

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

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

In accordance with the CAC Act, the Auditor-General conducts the annual external audit of the Corporation. The Auditor-General contracted Ernst & Young to assist with the audit work for the review year.

Principle 5

MAKE TIMELY AND BALANCED DISCLOSURE

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

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

Appendices

Appendix 1: Corporate Governance

Principle 6

RESPECT THE RIGHTS OF THE SHAREHOLDER

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

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

Principle 7

RECOGNISE AND MANAGE RISK

7.1 EFIC's risk management systems and procedures are structured. Key requirements of the CAC Act, EFIC Act, other relevant legislation, regulatory guidance and prudential standards, as well as prudent commercial practice are taken into account and documented in EFIC's risk management systems.

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

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

7.4 Refer to comments under Principle 4 regarding the Audit Committee and risk management. A key element of EFIC's risk management and internal compliance and control system is a formal Credit Policy. EFIC also closely manages operational risk.

7.5 EFIC has contracted PricewaterhouseCoopers (PwC) to carry out the internal audit function within the Corporation.

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

Principle 8

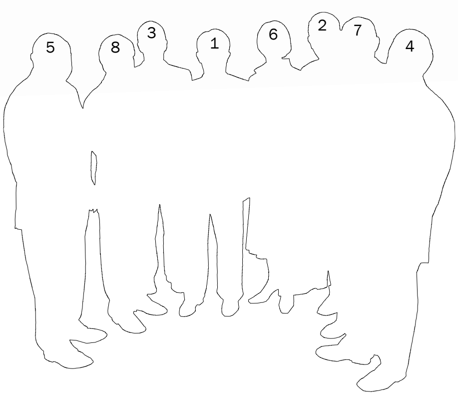
REMUNERATE FAIRLY AND RESPONSIBLY

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

8.2 Board members (other than the Managing Director) do not receive any performance-related remuneration. Board members are not entitled to any retirement benefits beyond statutory superannuation entitlements. For an explanation of the operations and practices of the Remuneration Tribunal, refer to www.remtribunal.gov.au.

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

Appendix 2: Board Membership



Current Board Members	
1	Peter Young
2	Howard Davies
3	Angus Armour
4	Michael Carapiet
5	David Crombie
6	Sally Pitkin
7	Anthony Sherlock
8	David Spencer
	Ian Knop (not pictured)
	Michael L'Estrange (not pictured)

Peter Young, AM

BSc, MBA
Age 63
Chairman from 23 August 2002
Term of appointment from 11/06/2002 to 3/08/2008
Board attendance 9 of 9
Independent Board Member
Non-Executive Member

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

Howard Davies

FAICD
Age 61
Deputy Chairman from 28 November 2005;
Audit Committee Member
Term of appointment from 11/02/2002 to 27/11/2008
Board attendance 9 of 9
Board Audit Committee attendance 4 of 4
Independent Board Member
Non-Executive Member

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

Appendices

Appendix 2: Board Membership

Angus Armour

BA (Hons), MBA, FFin, FAICD
Age 45
Managing Director & CEO; Executive Member
Appointed 31/10/2003
Board attendance 9 of 9

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

Michael Carapiet

MBA
Age 50
Member
Term of appointment from 28/11/2005 to 27/11/2008
Board attendance 5 of 9
Independent Board Member
Non-Executive Member

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

David Crombie

BEc
Age 65
Member
Term of appointment from 01/10/2007 to 30/09/2010
Board attendance 5 of 6
Independent Board Member
Non-Executive Member

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

Ian Knop, AM

BBus, CPA
Age 59
Member
Term of appointment from 03/08/2001 to 27/11/2008
Board attendance 5 of 9
Independent Board Member
Non-Executive Member

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

Michael L'Estrange, AO

BA (Hons), MA
Age 55
Government Member
Appointed 24/01/2005
Board attendance (including alternate) 9 of 9
Represents Australian Government
Non-Executive Member

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

Appendices

Appendix 2: Board Membership

Sally Pitkin

LLB, LLM
Age 48
Member; Audit Committee Member
Term of appointment from 16/07/2007 to 15/07/2010
Board attendance 8 of 9
Board Audit Committee attendance 4 of 4
Independent Board Member
Non-Executive Member

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

Anthony Sherlock

BEc
Age 66
Member; Audit Committee Chair
Term of appointment from 28/11/2005 to 27/11/2008
Board attendance 7 of 9
Board Audit Committee attendance 4 of 4
Independent Board Member
Non-Executive Member

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

MEMBER WHOSE TERM ENDED IN 2007–08

Yasmin Allen

BCom, FAICD
Age 44
Member, Audit Committee Member
Term of appointment from 03/08/2001 to 02/08/2007
Board attendance 0 of 0
Board Audit Committee attendance 1 of 1
Independent Board Member
Non-Executive Member

Yasmin Allen has extensive experience in investment banking and equity analysis. Ms Allen is a Director of Insurance Australia Group Limited and its various associated companies (and Chair of its Audit Committee), Macquarie Specialised Asset Management and its various associated companies (and Chair of its Audit Committee), and Film Australia Limited (and Chair of its Audit Committee). She is also an Advisory Board Member of the Salvation Army.

ALTERNATE GOVERNMENT MEMBER

David Spencer is a Deputy Secretary of the Department of Foreign Affairs and Trade and Australia's APEC Ambassador. He was appointed as alternate Government Member from 7 February 2006. Mr Spencer attended three meetings.

TRANSACTIONS WITH BOARD MEMBERS AND BOARD MEMBER-RELATED ENTITIES

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

Note 21 to the Financial Statements sets out the aggregate amount of remuneration received, or due and receivable, by the Board members during the year ended 30 June 2008.

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

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

Material transactions are detailed in the financial report.

Mr L'Estrange and Mr Spencer are employees of the Commonwealth.

DECLARED POTENTIAL CONFLICTS OF INTEREST

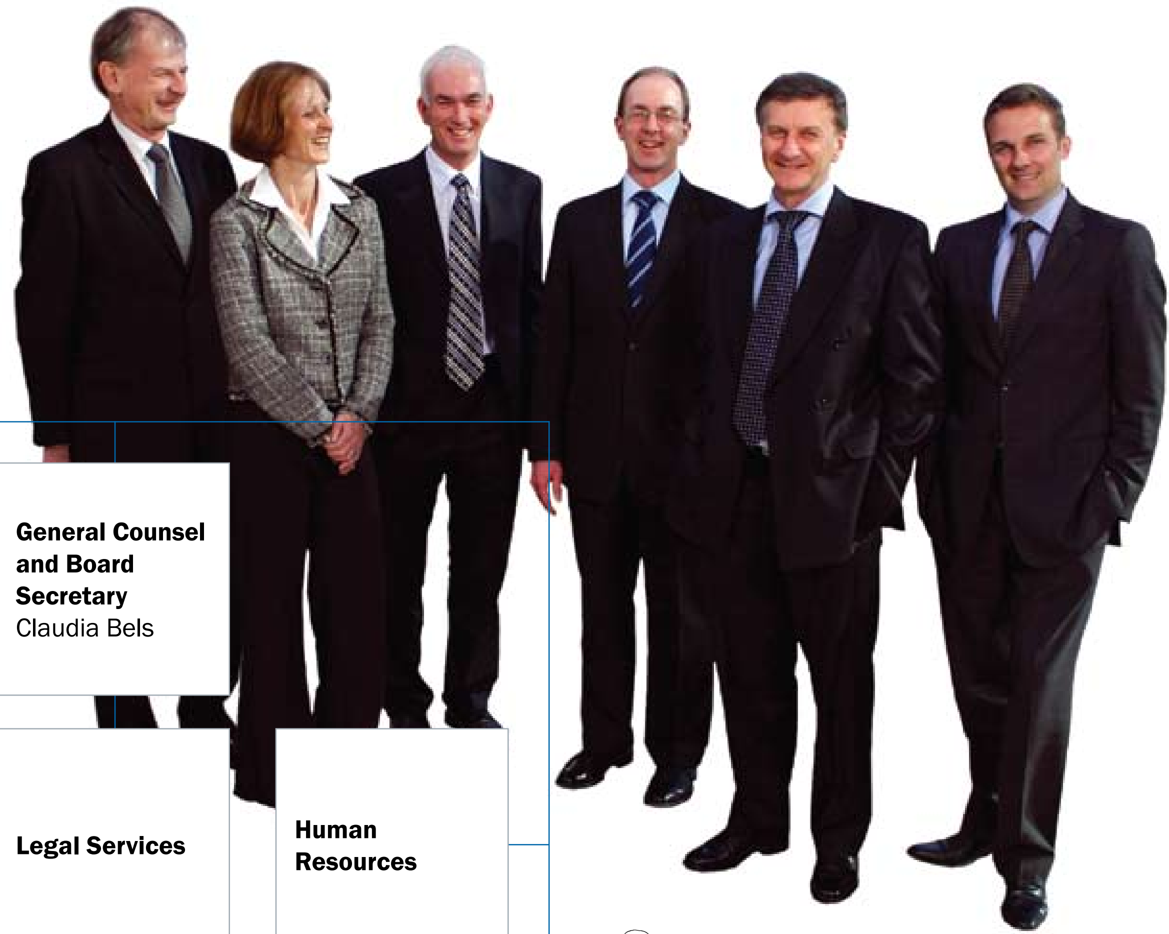
The Board carefully manages conflicts of interest, or potential conflicts of interest, in relation to EFIC transactions. Other than as set out below, no Board member declared a conflict of interest or potential conflict of interest relating to an EFIC transaction considered during the past year.

Mr Young, Chairman, declared a conflict of interest or potential conflict of interest, in relation to a potential EFIC transaction with Transfield Services Infrastructure Fund. Mr Young did not participate in the discussion or decision relating to the transaction.

Appendices

Appendix 3: Organisational Structure

- **Managing Director** Angus Armour
  - **Chief Financial Officer** Stuart Neilson
    - **Finance**
    - **Treasury**
    - **Information Technology**
    - **Property Administration**
  - **Chief Credit Officer** John Collins
    - **Credit**
    - **Technical and Environmental Risk Assessment**
  - **Executive Director, Origination and Portfolio Management** Peter Field
    - **Structured Trade and Project Finance**
    - **SME and Middle Market Business Development**
    - **Transaction Management**
    - **Portfolio Management**
  - **Executive Director, Industry and Government Relations** Brendan Berne
    - **Economics**



General Counsel and Board Secretary
Claudia Bels

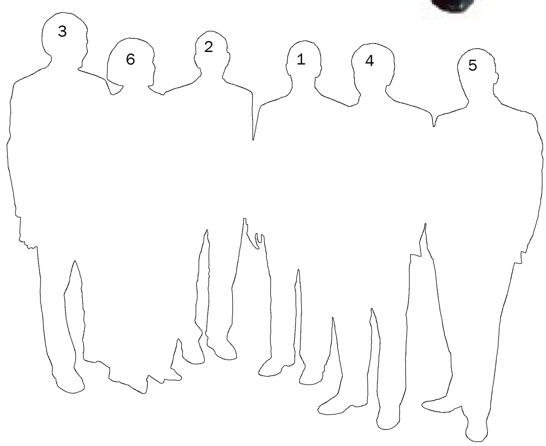
Legal Services

Product Management and Risk Transfer

Human Resources

Marketing

Director, SME Global Financing Solutions



EFIC Executive Team	
1	Angus Armour
2	Stuart Neilson
3	John Collins
4	Peter Field
5	Brendan Berne
6	Claudia Bels

Image © Jade De Leon. 2008.

Appendices

Appendix 4: Our People

Our People

EFIC's organisational structure is outlined in Appendix 3. EFIC remains an equal opportunity, discrimination-free employer and regularly reviews its policies and procedures to ensure that its employees are treated with fairness and equity.

Summary statistics relating to EFIC's employees (in full-time equivalents) are:

	30 June 2008	30 June 2007
Employees (excluding short-term)	71.3	69.0
Short-term contract employees	1.0	1.4
Total	72.3	70.4

Occupational Health and Safety

EFIC has an Occupational Health and Safety (OHS) Policy that demonstrates its strong commitment to OHS, and facilitates the provision of a safe and healthy work environment for all employees. EFIC has consulted with its staff on the formation of its Health and Safety Management Arrangements (HSMA), in line with changes to the Commonwealth legislation. The HSMA, when finalised, will replace the OHS Policy.

EFIC's OHS Committee meets quarterly, and plays an integral role in the management of OHS. The OHS Committee comprises representatives from both management and staff, including a nominated Health and Safety Representative. The Committee develops and implements risk management strategies based on quarterly workplace inspections, the review of accident reports, and through a formal risk assessment process. EFIC also encourages and supports the training of First Aid Officers.

Given the nature of its operations, EFIC has identified travel to be a risk that requires specialised monitoring. All frequent travellers have access to a full medical check annually. In addition EFIC has contracted the services of a company to provide detailed medical, business and cultural information and assistance to travellers prior to and during any international trip.

There were no serious injuries during the reporting period. EFIC conducts regular testing and preventative maintenance on its plant and equipment, including air conditioning, and undertakes all reasonable steps to eliminate or minimise risk to its staff and visitors to the building.

Other Human Resource Matters

TRAINING AND DEVELOPMENT

EFIC is committed to staff development and reviews the training requirements of all staff through the annual performance review process. It has undertaken various training and development initiatives throughout the year, including an intensive leadership development program and technical skills development in areas including IT skills, negotiation skills, financial modelling and cultural awareness training. It also contributes to the cost of post-graduate studies undertaken by employees and provides those employees with paid leave for study and exams.

PART-TIME WORK

At 30 June 2008 EFIC had 10 employees working on a part-time basis.

WORK/LIFE BALANCE

EFIC understands the pressures that balancing working life and family commitments can bring. To assist employees to meet this balance, EFIC provides the following benefits to its staff:

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

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

Special leave: EFIC also provides fathers with five days' paid leave for the birth of their child on each occasion. Over the past year, two employees took this leave. Other forms of paid special leave available to staff include time off for moving house, emergency/disaster situations, ceremonial leave for Aboriginal and Torres Strait Islanders, observance of religious holidays, bereavement leave, blood donations and defence force reserve training;

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

Flexible work arrangements: EFIC gives employees the opportunity to work flexible hours wherever possible; and

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

EQUAL EMPLOYMENT OPPORTUNITY (EEO)

EFIC is an Equal Employment Opportunity employer. EFIC's EEO program ensures that employees are not discriminated against at any time in their employment. We provide equal opportunity in all aspects of employment including conditions of employment, recruitment and selection, remuneration, training and development, and promotion, and our procedures and practices encourage the fair and equal treatment of staff. EFIC regularly trains all employees, including management, on EEO and anti-discrimination matters. EFIC has a formal commitment to the reconciliation process.

Appendices

Appendix 4: Our People

WORKFORCE

EFIC's workforce continues to have a diverse profile. Currently 42 per cent of staff, or one of their parents, were born in a non-English speaking country.

In accordance with the reporting requirements under the *Equal Employment Opportunity (Commonwealth Authorities) Act* 1987, EFIC provides the following statistics on its workforce profile. Although employees at EFIC can be grouped into various classifications (for example, managers and administrators, professionals and associated professionals, clerical and service workers), due to EFIC's size and the generality of these classifications the statistics shown below are grouped by salary ranges:

REPRESENTATION OF WORKFORCE AS AT 30 JUNE 2008

EMPLOYEE DIVERSITY PROFILE							
		FEMALE	MALE	NESB	ATSI	PWD	TOTAL STAFF
ANNUAL FTE SALARY* EARNINGS	Up to $60,000	14	2	10	0	0	**16**
		87.5%	12.5%	63%	nil	nil	**21%**
	$60,001–$100,000	10	5	6	0	0	**15**
		67%	33%	40%	nil	nil	**20%**
	$100,001 & Above	16	29	16	0	0	**45**
		36%	64%	36%	nil	nil	**59%**
	Totals	**40**	**36**	**32**	**0**	**0**	**76**
		53%	**47%**	**42%**	**0%**	**0%**	(72.3 FTE)

INTERPRETATION
NESB: Non-English Speaking Background
ATSI: Aboriginal or Torres Strait Islander
PWD: People with a Disability
FTE: Full-time equivalent

* Salaries exclude superannuation

COMMONWEALTH DISABILITY STRATEGY

EFIC takes a range of actions to implement the Commonwealth Disability Strategy.

To include people with disabilities in consultations about issues which affect them.

- The Corporation provides access to EFIC via the internet and a toll-free phone service that allows concerns or feedback to be provided on any issue;
- EFIC's OHS Committee openly consults with staff.

To make information available to people with disabilities in accessible formats.

- The most effective means of providing information in accessible formats is through EFIC's website. EFIC is W3C/ Priority 1 compliant with the guidelines of the Australian Government Information Management Office.

To provide complaints and grievance mechanisms through which people can raise concerns.

- EFIC provides both internal and external complaint mechanisms. EFIC's Customer Service Charter provides a mechanism for clients to provide feedback if they are not satisfied with EFIC's service.

Appendix 5: Corporate Responsibility

Approach to Corporate Responsibility

EFIC's Corporate Responsibility Policy (CRP) sets out the guiding principles which enable EFIC to attain an appropriate equilibrium between the different responsibilities EFIC owes to its varied stakeholders. It assists EFIC to balance the need to achieve its mandate of facilitating and encouraging Australian export trade and investment for its clients, while fulfilling its responsibilities to its broader, non-client stakeholders. The CRP helps EFIC with the delicate balance between the need to maintain client commercial confidentiality while providing reasonable transparency of the Corporation's operations.

Further details of EFIC's CRP are contained in our website, setting out our responsibilities to exporters, to our shareholder the Australian Government in terms of their international obligations such as those contained in various OECD Recommendations and Conventions, our employees and to the wider community in respect of matters such as environmental and social issues, renewable energy, nuclear-related exports, Heavily Indebted Poor Countries (HIPCs), anti-corruption initiatives as detailed in the OECD Council Recommendation on Bribery and Officially Supported Export Credits and climate change.

EFIC's corporate responsibilities are under continuous review. As a result, our internal anti-bribery and anti-corruption procedures in respect of EFIC's obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act* 2006 were reviewed and updated during 2007–08. It is not unusual for entities to which EFIC has exposure to be domiciled in foreign jurisdictions with low standards of governance. Because of the complexity of these risks and the need to ensure that each counterparty is able to meet its obligations on the due date, EFIC has extensive due diligence processes focusing on understanding the risk of each proposal including the identity of the people involved. This detailed level of due diligence mitigates what might otherwise be an appreciable level of anti-money laundering or counter-terrorism financing risk. Good credit practice dictates that underwriters should understand both the purpose of any facility and the source of repayment. In the context of anti-money laundering these objectives may be restated as verification that any facility supported by EFIC is applied towards a legitimate purpose and that the source of repayment emanates from conduct of a legitimate business.

Similarly EFIC's response to the introduction of the OECD's Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Export Credits to Low-Income Countries was driven by the existing corporate objective of generating a sustainable profit within prevailing policy and pricing constraints. EFIC does not provide concessional financing and prices credit on the basis of risk. Loans on a non-concessional basis to an Low Income Country with IMF/World Bank concessionality requirements would only be considered if the proposal met this new guideline in all respects. While a detailed country risk assessment, including an assessment of debt sustainability, has always formed the basis of any decision to incur exposure to a sovereign state, EFIC's procedures were reviewed and refined to ensure that they are in conformity with the new guideline.

Appendix 5: Corporate Responsibility

EFIC's Environment Policy was also updated to reflect changes in the OECD *Recommendation on Common Approaches on the Environment and Officially Supported Export Credits* (the 'Common Approaches'). The Common Approaches encourage export credit agencies (ECAs) to exchange information with each other regarding their experiences in undertaking environmental reviews and in their application of the Common Approaches. EFIC's environmental team actively takes part in this process and in 2007–08 participated in three international environmental and social workshops organised by the OECD or the International Finance Corporation (IFC).

EFIC seeks to encourage the export of products and services that benefit the environment and is open to considering extended terms of finance for such exports in line with terms and conditions set out in the OECD *Arrangement on Officially Supported Export Credits* in order to enhance their economic and financial viability.

In December 2007 EFIC became a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI), a global partnership between UNEP and the financial sector. Over 160 institutions, including banks, insurers and fund managers, are part of this initiative and work with UNEP to understand the impacts of environmental and social considerations on financial performance. EFIC became a signatory in recognition of the important role of the Initiative, and now has access to the knowledge base provided by the UNEP FI activities and the network of co-signatories.

During the year, EFIC commenced a wide-ranging review of its response to corporate responsibility issues. An internal benchmarking exercise against the Global Reporting Initiative (GRI) *Sustainability Reporting Guidelines* found that EFIC had in place policies relating to a majority of the issues material to EFIC covered by the GRI Guidelines.

As a result of this benchmarking exercise EFIC has decided to investigate how to further define and report on its corporate responsibility activity. Actions proposed for 2008–09 include:

- internal workshops to review EFIC's response to corporate responsibility;
- examination of EFIC's carbon footprint and the feasibility of reducing this, for example through reductions in direct and indirect energy consumption and office consumables;
- reviewing how EFIC can better assist exporters involved in renewable energy or carbon trading; and
- examination of how EFIC can provide further information and reporting on corporate responsibility.

Environmental Screening and Disclosure

EFIC's Environment Policy adopts a screening process that recognises the broad range of social and environmental impacts that export transactions and overseas investments could have; the differences between the types of exports that EFIC facilitates; and the different roles that EFIC plays in transactions.

Screening involves categorising a transaction based on the significance of its environmental or social impacts. EFIC's due diligence procedures differ, depending on the category. The categorisation process is explained in detail in EFIC's Environment Policy, a copy of which is available online at www.efic.gov.au. A brief summary of the category definitions is:

Category A: potentially significant adverse environmental and/or social impacts;

Category C: minimal or no adverse environmental and/or social impacts; and

Category B: in the spectrum between A and C.

A list of medium- to long-term facilities signed by EFIC during 2007-08 can be found in the Business Overview section on pages 27-28. The environmental category of these facilities is summarised below, together with comparable data for the previous two financial years.

Environmental Category of Projects Supported (Excluding EFIC Headway)

Year	Environmental Category		
	A	B	C
2007-08	2	2	16
2006-07	2	2	11
2005-06	1	1	15*

*Includes one approval for a bonding line that was not categorised. Projects resulting in actual usage under the bonding line have been subsequently categorised.

In 2007–08 EFIC provided facilities for two new Category A projects:

- The Al Taweelah Aluminium Smelter Project in the United Arab Emirates. EFIC provided a loan to the project that supported Australian exports.
- The Qatalum Aluminium Smelter Project in Qatar. EFIC provided a performance bond on behalf of Australian exporter Kempe.

Both projects were subject to detailed environmental and social assessments including onsite inspections. EFIC's due diligence found that the assessments met international standards and that the projects included processes to manage impacts during construction and operation. Environmental information for both projects was published on EFIC's website for 30 days in accordance with EFIC's Environment Policy, but no comments were received in response to that disclosure.

EFIC entered into two new Category B transactions in 2007–08. One of these transactions supported the installation of 5,000 solar-powered kits to power drip irrigation works on existing farms in Sri Lanka. The project reduces erosion damage from the previous flood irrigation and minimises the potential for groundwater and waterway pollution caused by fertilizers. Renewable power from the solar generators replaces the farmers' previous use of diesel-powered water pumps.

Appendices

Appendix 6: Other Miscellaneous Information

Indemnities and Insurance

All EFIC's employees and Board members, and certain former employees and Board members, had the benefit of an indemnity from EFIC during the reporting period covering them for liabilities incurred as an officer of EFIC and related legal costs. The scope of the indemnity is consistent with the requirements of the CAC Act and the Trade Practices Act 1974 (Cth) in relation to such indemnities. In addition, some employees are indemnified by EFIC in connection with their roles as safety delegates.

EFIC did not pay any amount in connection with the Board or employee indemnities.

During the year, EFIC maintained, and paid premiums for, certain insurance covering its employees and Board members. This included directors and officers liability insurance (which includes cover for certain legal costs) for which premium of $77,000 was paid during 2007–08.

Judicial and Administrative Decisions and Reviews

EFIC believes that during the year ended 30 June 2008, there were no judicial decisions or decisions of administrative tribunals that have had, or may have, a significant impact on its operations.

The Auditor-General provided his annual Independent Audit Report on EFIC's financial statements.

Freedom of Information

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

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

FUNCTIONS, ORGANISATION AND POWERS

EFIC's functions and powers are detailed in Sections 7 and 11 of the EFIC Act. An organisational structure can be found at Appendix 3.

ARRANGEMENTS FOR OUTSIDE PARTICIPATION

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

EFIC DOCUMENTS AND PUBLICATIONS

EFIC produces a range of publications aimed at informing exporters and overseas investors about EFIC. Key publications in 2007–08 included:

- 2007 Annual Report;
- EFIC's Corporate Responsibility Policy;
- EFIC's Customer Service Charter;
- EFIC's Privacy Policy;
- World Risk Developments (formerly Market Watch) – a regular analysis of worldwide developments and why they matter for Australian exporters and investors abroad;
- Global Readiness index National Report – a compiled report from the GRi survey that 463 Australian businesses completed.
- Global Readiness index Victoria Summary Report – a compiled report of all the Victorian responses from the GRi survey.
- Global Readiness index South Australia Summary Report – a compiled report of all the South Australian responses from the GRi survey.
- EFIC Headway Bank Cube – designed to assist bankers with identifying and processing EFIC Headway transactions; and
- Credit Crunch Post Card – a direct marketing piece designed to advise recipients of the credit crunch and EFIC's services.

FACILITIES FOR ACCESS

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

FREEDOM OF INFORMATION PROCEDURES AND INITIAL POINTS OF CONTACT

Enquiries concerning access to documents or other matters relating to FOI should be directed to:

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

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

Appendices

Appendix 6: Other Miscellaneous Information

Particulars of Directions by the Minister

SECTION 9 EFIC ACT DIRECTIONS

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

A direction dated 19 March 1992 was in effect during the period 1–3 July 2007 in relation to the following matters:

- EFIC is to participate in the multilateral debt relief processes of the Paris Club;
- EFIC is to comply with Australia's obligations under the OECD Arrangement on *Officially Supported Export Credits*; and
- all loans in excess of $50 million that will, or may at some point in the future, incur an interest subsidy are to be referred to the Minister for approval.

On 4 July 2007 the Minister revoked all directions issued under Section 9 prior to 30 June 2007. The Minister issued five new directions to EFIC under Section 9 during the year ended 30 June 2008 in relation to the following matters:

- EFIC is to continue to participate in Australian Government negotiations in the Paris Club;
- EFIC is to comply with Australia's obligations under the OECD *Arrangement on Officially Supported Export Credits*;
- Implementation of the revised funding arrangements arising from the 2006 EFIC Review;
- EFIC must not provide assistance for any transaction linked to uranium without specific written agreement from the Australian Government; and
- All decisions regarding financial support for trade with Iran must be made by the Board; the Board must not approve any application that would not comply with paragraph 9 of Resolution 1803 of the United Nations Security Council; and the Board must accept as decisive a determination by the Department of Foreign Affairs and Trade on the compliance of an application with paragraph 9 of Resolution 1803.

EFIC complied with the above Section 9 directions throughout the reporting period. It is not possible to assess the financial effect on EFIC, other than in relation to implementation of the revised funding arrangements which are detailed under New Funding Arrangements on page 12.

SECTION 29 EFIC ACT DIRECTIONS

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

A direction dated 12 July 2004 was in effect during the period 1–3 July 2007 setting out facility terms for the provision by EFIC of indemnities or guarantees up to an aggregate of $200 million in relation to advance payments under, or performance of, contracts (or proposed contracts). On 4 July 2007 the Minister revoked this direction and issued a new direction on substantially similar terms, but reducing the aggregate facility amount to $30 million.

A direction dated 11 April 2007 was in effect during the period 1 July 2007 to 13 May 2008 setting out the facility terms for the provision by EFIC of insurance or reinsurance in relation to exports to Iraq. On 14 May 2008 the Minister revoked this direction and issued a new direction on substantially similar terms.

SECTION 28 CAC ACT NOTIFICATION

Section 28 of the CAC Act permits the Minister to notify of general policies of the Commonwealth Government that are to apply to EFIC.

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

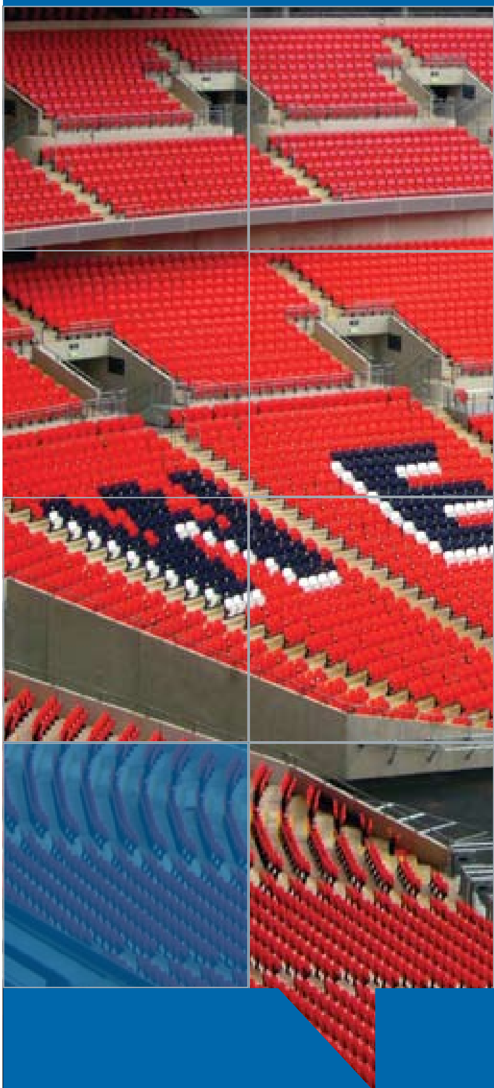
Appendix 7:
EFIC – A Ten-Year Summary

Years ended 30 June:	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Commercial Account										
Export contracts and overseas investments supported	2,219	1,367	605	176	502	1,967	889	508	359	342
Net interest income	32.2	23.4	19.3	18.5	17.7	15.3	13.7	15.2	13.6	13.9
Premiums and fees (accrual)	0.0	0.0	0.0	16.0	16.9	17.3	13.5	14.3	17.9	17.5
Fair value loans and guarantees	7.2	6.2	21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total premiums and fees	7.2	6.2	21.0	16.0	16.9	17.3	13.5	14.3	17.9	17.5
Effect of reinsurance	(2.6)	2.8	(1.8)	(3.2)	(1.7)	(1.4)	(0.1)	(1.4)	(2.2)	0.0
Net premiums and fees	4.6	9.0	19.2	12.8	15.2	15.9	13.4	12.9	15.7	17.5
Fair value other financial instruments	(1.6)	21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income	2.9	2.4	1.9	2.9	2.7	2.2	2.2	2.3	2.4	2.2
Total revenue	38.1	55.8	40.4	34.2	35.6	33.4	29.3	30.4	31.7	33.6
Operating expenses	(18.8)	(15.5)	(12.5)	(11.7)	(9.0)	(7.2)	(7.6)	(7.7)	(9.1)	(9.1)
Foreign exchange profit/(loss)	0.0	0.1	(0.2)	(0.1)	0.0	(0.4)	(0.2)	0.5	0.1	0.9
Profit before loss provisions	19.3	40.4	27.7	22.4	26.6	25.8	21.5	23.2	22.7	25.4
(Charge)/credit for loss provisions	0.0	0.0	0.0	6.7	(3.2)	2.9	2.2	(14.7)	2.5	1.2
Profit/(loss) from the discontinued credit insurance business	0.4	0.3	1.0	0.3	4.3	(3.2)	(4.3)	1.7	5.4	(0.2)
Operating profit before tax	19.7	40.7	28.7	29.4	27.7	25.5	19.4	10.2	30.6	26.4
Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.8)	(2.0)	(0.1)
Operating profit of the Corporation	19.7	40.7	28.7	29.4	27.7	25.5	19.4	9.4	28.6	26.3
Dividend (paid the following year)	Not decided	20.4	14.3	14.7	12.6	12.7	9.7	4.7	14.3	13.1
Special dividend	0	0	0	0	2.5	0	0	0	0	0
Equity	331.2	359.8	321.7	287.5	266.2	253.7	237.9	210.6	205.9	191.6
Return on average equity (% pa)	6%	12%	9%	11%	11%	10%	9%	5%	14%	14%
Dividend payout ratio	Not decided	50%	50%	50%	55%	60%	50%	50%	50%	50%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	145	120	210	263	274	309	368	483	409	431
Guarantees and other off-balance-sheet exposures	510	408	464	498	529	611	753	722	590	704
Exposures reinsured	212	103	142	97	82	48	15	0	103	0
Rescheduled debts	25	26	33	37	39	41	44	46	43	39
Export finance facilities	892	657	849	895	924	1,009	1,180	1,251	1,145	1,174
Retained credit insurance exposures	0	0	0	0	0	16	125	1,310	1,027	1,237
Reinsured credit insurance exposures	0	0	0	0	0	1,176	1,137	0	0	0
Credit insurance facilities	0	0	0	0	0	1,192	1,262	1,310	1,027	1,237
Total Commercial Account facilities	892	657	849	895	924	2,201	2,442	2,561	2,172	2,411

Note: The Credit Insurance business was divested on 30 September 2003.

Years ended 30 June:	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
National Interest Account										
Export contracts and overseas investments supported	18	85	33	39	21	134	26	15	21	58
Exports supported by Australian content by drawdown	21	46	21	30	20	108	31	54	106	235
Net interest income (including grant amortised)	0.3	9.5	17.7	18.7	24.4	22.9	22.9	27.2	21.5	28.8
Premiums and fees (accrual)	3.4	4.0	4.5	4.6	6.1	7.8	9.1	10.3	11.3	15.4
Total premiums and fees	3.4	4.0	4.5	4.6	6.1	7.8	9.1	10.3	11.3	15.4
Effect of reinsurance	(1.0)	(1.4)	(1.5)	(1.4)	(0.7)	(1.2)	(1.7)	(2.2)	(2.3)	(0.7)
Net premiums and fees	2.4	2.6	3.0	3.2	5.4	6.6	7.4	8.1	9.0	14.7
Fair value other financial instruments	0.0	60.6	88.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue	2.7	72.7	108.7	21.9	29.8	29.5	30.3	35.3	30.5	43.5
Operating expenses	(1.8)	(3.8)	(4.3)	(4.7)	(4.7)	(5.2)	(5.0)	(4.9)	(4.9)	(4.9)
Foreign exchange profit/(loss)	2.1	0.1	2.1	(7.9)	(2.3)	(13.6)	(8.7)	9.7	3.2	(2.7)
Profit before loss provisions	3.0	69.0	106.5	9.3	22.8	10.7	16.6	40.1	28.8	35.9
(Charge)/credit for loss provisions	1.8	1.4	0.0	2.7	(0.2)	5.8	2.9	(3.9)	(6.5)	5.9
Profit/(loss) from the discontinued credit insurance business	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.6)	2.4	11.7	7.0
Operating profit attributable to the Commonwealth	4.8	70.4	106.5	12.0	22.6	16.4	18.9	38.6	34.0	48.8
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	893	1,066	1,326	1,398	1,715	1,977	2,378	2,700	2,494	2,361
Guarantees and other off-balance-sheet exposures	8	11	8	7	6	35	1	5	25	253
Exposures reinsured	43	52	61	59	66	31	66	90	90	0
Rescheduled debts	111	121	360	532	607	648	772	860	725	613
Export finance facilities	1,055	1,250	1,755	1,996	2,394	2,691	3,217	3,655	3,334	3,227
Retained credit insurance exposures	0	0	0	0	0	0	5	0	249	418
Credit insurance facilities	0	0	0	0	0	0	5	0	249	418
Total National Interest facilities	1,055	1,250	1,755	1,996	2,394	2,691	3,222	3,655	3,583	3,645

Financial Statements



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Statement by Board Members

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

(a) the accompanying financial report is drawn up so as to give a true and fair view of the performance of the Corporation for the year ended 30 June 2008 and the financial position of the Corporation at 30 June 2008;

(b) the financial report gives a true and fair view of the matters required by Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2007) under subsection 48(1) of the *Commonwealth Authorities and Companies Act* 1997 (the CAC Act);

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

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

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

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

Signed in accordance with a resolution of the Board.

Peter Young
CHAIRMAN

Angus Armour
MANAGING DIRECTOR

14 AUGUST 2008

Australian National
Audit Office

Independent Audit Report to the Minister for Trade

SCOPE

We have audited the accompanying financial statements of the Export Finance and Insurance Corporation (the Corporation) for the year ended 30 June 2008, which comprise: a statement by Board Members; income statement; balance sheet; statement of changes in equity; cash flow statement; a summary of significant accounting policies and other explanatory notes.

The Responsibility of the Members of the Board for the Financial Statements

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

Auditor's Responsibility

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

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

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

Independent Audit Report to the Minister for Trade (continued)

Independence

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

Auditor's Opinion

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

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

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Export Finance and Insurance Corporation's financial position as at 30 June 2008 and of its financial performance and its cash flows for the year then ended.

Australian National Audit Office

P Hinchey
Senior Director
Delegate of the Auditor-General

SYDNEY
15 AUGUST 2008

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Note	COMMERCIAL ACCOUNT **30 June 2008 $ m**	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT **30 June 2008 $ m**	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
Interest income	3(i)	**147.2**	95.4	**71.5**	83.6
Interest expense	3(ii)	**(115.0)**	(72.0)	**(71.2)**	(74.1)
Net interest income		**32.2**	23.4	**0.3**	9.5
Fair value of third-party loans and guarantees	3(iii)	**4.6**	9.0	**-**	-
Fair value of other financial instruments	3(iv)	**(1.6)**	21.0	**-**	60.6
Other revenue	3(v)	**3.3**	2.7	**2.4**	2.6
Operating income		**38.5**	56.1	**2.7**	72.7
Operating expenses	3(vi)	**(18.8)**	(15.5)	**(1.8)**	(3.8)
Foreign exchange profit/(loss) on rescheduled debts		**-**	0.1	**2.1**	0.1
Profit before loss provisions		**19.7**	40.7	**3.0**	69.0
(Charge)/credit to specific provisions	3(vii)	**-**	-	**1.8**	1.4
Profit from ordinary activities		**19.7**	40.7	**4.8**	70.4
National Interest Account profit attributable directly to the Commonwealth		**-**	-	**(4.8)**	(70.4)
Net profit attributable to the Commonwealth as shareholder		**19.7**	40.7	**-**	-

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

Balance Sheet

BALANCE SHEET AS AT 30 JUNE 2008

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
Assets					
Cash and liquid assets	1(l)	**0.7**	0.5	**-**	-
Receivables from other financial institutions	4, 1(m)	**247.7**	67.4	**-**	-
Amount receivable from the Commonwealth	5	**-**	-	**53.5**	67.4
Derivative financial instruments	6, 1(g)	**83.6**	50.1	**-**	-
Available-for-sale investment securities	7, 1(n)	**749.1**	961.3	**-**	-
Loans and receivables	8, 1(o)	**-**	-	**897.9**	1,044.8
Loans and receivables designated at fair value through profit and loss	9, 1(p)	**158.2**	140.8	**-**	-
Loans to National Interest Account designated at fair value through profit and loss	1(q)	**1,053.6**	1,196.4	**-**	-
Property, plant and equipment	10, 1(r)	**42.0**	43.3	**-**	-
Other assets	11	**1.2**	0.9	**16.1**	9.5
Total assets		**2,336.1**	2,460.7	**967.5**	1,121.7
Liabilities					
Payables to other financial institutions	4, 1(s)	**16.8**	-	**-**	-
Derivative financial instruments	6, 1(g)	**267.5**	310.6	**-**	-
Guarantees designated at fair value through profit and loss	12, 1(v)	**26.2**	25.8	**-**	-
Sundry provisions	13	**2.2**	2.1	**0.6**	-
Borrowings from Commercial Account	1(q)	**-**	-	**946.1**	1,097.8
Borrowings designated as fair value through profit and loss	14, 1(t)	**1,680.1**	1,750.8	**-**	-
Other liabilities	15	**12.1**	11.6	**20.8**	23.9
Total liabilities		**2,004.9**	2,100.9	**967.5**	1,121.7
Net assets		**331.2**	359.8	**-**	-
Equity					
Contributed equity	16	**6.0**	6.0	**-**	-
Reserves	16	**66.2**	94.1	**-**	-
Retained profits	16	**259.0**	259.7	**-**	-
Total equity		**331.2**	359.8	**-**	-

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2008 $ m**	30 June 2007 $ m	**30 June 2008 $ m**	30 June 2007 $ m
Total equity at the beginning of the financial year		**359.8**	321.7	**-**	-
Revaluation of land and buildings		**-**	13.9	**-**	-
Net loss on available-for-sale investments		**(27.9)**	(2.2)	**-**	-
Net income/(expense) recognised directly in equity		**(27.9)**	11.7	**-**	-
Profit/(loss) for the period		**19.7**	40.7	**-**	-
Total recognised income/(expense) for the year		**(8.2)**	52.4	**-**	-
Transactions with the Commonwealth in their capacity as shareholder					
Dividends paid		**(20.4)**	(14.3)	**-**	-
Total transactions with the Commonwealth		**(20.4)**	(14.3)	**-**	-
Total equity at the end of financial year		**331.2**	359.8	**-**	-

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

Financial Statements

Cash Flow Statement

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2008 $ m**	30 June 2007 $ m	**30 June 2008 $ m**	30 June 2007 $ m
Cash flows from operating activities					
Inflows:					
Premium and fees received*		**14.9**	10.1	**0.3**	0.5
Interest received		**145.1**	82.5	**38.1**	48.7
Insurance claim recoveries		**0.4**	0.4	**-**	-
Sundry income*		**3.1**	2.4	**-**	-
Net repayments of loan balances		**51.6**	69.2	**109.2**	127.6
Rescheduled debt repayments		**2.7**	7.8	**12.2**	235.1
Net decreases in other debtors and prepayments		**1.4**	0.2	**0.4**	2.7
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(2.7)**	(1.1)	**(0.7)**	(1.2)
Loan administration management fee		**(1.0)**	(1.0)	**-**	-
Guarantees called		**(2.0)**	(0.1)	**-**	-
Payment to creditors and employees*		**(18.5)**	(16.0)	**-**	-
Interest and other costs of finance paid		**(119.3)**	(49.7)	**(75.3)**	(77.6)
Net cash provided by/(used in) operating activities	22	**75.7**	104.7	**84.2**	335.8
Cash flows from investing activities					
Inflows:					
Proceeds from sale of investments		**266.1**	356.4	**-**	-
Proceeds from sale of property, plant and equipment		**0.1**	0.1	**-**	-
Outflows:					
Payments for investments		**(276.5)**	(361.9)	**-**	-
Payments for property, plant and equipment		**(1.4)**	(1.2)	**-**	-
Net cash provided by/(used in) investing activities		**(11.7)**	(6.6)	**-**	-

The accompanying notes form an integral part of this financial report.
* grossed up for Goods and Services Tax

CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2008

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		**2.1**	2.1	**10.4**	16.1
Outflows:					
Dividend payments to the Commonwealth		**(20.4)**	(14.3)	**-**	-
Other payments to the Commonwealth		**-**	-	**(4.3)**	(125.5)
Net repayments of borrowings		**(22.6)**	(43.9)	**(90.3)**	(226.4)
Net cash provided by/(used in) financing activities		**(40.9)**	(56.1)	**(84.2)**	(335.8)
Net increase/(decrease) in cash equivalents held		**23.1**	42.0	**-**	-
Cash equivalents at beginning of financial year		**699.4**	678.4	**-**	-
Net effects of exchange rate changes on cash equivalents balances held in foreign currencies		**(40.8)**	(21.0)	**-**	-
Cash equivalents at end of financial year	22	**681.7**	699.4	**-**	-

The accompanying notes form an integral part of this financial report.
* grossed up for Goods and Services Tax

Financial Statements

Notes to and forming part of the Financial Statements for the year ended 30 June 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Basis of Preparation

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

The statements have been prepared in accordance with:

- the Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period;
- the Australian equivalents to International Financial Reporting Standards (AIFRS);
- other authoritative pronouncements of the Australian Accounting Standards Board; and
- Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2007) under subsection 48(1) of the CAC Act.

The statements have been prepared having regard to:

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

(b) Basis of Accounting

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

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

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

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

(i) Business undertaken on the Commercial Account

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

(ii) Business undertaken on the National Interest Account

For activities undertaken under Part 5 of the EFIC Act, the Minister for Trade gives an approval or direction to EFIC to undertake any transaction which the Minister considers is in the 'National Interest'. Such transactions may relate to a class of business which EFIC is not authorised to undertake, or involve terms and conditions EFIC would not accept in the normal course of business. Where the Minister gives EFIC a direction to undertake a transaction under Part 5 of the Act, the credit risk is borne by the Commonwealth. The funding risk, however, is borne by EFIC on the Commercial Account. Premium or other income from the transaction is paid to the Commonwealth. EFIC recovers from the Commonwealth the costs of administering business undertaken under Part 5 and recovers from the Commonwealth any losses incurred in respect of such business.

The National Interest Account profit or loss is therefore directly attributable to the Commonwealth. In addition, EFIC is compensated for the funding risk on the National Interest Account by being able to retain on the Commercial Account profit and loss the difference between the actual borrowing rate and an agreed benchmark rate for funding loans on the National Interest Account. There is also a provision in the EFIC Act which allows EFIC to share part of a National Interest Account transaction. In such cases income, expenses and therefore any profits or losses are apportioned between the two accounts in accordance with the risk participation.

(c) Statement of Compliance

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

No accounting standard has been adopted earlier than the effective date in the current period, which is in line with Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2007) under subsection 48(1) of the CAC Act, which does not permit early adoption. Listed below are the standards and amendments that will become effective in the future.

TITLE	STANDARD AFFECTED	APPLICATION DATE*
AASB 2007-2	AASB Interpretation 12, (AASB1)	1 January 2008
AASB 2007-3	AASB 8,5,6,102,107,119,127,134,136 AASB 1023,1038	1 January 2009
AASB 2007-6	AASB 123,1,101,107,111,116,138 AASB Interpretation 1,12	1 January 2009
AASB 2007-8	AASB 101	1 January 2009
AASB 2007-9	AASB 3,5,8,101,114,116,127 & 137	1 July 2008
AASB 2008-1	AASB2	1 January 2009
AASB 2008-2	AASB 7,101,132,139 AASB interpretation 2	1 January 2009
AASB 2008-3	AASB 1,2,4,5,7,101,107,112,114,116, AASB 121,128,131,132,133,134,136, AASB 137,138,139 AASB interpretation 9,107	1 July 2009
Operating segments	AASB 8	1 January 2009
Presentation of Financial Statements	AASB 101	1 January 2009
Borrowings costs	AASB 123	1 January 2009
Contributions	AASB 1004	1 July 2008
Whole of Government and General Government Sector Financial Reporting	AASB 1049	1 July 2008
Administered Items	AASB 1050	1 July 2008
Land Under Roads	AASB 1051	1 July 2008
Disaggregated Disclosures	AASB 1052	1 July 2008

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

The expected dollar impact on the financial report of adoption of these standards is not significant and is based on initial assessment at this date, but may change. EFIC intends to adopt all the standards upon their application date.

(d) Premium, fees and other revenue

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

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

(e) Unamortised grants

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

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

The Government discontinued the mixed credit scheme in 1996. As per Note 8 the balances outstanding on these loans will decline each year.

(f) Foreign currency

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

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

The principal exchange rates affecting the statement of financial position are the US dollar, the euro and the Japanese yen.

Notes to and forming part of the Financial Statements for the year ended 30 June 2008

The relevant exchange rates used are:

	2008	2007
Average rates during year		
US$ / A$	**0.9187**	0.8084
Euro / A$	**0.6328**	0.6246
Yen / A$	**98.4421**	92.8845

	2008	2007
Rates at 30 June		
US$ / A$	**0.9625**	0.8487
Euro / A$	**0.6096**	0.6311
Yen / A$	**101.8999**	104.7027

(g) Derivative financial instruments

EFIC uses derivative financial instruments on the Commercial Account to manage exposures to interest rate and foreign exchange risk. These include foreign exchange contracts, interest rate and cross-currency swaps, financial futures and forward rate agreements. Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently revalued to their fair value at each reporting date. All derivative financial instruments are held at fair value through profit and loss.

(h) Export finance interest adjustment

The fixed interest rates charged to borrowers for EFIC's loans and guarantees are set in accordance with OECD Guidelines for Officially Supported Export Credits.
For the previous year the adjustment from/(to) the Commonwealth on the Commercial Account represents the interest shortfall/(surplus) on these lending activities after taking into account the costs associated with funding the loans, together with loan administration and management fees paid in connection with export finance guarantees. This interest adjustment was replaced under the new funding arrangement (see Note 2) that came into effect on the 1 May 2007.

(i) Taxation

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

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

(j) Sundry creditors

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

(k) Employee entitlements

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

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

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

(l) Cash and liquid assets

Cash and liquid assets include cash on hand and bank account balances. Cash is recognised at its nominal amount.

(m) Receivables from other financial institutions

Receivables from other financial institutions include deposits with banks and other financial institutions, but excludes securities issued by them. They are measured at amortised cost using the effective interest method.

(n) Available-for-sale investment securities

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

(o) Loans and receivables

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

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

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

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

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

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

(r) Property, plant and equipment

Property, plant and equipment are revalued periodically at their fair value, as required by Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements for periods ended on or after 1 July 2007) under subsection 48(1) of the CAC Act.

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

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

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

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

Depreciation rates used are as follows:

■ buildings	6.67%
■ computer equipment	33.33%
■ other plant and equipment	10% – 22.5%

Profits and losses on disposal of property, plant and equipment are taken into account in determining the result for the year.

(s) Payables to other financial institutions

Payables to other financial institutions include short-term borrowings with banks and other financial institutions. They are measured at amortised cost using the effective interest method.

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

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

(u) Borrowing costs

Borrowing costs are expensed as incurred.

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

Guarantees written are regarded as financial instruments and are designated at fair value through the profit and loss at inception. Subsequently, they are carried at their fair value with any movements transferred through profit or loss.

(w) Cash flows

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

(x) Operating segments

EFIC operates in only one segment.

(y) Comparative figures

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

(z) Events occurring after the balance sheet date

There have been no material events occurring after the balance sheet date that impact the financial statements for the year ending 30 June 2008.

NOTE 2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Derivative financial instruments

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

Commercial Account borrowings

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

Loans and receivables

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

Guarantees

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

Available-for-sale investment securities

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

Premium income and reinsurance

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

Changes to accounting estimates during the year

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

- EFIC refined the inputs for the valuation of its structured borrowings to account for movements in JPY and USD exchange rates which were creating small unintended foreign exchange profit and loss movements. Previously, EFIC's valuation model applied the 'EFIC debt curve' to value its structured borrowings and applied the 'swap curve' to value the offsetting cross-currency swap. EFIC's valuation model now values both the debt and the matching cross-currency swap using the 'EFIC debt curve'.

Significant accounting events during the year

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

However, when looking at the profit and loss comparatives it should be noted that, effective 1 May 2007 the funding arrangements were amended requiring EFIC's Commercial Account to fund the National Interest Account at an agreed benchmark rate and for EFIC's Commercial Account to accept all risk and losses whether from counterparties, derivatives, foreign exchange movements, interest rate movements or otherwise, associated with contracts and arrangements that EFIC enters into to fund the National Interest Account.

The profit that flows to the Commercial Account of EFIC from 1 May 2007 for taking on all funding risk is equal to the difference between the actual borrowing rate and the agreed benchmark rate for funding loans. The National Interest Account retains the portion of the borrowing margin based on the benchmark rate that reflects the guarantee provided by Section 62 of the EFIC Act.

The Commercial Account from 1 May 2007 also took over the counterparty risk on additional investments that where previously attributable to the Commonwealth. As the Commercial Account is responsible for the risk on these additional investments, the net income on these investments became attributable to the Commercial Account.

Notes to and forming part of the Financial Statements for the year ended 30 June 2008

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2008 $ m	30 June 2007 $ m	**30 June 2008 $ m**	30 June 2007 $ m
NOTE 3 REVENUE AND EXPENSES					
(i) Interest income					
Receivable from other financial institutions		**8.2**	5.5	**-**	-
Available-for-sale investment securities		**57.4**	62.3	**-**	-
Loans and receivables		**-**	-	**71.5**	83.6
Loans and receivables designated at fair value through profit and loss		**8.7**	11.3	**-**	-
Loans to National Interest Account designated at fair value through profit and loss		**72.9**	16.3	**-**	-
Total interest income		**147.2**	95.4	**71.5**	83.6
(ii) Interest Expense					
Payables to other financial institutions		**(0.4)**	(0.7)	**-**	-
Derivative financial instruments		**(41.1)**	(39.7)	**-**	-
Borrowings from Commercial Account		**-**	-	**(71.2)**	(16.0)
Borrowings designated as fair value through profit and loss		**(73.5)**	(32.1)	**-**	(58.1)
Payment from the Commonwealth		**-**	0.5	**-**	-
Total interest expense		**(115.0)**	(72.0)	**(71.2)**	(74.1)
(iii) Fair value of third-party loans and guarantees					
Fair value movement relating to premium and fees		**24.7**	(4.5)	**-**	-
Fair value movement relating to reinsurers		**(2.6)**	2.8	**-**	-
Fair value movement relating to interest income		**0.5**	(0.3)	**-**	-
Fair value movement relating to credit risk		**(17.9)**	21.6	**-**	-
Fair value movement relating to specific events		**1.6**	(10.5)	**-**	-
Guarantees called		**(2.0)**	-	**-**	-
Foreign exchange profit/(loss) on premium		**0.3**	(0.1)	**-**	-
Total fair value of third-party loans and guarantees		**4.6**	9.0	**-**	-
(iv) Fair value of other financial instruments					
Derivative financial instruments		**(6.5)**	(88.2)	**-**	165.6
Borrowings designated at fair value through profit and loss		**-**	21.5	**-**	(105.0)
Loans to National Interest Account designated at fair value through profit and loss		**4.9**	87.7	**-**	-
Total fair value of other financial instruments		**(1.6)**	21.0	**-**	60.6

NOTE 3 REVENUE AND EXPENSES (CONTINUED)

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
(v) Other revenue					
Premium and fees		**-**	-	**3.5**	4.0
Ceded to reinsurers		**-**	-	**(1.0)**	(1.4)
Foreign exchange profit/(loss) on premium		**-**	-	**(0.1)**	-
Rental income		**2.5**	2.1	**-**	-
Sundry income		**0.4**	0.3	**-**	-
Recoveries credit insurance		**0.4**	0.3	**-**	-
Total other revenue		**3.3**	2.7	**2.4**	2.6
(vi) Operating expenses					
Staff costs		**(9.5)**	(8.9)	**-**	-
Depreciation of property, plant and equipment		**(2.6)**	(1.8)	**-**	-
Professional fees		**(1.8)**	(2.3)	**-**	-
Promotional costs		**(1.1)**	(1.2)	**-**	-
Travel costs		**(1.0)**	(1.1)	**-**	-
Superannuation costs		**(1.0)**	(0.7)	**-**	-
Property costs		**(0.8)**	(1.1)	**-**	-
Provision for employee entitlements		**(0.4)**	(0.3)	**-**	-
Computer costs		**(0.4)**	(0.3)	**-**	-
Corporate insurance		**(0.3)**	(0.3)	**-**	-
Other expenses		**(1.7)**	(1.3)	**-**	-
National Interest Account allocation		**1.8**	3.8	**(1.8)**	(3.8)
Total operating expenses		**(18.8)**	(15.5)	**(1.8)**	(3.8)
(vii) (Charge)/credit to specific provisions					
Specific provisions for losses		**-**	-	**4.5**	1.4
Recoveries		**-**	-	**2.4**	-
Loan written off		**-**	-	**(5.1)**	-
Total (charge)/credit to specific provisions		**-**	-	**1.8**	1.4

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m

NOTE 4 OTHER FINANCIAL INSTITUTIONS

	Note	30 June 2008 $ m	30 June 2007 $ m	30 June 2008 $ m	30 June 2007 $ m
Receivables from other financial institutions	1(m)				
Assets at call		**12.3**	42.7	**-**	-
Assets due in less than 3 months		**176.7**	24.7	**-**	-
Assets due after 3 months to 1 year		**58.7**	-	**-**	-
Total receivables from other financial institutions		**247.7**	67.4	**-**	-
Payables to other financial institutions	1(s)				
Liabilities at call		**16.8**	-	**-**	-
Total payables to other financial institutions		**16.8**	-	**-**	-

These receivables or payables are overnight cash investments or borrowings or short-term fixed deposits held with Authorised Deposit Taking Institutions (ADI's).

NOTE 5 COMMONWEALTH AMOUNT RECEIVABLE/(PAYABLE)

	Note	30 June 2008 $ m	30 June 2007 $ m	30 June 2008 $ m	30 June 2007 $ m
Commonwealth movement in receivable/(payable)					
Commonwealth opening balance receivable/(payable)		**-**	(5.2)	**67.4**	23.8
Net payments		**-**	-	**(9.1)**	114.0
Movement in fair value		**-**	5.2	**-**	-
Profit for the year on National Interest Account		**-**	-	**(4.8)**	(70.4)
Commonwealth closing balance receivable/(payable)		**-**	-	**53.5**	67.4

NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS

	Note	30 June 2008 $ m	30 June 2007 $ m	30 June 2008 $ m	30 June 2007 $ m
	1(g)				
Derivative financial assets					
Interest rate swaps		**16.0**	17.1	**-**	-
Cross-currency swaps		**65.6**	32.0	**-**	-
Forward foreign exchange contracts		**1.1**	0.9	**-**	-
Futures		**0.9**	0.1	**-**	-
Total derivative financial assets		**83.6**	50.1	**-**	-

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

	Note	COMMERCIAL ACCOUNT **30 June 2008 $ m**	 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT **30 June 2008 $ m**	 30 June 2007 $ m
NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)	1(g)				
Maturity analysis of derivative financial assets					
Due in 3 months or less		**14.1**	19.2	**-**	-
Due after 3 months to 1 year		**19.8**	6.4	**-**	-
Due after 1 year to 5 years		**17.9**	12.6	**-**	-
Due after 5 years		**31.8**	11.9	**-**	-
Total derivative financial assets		**83.6**	50.1	**-**	-
Derivative financial liabilities					
Interest rate swaps		**84.3**	74.7	**-**	-
Cross-currency swaps		**175.6**	216.3	**-**	-
Forward foreign exchange contracts		**7.6**	19.6	**-**	-
Total derivative financial liabilities		**267.5**	310.6	**-**	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**41.6**	70.6	**-**	-
Due after 3 months to 1 year		**64.9**	83.4	**-**	-
Due after 1 year to 5 years		**132.1**	124.5	**-**	-
Due after 5 years		**28.9**	32.1	**-**	-
Total derivative financial liabilities		**267.5**	310.6	**-**	-

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

NOTE 7 AVAILABLE-FOR-SALE INVESTMENT SECURITIES

	Note	30 June 2008 $ m	30 June 2007 $ m	30 June 2008 $ m	30 June 2007 $ m
	1(n)				
Discount securities		**158.3**	345.6	**-**	-
Floating-rate notes		**499.2**	519.8	**-**	-
Fixed rate bonds		**91.6**	95.9	**-**	-
Total available-for-sale investment securities		**749.1**	961.3	**-**	-

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

Notes to and forming part of the Financial Statements for the year ended 30 June 2008

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
NOTE 7 AVAILABLE-FOR-SALE INVESTMENT SECURITIES (CONTINUED)	1(n)				
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**113.3**	276.2	**-**	-
Due after 3 months to 1 year		**275.9**	227.8	**-**	-
Due after 1 year to 5 years		**359.9**	457.3	**-**	-
Total available-for-sale investment securities		**749.1**	961.3	**-**	-

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

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
NOTE 8 LOANS AND RECEIVABLES	1(o)				
At amortised cost					
Gross export finance loans		**-**	-	**936.3**	1,117.6
Gross rescheduled credit insurance debts		**-**	-	**111.1**	121.2
Loans and receivables gross		**-**	-	**1,047.4**	1,238.8
Less: unearned premiums		**-**	-	**(13.2)**	(16.1)
Less: specific provision for impairment		**-**	-	**(9.7)**	(16.9)
Less: unamortised grants	1(e)	**-**	-	**(126.6)**	(161.0)
Loans and receivables		**-**	-	**897.9**	1,044.8
Maturity analysis loans and receivables gross					
Due in 3 months or less		**-**	-	**28.5**	31.3
Due after 3 months to 1 year		**-**	-	**110.9**	95.5
Due after 1 year to 5 years		**-**	-	**406.2**	464.4
Due after 5 years		**-**	-	**501.8**	647.6
Total loans and receivables gross		**-**	-	**1,047.4**	1,238.8
Restructured exposures included above		**-**	-	**374.3**	399.1

All payments in respect of restructured exposures have been paid on time in accordance with the new terms.
The carrying value of these loans and receivables approximates their fair value.
There are no overdue amounts for non-impaired loans.

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m

NOTE 8 LOANS AND RECEIVABLES (CONTINUED)

	Note	30 June 2008 $ m	30 June 2007 $ m	30 June 2008 $ m	30 June 2007 $ m
	1(o)				
Specific provision					
Specific provision opening balance		**-**	-	**16.9**	18.3
Charge against profit		**-**	-	**0.3**	(1.4)
Recoveries		**-**	-	**(2.4)**	-
Write offs		**-**	-	**(5.1)**	-
Specific provision closing balance		**-**	-	**9.7**	16.9
Impaired loans					
Impaired loans		**-**	-	**9.7**	16.9
Less: specific provision for impairment		**-**	-	**(9.7)**	(16.9)
Carrying value of impaired loans		**-**	-	**-**	-
Interest foregone on impaired loans		**-**	-	**0.5**	0.8

Loans are considered to be impaired if payments have not been made by the due date. Amounts shown under National Interest Account represent loans made by EFIC under the National Interest provisions of the EFIC Act.

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

	Note	30 June 2008 $ m	30 June 2007 $ m	30 June 2008 $ m	30 June 2007 $ m
	1(p)				
Gross Export finance loans		**154.3**	125.4	**-**	-
Gross Rescheduled credit insurance debts		**24.7**	26.4	**-**	-
Loans and receivables gross		**179.0**	151.8	**-**	-
Less: fair value of credit risk		**(15.7)**	(6.1)	**-**	-
Less: fair value of specific events		**(5.1)**	(4.9)	**-**	-
Loans and receivables		**158.2**	140.8	**-**	-
Maturity analysis loans and receivables gross					
Due in 3 months or less		**24.6**	29.1	-	-
Due after 3 months to 1 year		**11.1**	18.5	-	-
Due after 1 year to 5 years		**29.6**	58.1	-	-
Due after 5 years		**113.7**	46.1	-	-
Total loans and receivables gross		**179.0**	151.8	**-**	**-**
Restructured exposures included above		**55.8**	47.7	**-**	-

	Note	COMMERCIAL ACCOUNT **30 June 2008 $ m**	30 June 2007 $ m	NATIONAL INTEREST ACCOUNT **30 June 2008 $ m**	30 June 2007 $ m

NOTE 9 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS (CONTINUED) 1(p)

All payments in respect of restructured exposures have paid on time in accordance with the new terms. There are no overdue amounts for the non-impaired loans.

Impaired loans				
Impaired loans	**14.2**	13.9	**-**	-
Less: fair value of specific events	**(5.1)**	(4.9)	**-**	-
Carrying fair value of impaired loans	**9.1**	9.0	**-**	-

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

NOTE 10 PROPERTY, PLANT AND EQUIPMENT 1(r)

Freehold land and building, at valuation	**41.0**	41.0	-	-
Accumulated depreciation	**(2.2)**	-	-	-
Net book value – land and building	**38.8**	41.0	**-**	**-**
Plant and equipment, at valuation	**7.3**	6.0	-	-
Accumulated depreciation	**(4.1)**	(3.7)	-	-
Net book value – plant and equipment	**3.2**	2.3	**-**	**-**
Total property, plant and equipment	**42.0**	43.3	-	-

	Land and buildings $ m	Plant and equipment $ m	Total $ m
Gross value			
Balance as at 30 June 2007	41.0	6.0	47.0
Additions	-	1.4	1.4
Disposals	-	(0.1)	(0.1)
Balance as at 30 June 2008	**41.0**	**7.3**	**48.3**

	Note	Land and buildings $ m	Plant and equipment $ m	Total $ m
NOTE 10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)	1(r)			
Accumulated depreciation				
Balance as at 30 June 2007		-	(3.7)	(3.7)
Depreciation charged for assets held at 1 July 2007		(2.2)	(0.4)	(2.6)
Depreciation charged for additions		-	(0.1)	(0.1)
Depreciation recovered on disposals		-	0.1	0.1
Balance as at 30 June 2008		**(2.2)**	**(4.1)**	**(6.3)**
Net book value as at 1 July 2007		41.0	2.3	43.3
Net book value as at 30 June 2008		**38.8**	**3.2**	**42.0**

An independent valuation of land and buildings was carried out in June 2007 by Mr Roger Price B.Bus (L.Econ) AAPI, Registered Valuer No.4090 and Ms Ruth Hitter B.Bus (Prop.Ec) GAPI, Registered Valuer No. 12244 of CB Richard Ellis Pty Ltd. On a Capital Approach and DCF Analysis, the land and buildings were valued at $41,000,000.

Leased accommodation

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

	30 June 2008 $ m	30 June 2007 $ m
Freehold land and building, at valuation	**29.2**	29.2
Accumulated depreciation	**(1.6)**	-
Written-down value	**27.6**	29.2
Depreciation expense	**1.6**	1.1

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2008 $ m	30 June 2007 $ m	**30 June 2008 $ m**	30 June 2007 $ m
NOTE 11 OTHER ASSETS					
Accrued interest receivable		**-**	-	**13.8**	8.9
Sundry debtors and prepayments		**1.2**	0.9	**2.3**	0.6
Total other assets		**1.2**	0.9	**16.1**	9.5

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
NOTE 12 GUARANTEES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	1(v)				
Fair value of credit risk		**30.6**	22.3	**-**	-
Fair value of specific events		**6.2**	7.8	**-**	-
Less fair value of premium receivable		**(10.6)**	(4.3)	**-**	-
Total guarantees designated at fair value through profit and loss		**26.2**	25.8	**-**	-
Impaired guarantees					
Impaired guarantees		**6.2**	7.8	**-**	-
Less: fair value of specific events		**(6.2)**	(7.8)	**-**	-
Carrying fair value of impaired guarantees		**-**	-	**-**	-

When it is likely that a guarantee will be called or a claim has been submitted but not yet paid, then the exposure is considered impaired. Refer to Note 18 for further disclosures regarding AASB 7 Financial Instrument Disclosures which provide further information regarding credit risk, market risk and maximum exposures.

NOTE 13 SUNDRY PROVISIONS

	Note	30 June 2008 $ m	30 June 2007 $ m	30 June 2008 $ m	30 June 2007 $ m
Employee entitlements	1(k)	**2.2**	2.1	**-**	-
Provisions off-balance-sheet export finance facilities		**-**	-	**0.6**	-
Total sundry provisions		**2.2**	2.1	**0.6**	-

NOTE 14 BORROWINGS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

	Note	30 June 2008 $ m	30 June 2007 $ m	30 June 2008 $ m	30 June 2007 $ m
	1(t)				
Borrowings		**1,680.1**	1,750.8	**-**	-
Total borrowings		**1,680.1**	1,750.8	**-**	-
Borrowings designated at fair value through profit and loss					
Structured borrowings					
Australian dollar		**14.5**	14.9	**-**	-
Japanese yen		**626.9**	688.6	**-**	-
US dollar		**45.7**	97.4	**-**	-
Total structured borrowings		**687.1**	800.9	**-**	-

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2008 $ m	30 June 2007 $ m	**30 June 2008 $ m**	30 June 2007 $ m

NOTE 14 BORROWINGS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS (CONTINUED) 1(t)

Non-structured borrowings				
Australian dollar	**122.3**	214.1	**-**	-
Euro	**74.7**	82.9	**-**	-
Japanese yen	**64.6**	58.9	**-**	-
New Zealand dollar	**52.0**	58.7	**-**	-
US dollar	**104.3**	117.3	**-**	-
Total non-structured borrowings	**417.9**	531.9	**-**	-
Euro commercial paper				
Euro	**16.1**	15.5	**-**	-
US dollar	**559.0**	402.5	**-**	-
Total Euro commercial paper	**575.1**	418.0	**-**	-
Total borrowings	**1,680.1**	1,750.8	**-**	-
Maturity analysis of borrowings				
Due in 3 months or less	**694.3**	655.8	**-**	-
Due after 3 months to 1 year	**469.3**	455.5	**-**	-
Due after 1 year to 5 years	**246.7**	219.3	**-**	-
Due after 5 years	**269.8**	420.2	**-**	-
Total borrowings	**1,680.1**	1,750.8	**-**	-

Where borrowings are in a different currency from the assets being financed, cross-currency swap or foreign exchange contracts are entered into (see Note 18). Refer to Note 18 for further disclosures regarding AASB 7 Financial Instrument Disclosures which provide further information regarding credit risk, liquidity risk, market risk and contractual amounts.

NOTE 15 OTHER LIABILITIES

Unearned off-balance-sheet export finance premiums	**-**	-	**0.2**	0.3
Sundry creditors	**12.1**	11.6	**5.7**	6.3
Interest payable	**-**	-	**14.9**	17.3
Total other liabilities	**12.1**	11.6	**20.8**	23.9

NOTE 16 EQUITY

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
Contributed equity		**6.0**	6.0	**-**	-
Total contributed equity		**6.0**	6.0	**-**	-

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

General reserves		**66.2**	66.2	**-**	-
Property and land revaluation reserve		**29.6**	29.6	**-**	-
Available-for-sale investment reserve		**(29.6)**	(1.7)	**-**	-
Total reserves		**66.2**	94.1	**-**	-

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

Movement in asset revaluation reserve					
Opening balance		**29.6**	15.7	**-**	-
Increment on revaluation of land and building at the end of the financial year		**-**	13.9	**-**	-
Closing balance asset revaluation reserve		**29.6**	29.6	**-**	-
Movement in available-for-sale investment reserve					
Opening balance		**(1.7)**	0.5	**-**	-
Net gains/(loss) on available-for-sale investments		**(27.9)**	(2.2)	**-**	-
Closing balance available-for-sale investment reserve		**(29.6)**	(1.7)	**-**	-
Movement in retained profits					
Opening balance		**259.7**	233.3	**-**	-
Dividends paid		**(20.4)**	(14.3)	**-**	-
Profit for the year after tax		**19.7**	40.7	**-**	-
Closing balance retained profits		**259.0**	259.7	**-**	-

Section 55 of the EFIC Act requires the Minister to decide based on a recommendation from EFIC if any dividend is to be paid to the Commonwealth. The dividend paid for the last two financial years were based on 50% of the prior-year profits.

NOTE 17 CONTINGENT LIABILITIES AND COMMITMENTS

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
Contingent liabilities					
Guarantees		**433.3**	411.8	**1.4**	3.5
Bonds		**108.8**	68.0	**6.3**	7.6
Political risk insurance		**160.9**	8.9	**-**	-
Medium-term insurance		**0.5**	14.1	**-**	-
EFIC Headway guarantees		**18.6**	7.8	**-**	-
Total contingent liabilities		**722.1**	510.6	**7.7**	11.1

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

Commitments to provide financial facilities					
Loans		**110.4**	54.5	**-**	1.8
Guarantees		**90.8**	79.4	**-**	-
Political risk insurance		**102.0**	117.8	**-**	-
Bonds		**1.0**	6.1	**-**	0.4
Total commitments to provide financial facilities		**304.2**	257.8	**-**	2.2

Commitments to provide financial facilities are contractually based.

Commitments payable					
Capital commitments					
Liabilities one year or less		**0.1**	0.8	**-**	-
Total commitments payable		**0.1**	0.8	**-**	-
Commitments receivable					
Operating lease receivable					
Assets one year or less		**2.1**	2.2	**-**	-
Assets from one to two years		**1.8**	2.1	**-**	-
Assets from two to five years		**1.6**	2.9	**-**	-
Total commitments receivable		**5.5**	7.2	**-**	-

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

NOTE 18 FINANCIAL RISK MANAGEMENT

(i) General

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

EFIC also enters into a number of financial derivative transactions to protect its exposures against interest rate, foreign exchange and funding risks associated with its normal operations. These transactions include:

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

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

(ii) Credit risk

(a) Commercial Account exposures

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

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

Credit risk exposures	*Note*	**30 June 2008 $ m**	30 June 2007 $ m
Receivables from other financial institutions	4, 1(m)	**247.7**	67.4
Derivative financial instruments	6, 1(g)	**83.6**	50.1
Available-for-sale investment securities	7, 1(n)	**749.1**	961.3
Loans and receivables designated at fair value through profit and loss	9, 1(p)	**158.2**	140.8
Total*		**1,238.6**	1,219.6
Contingent liabilities	17	**722.1**	510.6
Commitments	17	**304.2**	257.8
Total		**1,026.3**	768.4
Total credit risk exposure		**2,264.9**	1,988.0

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

NOTE 18 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 considered low as the counterparties for any transactions are limited to the Commonwealth, State governments, Authorised deposit taking institutions rated BBB- or above and to financial institutions or entities with credit ratings the equivalent of AA- or better.

Prudential control set by the CAC Act for EFIC's Treasury operation consists of :

(i) EFIC can invest with authorised deposit taking institutions (ADI) rated BBB- or above;

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

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

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

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

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

Prudential control set by the Board for EFIC's Treasury operation consists of :

(i) a cap on foreign exchange open positions;

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

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

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

(v) limits relating to each counterparty.

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

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

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

Derivative financial instruments	*Note*	**30 June 2008 $ m**	30 June 2007 $ m
Authorised Deposit Taking Institutions in Australia		**22.2**	8.9
Other Financial institutions			
AAA		**24.5**	15.0
AA+		**1.5**	6.1
AA		**11.7**	4.9
AA-		**23.7**	15.2
Exposure to credit risk for derivative financial instruments	6, 1(g)	**83.6**	50.1

The derivatives are held with Authorised Deposit Taking Institutions in Australia or with other financial institutions which are rated AA- or better.

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

Available-for-sale investment securities	Note	30 June 2008 $ m	30 June 2007 $ m
Authorised Deposit Taking Institutions in Australia		**439.2**	606.7
Other Financial institutions			
AAA		**35.1**	218.8
AA+		**100.8**	27.8
AA		**77.1**	10.0
AA-		**64.0**	98.0
A+		**9.4**	-
A		**23.5**	-
Exposure to credit risk of available-for-sale investments securities	7, 1(n)	**749.1**	961.3

EFIC's policy for available-for-sale investments is to follow the CAC Act which restrict investments to Authorised Deposit Taking Institutions rated BBB- and above or financial institutions rated AA- and above based on Standard and Poor's ratings. However, if after purchase a counterparty subsequently falls below the minimum rating, management will evaluate the risk and will decide on the applicable action, which may include holding the investment to maturity. Any such exposure will be highlighted and reported to the Treasury Risk Review Committee, the Board Audit Committee, the Board, and Government representatives.

For treasury exposures there are no overdue or restructured amounts.

- ***Exposures to clients***

EFIC's principal exposure to credit risk arises from the financing and credit facilities extended to clients. On the Commercial Account, loans written off during the year or credit facilities called were $2.0 million (2007: $4.5 million).

EFIC uses seven categories of risk grade, with category 1 representing the lowest risk. The equivalent risk, based on Standards and Poor's risk rating is stated in brackets. The exposure for the Commercial Account under each of the seven categories is as follows:

Loans and receivables designated at fair value through profit and loss	Note	30 June 2008 $ m	30 June 2007 $ m
Risk category 1 (AA- to AAA)		**-**	-
Risk category 2 (A- to A+)		**34.7**	65.1
Risk category 3 (BBB- to BBB+)		**21.3**	-
Risk category 4 (BB- to BB+)		**38.7**	25.0
Risk category 5 (B- to B+)		**17.1**	41.1
Risk category 6 (CCC+)		**37.3**	-
Risk category 7 (C to CCC)		**-**	0.6
Impaired		**9.1**	9.0
Loans and receivables designated at fair value through profit and loss	9, 1(p)	**158.2**	140.8

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

Contingent liabilities	*Note*	**30 June 2008 $ m**	30 June 2007 $ m
Risk category 1 (AA- to AAA)		**0.6**	0.6
Risk category 2 (A- to A+)		**16.3**	77.0
Risk category 3 (BBB- to BBB+)		**6.4**	18.0
Risk category 4 (BB- to BB+)		**257.7**	126.8
Risk category 5 (B- to B+)		**207.7**	277.4
Risk category 6 (CCC+)		**227.7**	3.0
Risk category 7 (C to CCC)		**-**	-
Impaired		**5.7**	7.8
Total contingent liabilities	17	**722.1**	510.6

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

Risk category 1 (AA- to AAA)	**154.7**	46.1
Risk category 2 (A- to A+)	**56.9**	56.6
Risk category 3 (BBB- to BBB+)	**-**	-
Risk category 4 (BB- to BB+)	**(43.7)**	(8.9)
Risk category 5 (B- to B+)	**-**	(93.8)
Risk category 6 (CCC+)	**(167.9)**	-
Risk category 7 (C to CCC)	**-**	-
Total	**-**	-

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

Notes to and forming part of the Financial Statements for the year ended 30 June 2008

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Commitments	*Note*	**30 June 2008 $ m**	30 June 2007 $ m
Risk category 1 (AA- to AAA)		**43.2**	46.7
Risk category 2 (A- to A+)		**88.7**	36.1
Risk category 3 (BBB- to BBB+)		**109.7**	8.2
Risk category 4 (BB- to BB+)		**21.0**	26.5
Risk category 5 (B- to B+)		**1.6**	54.5
Risk category 6 (CCC+)		**40.0**	85.8
Risk category 7 (C to CCC)		**-**	-
Total commitments	17	**304.2**	257.8

Gross exposure (before allowance for credit risk) on each of the products offered on the Commercial Account are as follows:

Gross exposures	*Note*	**30 June 2008 $ m**	30 June 2007 $ m
Export finance loans	9, 1(p)	**154.3**	125.4
Rescheduled credit insurance debts	9, 1(p)	**24.7**	26.4
Guarantees	17	**433.3**	411.8
Bonds	17	**108.8**	68.0
Political risk insurance	17	**160.9**	8.9
Medium-term insurance	17	**0.5**	14.1
EFIC Headway guarantees	17	**18.6**	7.8
Total gross exposures		**901.1**	662.4
Reinsured exposures included above		**211.6**	102.7

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Allowance for credit risk by product	*Note*	**30 June 2008 $ m**	30 June 2007 $ m
Export finance loans		**(14.5)**	(4.7)
Rescheduled credit insurance debts		**(1.2)**	(1.4)
Guarantees		**(26.5)**	(21.6)
Bonds		**(2.5)**	(0.6)
Political risk insurance		**(0.8)**	-
Medium-term insurance		**-**	(0.1)
EFIC Headway guarantees		**(0.8)**	-
Allowance for credit risk closing balance		**(46.3)**	(28.4)

The movement in the allowance for credit risk on the Commercial Account comprises:

Allowance for credit risk for gross exposures	*Note*	**30 June 2008 $ m**	From 1 July 2005 designation $ m
Allowance for credit risk opening balance		**(28.4)**	(60.0)
New exposures		**(27.9)**	(18.0)
Repayments		**4.2**	23.8
Change in risk grade		**1.0**	8.8
Change in term		**1.7**	12.0
Change in allowance rates		**-**	3.1
Exchange rate movements		**3.1**	1.9
Allowance for credit risk closing balance		**(46.3)**	(28.4)

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Country exposures	**30 June 2008 $ m**	**30 June 2008 % of total**	30 June 2007 $ m	30 June 2007 % of total
Australia*	**111.3**	**12.4**	75.8	11.4
Spain	**102.7**	**11.4**	126.9	19.2
Turkey	**84.7**	**9.4**	52.0	7.8
Zambia	**76.9**	**8.5**	-	-
United Arab Emirates	**61.8**	**6.9**	-	-
Philippines	**37.9**	**4.2**	46.5	7.0
Greece	**28.3**	**3.1**	30.4	4.6
China	**28.2**	**3.1**	47.5	7.2
Egypt	**24.7**	**2.7**	26.4	4.0
Sri Lanka	**23.8**	**2.6**	32.4	4.9
United States of America	**22.2**	**2.5**	50.3	7.6
Indonesia	**16.9**	**1.9**	23.4	3.5
French Polynesia	**14.2**	**1.6**	13.9	2.1
Canada	**13.5**	**1.5**	18.4	2.8
Singapore	**11.7**	**1.3**	-	-
Vietnam	**10.1**	**1.1**	4.0	0.6
Russia	**8.1**	**0.9**	-	-
Other	**12.5**	**1.4**	11.8	1.8
Retained exposures	**689.5**	**76.5**	559.7	84.5
Reinsured exposures	**211.6**	**23.5**	102.7	15.5
Total country exposures	**901.1**	**100.0**	662.4	100.0

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

● ***Retained sector exposure***

The sectors that represents more than 15% of EFIC's Commercial Account retained exposure are the ship and construction sectors. At 30 June 2008, the exposure to the ship sector accounted for $159.3 million, representing 23% of EFIC's total retained exposure (2007: $190.3 million, representing 34% of the total), and the exposure to the construction sector accounted for $115.7 million, representing 17% of EFIC's total retained exposure (2007: $64.5 million, representing 12% of the total).

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) National Interest Account exposures

Under the National Interest Account, the exposures for loans and rescheduled credit insurance debts are all to overseas governments, or entities owned or guaranteed by overseas governments. On the National Interest Account, loans written off during the year were $5.1 million (2007: nil). Gross exposure (before unearned premiums, specific provision for impairment and unamortised grants) on each of the products offered on the National Interest Account are as follows:

Gross exposures	*Note*	**30 June 2008 $ m**	30 June 2007 $ m
Export finance loans	8, 1(q)	**936.3**	1,117.6
Rescheduled credit insurance debts	8, 1(q)	**111.1**	121.2
Guarantees	17	**1.4**	3.5
Bonds	17	**6.3**	7.6
Total gross exposures		**1,055.1**	1,249.9
Reinsured exposures included above		**43.1**	51.8

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

Country exposures*	**2008 $ m**	**2008 % of total**	2007 $ m	2007 % of total
Indonesia	**813.3**	**77.1**	937.0	75.0
Egypt	**111.1**	**10.5**	121.2	9.7
China	**41.4**	**3.9**	61.1	4.9
Philippines	**28.8**	**2.7**	46.7	3.7
Cuba	**9.7**	**0.9**	9.7	0.8
Other **	**7.7**	**0.8**	22.4	1.8
Retained exposures	**1,012.0**	**95.9**	1,198.1	95.9
Reinsured exposures	**43.1**	**4.1**	51.8	4.1
Total country exposures	**1,055.1**	**100.0**	1,249.9	100.0

*Excludes Iraq which is treated as a contingent asset.
** Includes performance bonds and guarantees issued on behalf of Australian companies.

c) Rescheduled debt exposures

Indonesia: Scheduled payments from Indonesia for December 1998 to December 2003 have been rescheduled on three occasions in the Paris Club. The payments rescheduled totalled US$21 million on EFIC's Commercial Account and US$93 million and Euro 108 million on the National Interest Account. The repayment schedule for the rescheduled debts requires six monthly payments until June 2019, June 2016, and June 2021 depending on the rescheduling agreement. In the aftermath of the December 2004 tsunami, Australia deferred payments of US$6 million and Euro 5 million due in 2005 from Indonesia. These deferred payments are interest free and will be repaid in seven equal instalments from December 2006 to December 2009. As at the 30th June 2008 all rescheduled amounts have been paid on time as per the rescheduling agreements.

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Rescheduled debt exposures (continued)

Egypt: EFIC is owed $25 million by Egypt on the Commercial Account and US$34 million and $75 million on the National Interest Account. These debts arose from credit insurance claims in respect of wheat exports in the mid-1980's. These debts were subject to rescheduling (with partial forgiveness) at the Paris Club meetings of Egypt's government creditors in 1987 and 1991. The repayment schedule for the rescheduled debts calls for six monthly payments until July 2016. As at the 30th June 2008 all rescheduled amounts have been paid on time as per the rescheduling agreements.

(iii) Liquidity risk

Prudent liquidity risk management 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 Government of Australia which is rated AAA and therefore there is no significant liquidity risk for EFIC. Section 61 of the EFIC Act states that "EFIC must not borrow or raise money except under Section 58 or 59". Section 58 allows the Finance Minister to lend money to EFIC and Section 59 allows EFIC to borrow or raise money, subject to written approval of the Finance Minister. To date, EFIC has funded its activities under Section 59 and does not borrow directly from the Commonwealth of Australia. Not withstanding the above EFIC maintains a liquid investment portfolio.

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

	CONTRACTUAL UNDISCOUNTED AMOUNTS			
30 June 2008	**3 months or less**	**3 months to 1 year**	**1 year to 5 years**	**Greater than 5 years**
Undiscounted financial liabilities				
Payables to other financial institutions	**16.8**	-	-	-
Derivative financial instruments				
– Contractual amounts payable	**450.6**	**712.0**	**947.5**	**436.4**
– Contractual amounts receivable	**(437.2)**	**(704.7)**	**(824.1)**	**(395.1)**
Borrowings designated at fair value through profit and loss				
– Euro commercial paper	**477.9**	**99.5**	-	-
– Non-structured borrowings	**11.7**	**49.4**	**269.8**	**164.9**
– Structured borrowings	**225.0**	**373.7**	**21.0**	**152.9**
Total undiscounted financial liabilities	**744.8**	**529.9**	**414.2**	**359.1**

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

30 June 2007	CONTRACTUAL UNDISCOUNTED AMOUNTS 3 months or less	3 months to 1 year	1 year to 5 years	Greater than 5 years
Undiscounted financial liabilities				
Derivative financial instruments				
– Contractual amounts payable	821.6	679.2	666.4	352.1
– Contractual amounts receivable	(778.0)	(626.4)	(545.3)	(264.8)
Borrowings designated at fair value through profit and loss				
– Euro commercial paper	324.0	98.3	-	-
– Non-structured borrowings	101.6	26.4	316.0	199.2
– Structured borrowings	261.1	406.1	57.3	153.7
Total undiscounted financial liabilities	730.3	583.6	494.4	440.2

As approximately 34% of the borrowings and cross-currency swap are in a structured form which allow the counterparty to call for a full repayment of the debt at predetermined intervals, the maturity profile is based on the next call date.

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

(iv) Market risk

(a) Interest rate risk

As EFIC is involved in lending and borrowing activities, interest rate risks arise. EFIC uses interest rate swaps, forward rate agreements, cross-currency swaps and futures 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 floating-rate swap is generally entered into from the time terms and conditions are agreed.

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

The National Interest Account funds their loans from the Commercial Account at a matched rate and therefore they are not exposed to interest rate risk. EFIC passes an interest margin from the National Interest portion of borrowings onto the Commonwealth.

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 & reserves portfolio. Other fixed interest portfolios and EFIC's loan and investments and borrowing portfolios are not impacted by changes in the general level of interest rates due to duration hedging.

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

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

* Notional principal amounts

30 June 2007 Undiscounted principal exposures	Floating interest rate $ m	Non-interest bearing $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed Total $ m
Financial assets						
Cash and liquid assets	0.5	-	-	-	-	-
Receivables from other financial institutions	67.1	-	-	-	-	-
Available-for-sale investment securities	865.7	-	-	96.7	-	96.7
Loans and receivables designated at fair value through profit and loss	111.0	-	5.7	17.6	11.7	35.0
Loans to National Interest Account designated at fair value through profit and loss	399.8	-	76.7	281.4	339.9	698.0
Total financial assets	1,444.1	-	82.4	395.7	351.6	829.7

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

30 June 2007 Undiscounted principal exposures (CONTINUED)	Floating interest rate $ m	Non-interest bearing $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed Total $ m
Financial liabilities						
Derivative financial instruments						
– Cross currency swaps	645.6	-	(214.5)	(178.1)	(98.2)	(490.8)
– Interest rate swaps*	(551.7)	-	68.8	242.9	240.0	551.7
– Interest rate futures*	-	-	-	(13.0)	-	(13.0)
Borrowings designated at fair value through profit and loss	1,070.4	-	229.7	243.6	218.1	691.4
Other monetary liabilities	-	11.0	0.9	0.2	-	1.1
Total financial liabilities	1,164.3	11.0	84.9	295.6	359.9	740.4
Net interest exposures	279.8	(11.0)	(2.5)	100.1	(8.3)	89.3

* Notional principal amounts

● ***Duration***

To ensure consistency and a common approach, the sensitivity analysis movement percentages are based on five year historical data to conclude what constitutes a reasonable possible change. The below percentage changes are the recommendations for interest rate sensitivity provided by the Commonwealth. Sensitivity analysis of interest rate risk (which is the risk that the fair value will fluctuate because of changes in market interest rates and not credit factors) for the Commercial Account is only performed for capital & reserve investments as these are the only products of EFIC's portfolio affected by interest rate movements:

	Exposure at risk 2008 $m	**Increase in basis points Effect on profit 2008 $m**	**Decrease in basis points Effect on profit 2008 $m**	**Increase in basis points Effect on equity 2008 $m**	**Decrease in basis points Effect on equity 2008 $m**
Capital and reserve portfolio					
Fixed rate investments					
50 basis points	**96.7**	**-**	**-**	**(0.9)**	**0.9**
Floating-rate investments					
50 basis points	**244.2**	**1.1**	**(1.1)**	**(0.2)**	**0.2**
Futures					
50 basis points	**56.0**	**(0.8)**	**0.8**	**-**	**-**

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Exposure at risk 2007 $m	Increase in basis points Effect on profit 2007 $m	Decrease in basis points Effect on profit 2007 $m	Increase in basis points Effect on equity 2007 $m	Decrease in basis points Effect on equity 2007 $m
Capital and reserve portfolio					
Fixed rate investments					
50 basis points	104.4	-	-	(1.3)	1.3
Floating-rate investments					
50 basis points	226.2	1.0	(1.0)	(0.2)	0.2
Futures					
50 basis points	11.0	(0.2)	0.2	-	-

- ***Credit margin***

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

EFIC's investment approval is from the *Commonwealth Authorities and Companies Act* 1997 under s18(3)(d). This approval requires EFIC to only invest in Australian Commonwealth and State Governments, Authorised Deposit Taking Institutions rated at least BBB- and other entities rated AA- or better.

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

Mark to market losses were minimised by having a short average life to maturity. As it is intended to hold the investments to maturity, assuming no credit defaults, these losses will not be realised in the profit and loss and will be reversed out of equity on maturity.

Sensitivity analysis of credit risk for the Commercial Account:

	Increase in credit points Effect on equity 2008 $m	**Decrease in credit points Effect on equity 2008 $m**	Increase in credit points Effect on equity 2007 $m	Decrease in credit points Effect on equity 2007 $m
Investment portfolio				
Fixed rate investments				
50 credit points	**(0.9)**	**0.9**	(1.3)	1.3
100 credit points	**(1.7)**	**1.7**	(2.5)	2.6
200 credit points	**(3.3)**	**3.6**	(4.9)	5.3
Floating-rate investments				
50 credit points	**(4.2)**	**4.2**	(4.7)	4.7
100 credit points	**(8.4)**	**8.4**	(9.4)	9.4
200 credit points	**(16.9)**	**16.9**	(18.9)	18.9

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Foreign exchange risk

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

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

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

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

	USD 30 June 2007 A$m	EUR 30 June 2007 A$m	JPY 30 June 2007 A$m	OTHER 30 June 2007 A$m
Financial assets exposure				
Cash and liquid assets	0.1	-	-	0.1
Receivables from other financial institutions	52.3	3.1	-	-
Derivative financial instruments	907.3	25.1	739.9	58.5
Available-for-sale investment securities	47.4	31.9	-	-
Loans and receivables designated at fair value through profit and loss	106.8	9.0	-	-
Loans to National Interest Account designated at fair value through profit and loss	719.4	371.5	-	-
Total financial assets exposure	1,833.3	440.6	739.9	58.6
Financial liabilities exposure				
Derivative financial instruments	1,170.7	341.7	17.3	-
Guarantees designated at fair value through profit and loss	11.6	8.7	2.6	2.7
Borrowings designated at fair value through profit and loss	617.1	98.5	747.4	58.7
Total financial liabilities exposure	1,799.4	448.9	767.3	61.4
Net foreign exchange exposures*	33.9	(8.3)	(27.4)	(2.8)

*Prior-year exposures vary from this years in JPY and USD as per note 2, we implemented a refinement in our valuation methodology.

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 our clients. The three main components that are exposed to foreign exchange movements relate to (i) an asset for future fixed interest profit that has been taken to income in US dollars and Euro; (ii) an asset of future risk premiums taken to income in US dollars and Euro; and (iii) a liability for allowance for credit risk which is held in AUD against loans predominately in foreign currencies. As shown by the above tables the net foreign exchange exposure as at 30 June 2008 is minimal in value and would not have a great effect of profit as shown by the tables below.

To ensure consistency and a common approach, the sensitivity analysis movement percentages are based on five year historical data to conclude what constitutes a reasonable possible change. The below percentage changes are the recommendations for foreign exchange sensitivity provided by the Commonwealth. Sensitivity has only been performed on the three currencies that are material to our accounts.

NOTE 18 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis for foreign exchange on the Commercial Account:

	Change in foreign exchange rate (FX) %	Exposure at risk 2008 A$m	Increase in FX rate Effect on profit 2008 A$m	Decrease in FX rate Effect on profit 2008 A$m	Exposure at risk 2007 A$m	Increase in FX rate Effect on profit 2007 A$m	Decrease in FX rate Effect on profit 2007 A$m
Exposure USD	**12**	**(4.0)**	**0.4**	**(0.5)**	33.9	(3.6)	4.6
Exposure EUR	**7**	**(6.5)**	**0.4**	**(0.5)**	(8.3)	0.5	(0.6)
Exposure JPY	**12**	**(3.7)**	**0.4**	**(0.5)**	(27.4)	2.9	(3.7)

Foreign currency exposures for the National Interest Accounts:

	USD 30 June 2008 A$m	EUR 30 June 2008 A$m	USD 30 June 2007 A$m	EUR 30 June 2007 A$m
Financial assets exposure				
Loans and receivables	**512.8**	**323.0**	637.4	338.4
Total financial assets exposure	**512.8**	**323.0**	637.4	338.4
Financial liabilities exposure				
Borrowings from Commercial Account	**522.7**	**323.0**	650.9	338.4
Total financial liabilities exposure	**522.7**	**323.0**	650.9	338.4
Net foreign exchange exposures	**(9.9)**	**-**	(13.5)	-

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

Sensitivity analysis for foreign exchange on the National Interest Account:

	Change in foreign exchange rate (FX) %	Exposure at risk 2008 A$m	Increase in FX rate Effect on profit 2008 A$m	Decrease in FX rate Effect on profit 2008 A$m	Exposure at risk 2007 A$m	Increase in FX rate Effect on profit 2007 A$m	Decrease in FX rate Effect on profit 2007 A$m
Exposure USD	**12**	**(9.9)**	**1.1**	**(1.4)**	(13.5)	1.4	(1.8)

Notes to and forming part of the Financial Statements for the year ended 30 June 2008

NOTE 19 CAPITAL

	Note	COMMERCIAL ACCOUNT 30 June 2008 $ m	COMMERCIAL ACCOUNT 30 June 2007 $ m	NATIONAL INTEREST ACCOUNT 30 June 2008 $ m	NATIONAL INTEREST ACCOUNT 30 June 2007 $ m
Capital available					
Equity at start of period		**359.8**	321.7	**-**	-
Profit year to date		**19.7**	40.7	**-**	-
Net loss on available-for-sale investments		**(27.9)**	(2.2)	**-**	-
Revalution of land and buildings		**-**	13.9		
Dividend paid		**(20.4)**	(14.3)	**-**	-
Equity at end of period		**331.2**	359.8	**-**	-
Eligible allowance for credit risk in capital		**9.4**	28.4	**-**	-
EFIC capital		**340.6**	388.2	**-**	-
Callable capital		**200.0**	200.0	**-**	-
Capital available (including callable capital)		**540.6**	588.2	**-**	-
Capital required					
Export finance		**76.6**	108.2	**-**	-
Treasury		**30.5**	27.6	**-**	-
Other assets		**3.4**	3.4	**-**	-
Operational capital		**8.4**	10.3	**-**	-
Capital before concentration capital		**118.9**	149.5	**-**	-
Concentration capital		**123.7**	78.9	**-**	-
Dividend payable		**9.9**	24.4	**-**	-
Total capital required		**252.5**	252.8	**-**	-
Capital ratios					
Risk weighted assets		**1,566.9**	1,265.0	**-**	-
Capital adequacy ratio (excl. callable capital)		**21.7%**	30.7%	**-**	-

NOTE 19 CAPITAL (CONTINUED)

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

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

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

Effective 1 January 2008, and consistent with Basel II guidelines, EFIC no longer includes all of its credit related provisions (allowance for credit risk) as capital. Where total expected losses are less than eligible provisions, EFIC recognises up to a maximum of 0.6% of credit risk weighted assets.

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2008 $ m**	30 June 2007 $ m	**30 June 2008 $ m**	30 June 2007 $ m
NOTE 20 REMUNERATION OF AUDITORS					
Audit services					
Paid		**144,000**	143,471	**-**	-
Payable		**136,151**	100,000	**-**	-
Other services		**-**	-	**-**	-
Total audit services		**280,151**	243,471	**-**	-

NOTE 21 RELATED PARTY DISCLOSURES

Key management personnel

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

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2008 $ m	30 June 2007 $ m	**30 June 2008 $ m**	30 June 2007 $ m
Short-term employee benefits		**2,942,221**	2,711,402	**-**	-
Post-employment benefits		**257,600**	244,537	**-**	-
Termination payments		**-**	126,816	**-**	-
Total remuneration		**3,199,821**	3,082,755	**-**	-

Board Members

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2008 $ m	30 June 2007 $ m	**30 June 2008 $ m**	30 June 2007 $ m
Remuneration received or receivable by board members of EFIC		**879,860**	645,719	**-**	-
Total remuneration of board members		**879,860**	645,719	**-**	-

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

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

Changes in Board membership during the year:

16 July 2007	Ms S Pitkin	Appointed
2 August 2007	Ms Y Allen	Appointment ended
1 October 2007	Mr D Crombie	Appointed

Transactions with Board Members and Board Member related entities

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

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

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

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

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2008 $ m**	30 June 2007 $ m	**30 June 2008 $ m**	30 June 2007 $ m
Operating profit from ordinary activities		**19.7**	40.7	**4.8**	70.4
Reclassification on non-cash items					
Depreciation		**2.6**	1.8	**-**	-
Employee entitlements		**0.4**	0.3	**-**	-
Amortisation of deferred income		**-**	-	**(34.5)**	(40.5)
Credit risk movement		**17.9**	(21.6)	**-**	-
Specific provision		**(1.6)**	10.5	**0.6**	-
Foreign exchange (gains)/losses		**-**	-	**(2.1)**	0.1
National interest fees		**(1.8)**	(3.8)	**1.8**	3.8
Unearned premium		**-**	-	**(3.2)**	(3.2)
Fair value movement		**(11.2)**	(13.3)	**-**	(60.6)
Other		**(1.0)**	4.3	**(2.7)**	0.4
Reclassification on cash items					
(Increase)/decrease in receivables		**0.8**	3.7	**(1.7)**	-
(Decrease)/increase in payables		**(4.4)**	5.1	**(0.2)**	2.7
Net repayments of loan balances		**51.6**	69.2	**109.2**	127.6
Rescheduled debt repayments		**2.7**	7.8	**12.2**	235.1
Net cash inflows/(outflows) from operating activities		**75.7**	104.7	**84.2**	335.8
Reconciliation of cash					
Cash at end of financial year is reconciled to the related items in the Statement of Financial Position as follows:					
Cash		**0.7**	0.5	**-**	-
Receivable from other financial institutions		**242.9**	61.4	**-**	-
Available-for-sale investment securities		**438.1**	637.5	**-**	-
Cash (including liquid funds) at end of financial year		**681.7**	699.4	**-**	-
Financing facilities					
Borrowing facilities available to EFIC at end of financial year					
Overdraft facilities		**0.3**	53.0	**-**	-
Amount of facilities used		**-**	-	**-**	-
Amount of facilities unused		**0.3**	53.0	**-**	-

Glossary

ACRONYM	DESCRIPTION
AASB	Australian Accounting Standards Board
ADI	Authorised Deposit-taking Institution
AIFRS	Australian equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASX	Australian Stock Exchange
AusAID	Australian Agency for International Development
CAC Act	*Commonwealth Authorities and Companies Act* 1997
CRP	Corporate Responsibility Policy
DFAT	Department of Foreign Affairs and Trade
DIFF	Development Import Finance Facility
ECA	Export Credit Agency
EEO	Equal Employment Opportunity
EFG	Export Finance Guarantee
EFIC Act	*Export Finance and Insurance Corporation Act* 1991
FOI Act	*Freedom of Information Act* 1982
IFC	International Finance Corporation
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rates
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational Health and Safety
PRI	Political Risk Insurance
PwC	PricewaterhouseCoopers
RCM	Risk Control Matrix
SMEs	Small and Medium Enterprises

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