Efic

Finance for Australian Exporters

Efic 4-YEAR
CORPORATE PLAN
2017-18 to 2020-21

CONTENTS

1. Introduction

As Chairman of the Export Finance and Insurance Corporation (**Efic**), and on behalf of the Board as the accountable authority, I am pleased to present our 2017-18 Corporate Plan (**Plan**). The Plan covers the 4 year period from 2017-18 through to 2020-21, as required under paragraph 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* (**PGPA Act**) and incorporates the requirements of section 49 of the *Export Finance and Insurance Corporation Act 1991* (**Efic Act**).

The Plan sets out how we will deliver on our purpose of supporting commercially-viable Australian exporters over the coming year and beyond. However, as outlined in this Plan, events outside the control of Efic may impact our ability to achieve our planned outcomes.

In particular, we cannot provide financial services or solutions to companies unless we are satisfied that private sector finance providers are unable or unwilling to do so – what Efic terms the 'market gap'. In a practical sense, this means we cannot compete with the banks or other financial institutions and, as such, we apply procedures to ensure that relevant financiers are made aware of Efic's financing activities. Indeed, when we do step forward, our intended participation often encourages the participation of other financiers. This catalytic role is consistent with our mandate to 'crowd in' the private sector and in many cases may also require us to step away from or sell down part or whole of certain transactions or exposures.

Therefore, when assessing our targets in this Plan, the eventual outcomes are significantly influenced by the risk appetite of the private sector and the degree of market gap. However, if our early involvement means our clients' needs can be met by the private sector, then we have been successful. While it is often difficult to quantify the benefit of Efic's 'crowding in' of the private market, we disclose when this does occur. It also means that in periods where there is greater private sector financial support for exporters, just maintaining existing levels of Efic support may indicate an overall positive outcome for Efic.

Typically, the 'market gap' occurs for small and medium sized enterprises (**SMEs**) lacking real property collateral and companies of all sizes conducting business in frontier and emerging markets, where banks traditionally have less risk appetite. The Plan assumes this 'market gap' will continue.

While our Export Finance business will continue its focus on SMEs, we expect only moderate growth in the number of transactions supporting SMEs over the Plan period. This reflects our non-compete mandate combined with the degree of private sector liquidity available to exporting businesses at various points in the economic cycle. We will nevertheless continue to look for improvements and innovations in the way we deal with our SME clients to ensure that awareness of Efic's offering is appropriately targeted and that dealings with Efic remain as efficient as possible.

Transaction selection for our Corporate, Sovereign and Project Finance (**CSPF**) business will continue to be influenced by the flow-on benefits that such support provides for Australian SMEs. The CSPF transaction values will remain flat over the Plan period but is proposing to drive greater business activity through a continually increased and refreshed transaction pipeline and taking a more proactive approach to transaction delivery for its customers.

In aggregate, we expect to sign over $445 million worth of business next financial year, supporting export contracts worth in excess of $1.1 billion. While annual profitability is important, long-term viability is a critical strategic priority for us. Our pre-tax profit is forecast to be $15.8 million, and post-tax $11.1 million, although there are many factors that can influence our overall profitability. With our focus on SME business and country concentrations due to 'following our exporters', it is possible that credit losses in any one year could exceed operating profits in that year and Efic could record a loss. The Plan includes appropriate credit provisions to reduce this likelihood of loss.

Our Plan also recognises that our staff are our greatest asset and we will continue to promote diversity across the organisation and strive for better representation of women in senior leadership positions. We will also continue to support Australia's indigenous community by promoting awareness of indigenous culture and supporting reconciliation.

James M. Millar AM
Chairman
24 August 2017

2. Purpose

Purpose

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

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

Functions and responsibilities

Under the *Efic Act*, Efic has four key functions:

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

In performing its functions, Efic is required to:

- do so in a manner to best assist the development of Australian export trade;
- comply with any directions from the Minister for Trade, Tourism and Investment (**Minister**) given under section 9 of the *Efic Act;*
- have regard to improving and extending the range of financial services and products available to people involved in Australian export trade;
- provide services and products as efficiently and economically as possible; and
- have regard to Australia's obligations under international agreements.

Role

Efic's role is to support the growth of Australian businesses internationally. We are a specialist financier that delivers simple and creative solutions for Australian companies to enable them to win business, grow internationally and achieve export success.

Quite simply, we are committed to unlocking finance to ensure our clients enjoy export success.

We operate on a commercial basis and partner, but do not compete, with banks to principally provide financial solutions for:

- SMEs that are exporters;
- Australian companies in the domestic export supply chain;
- Australian companies looking to expand their business operations overseas to better service their clients; and
- Australian companies operating in emerging and frontier markets.

Previous amendments to the *Efic Act* have provided us with greater flexibility to lend for the export of all goods and services, not just capital goods. The introduction in previous years of the Small Business Export Loan (via the EficDirect on-line platform) and the Export Contract Loan are also continuing to contribute to a reduction in costs, improvements in convenience, increased approval speed and the provision of greater flexibility for Australian SMEs seeking finance to support export contracts.

3. Environment

Efic's environment is primarily influenced by four key external factors, namely, our 'market gap' mandate, the level of private sector risk appetite, the regulatory environment and our stakeholder engagement (including with Government). Ultimately, these factors influence, directly and indirectly, the level of demand for Efic's products and services and therefore our overall performance against the targets set out in this Plan.

'Market gap' mandate

Efic is a statutory authority operating in accordance with commercial principles. We operate in the financial services sector, although the Minister has expressly limited our activities to a 'market gap' mandate. Our Statement of Expectations (**SOE**) (Appendix 5) states: "*Efic should ensure its activities fill the 'market gap' where private sector finance is not forthcoming. I expect Efic to monitor the capacity of the commercial markets and to take this into account*."

The 'market gap' mandate means that we do not compete with the private sector, instead we fill the market gap by only helping those eligible businesses that are unable to receive the finance they need. Indeed, we complement the private sector, notably banks, by working with them or encouraging them to participate in various transactions.

In our experience, SMEs and even larger companies operating in emerging markets are consistently unable to access the finance they need to grow their business or fulfil export-related contracts. Our point of difference is that we adopt a capability-focused approach to due diligence when assessing applications for finance, which includes an assessment of the export contract terms. In the SME segment, this approach is different to the banks, which generally base their risk assessment on the tangible security, typically real property, that the SME can provide, even if the relevant company has the technical capacity and a track record of profitable operation.

The 'market gap' mandate means that we do not compete with the private sector, instead we fill the market gap by only helping those eligible businesses that are unable to receive the finance they need. Indeed, we complement the private sector, notably banks, by working with them or encouraging them to participate in various transactions.

This results in a 'market gap' because banks typically prefer to lend to businesses with the best collateral, rather than those with the best export prospects. We will often rank behind an exporter's bank against tangible security, after being satisfied with the exporter's ability to perform the contract. However, this ensures SMEs that lack tangible security still have access to finance to secure export contracts. Our involvement also signals to private financiers that these businesses may represent an acceptable risk.

However, the development of financial technology (**FinTech**) solutions in global and Australian markets will continue to influence the market gap in coming years. Efic is continuing to monitor the FinTech space to see if it presents any opportunities for Efic as well as to ensure that we avoid competing with this newly developing sector.

Private sector risk appetite

Australian companies looking to take advantage of opportunities in emerging markets can also face financing hurdles, due to a limited risk appetite from private financiers. In Efic's experience, the international focus of Australia's banks is more limited than that of many of Australia's exporters, which can result in viable exports going unrealised. Financial inflows into some emerging markets also suffer from short-termism, exposing exporters and investors to abrupt and wholesale credit withdrawals when sentiment changes.

We can also help with 'crowding in' when it comes to providing finance, given some providers feel our participation helps to lower the risk, due to our Government ownership, 'AAA' rating, and our knowledge and focus on emerging markets.

A good example of this is our ability to obtain reinsurance from the private market for transactions in emerging markets, where those reinsurers would not normally take the risk without our participation.

In acknowledging this, our KPIs each year will be inclusive of transactions in the Export Finance and CSPF businesses where substantive work has been undertaken and a letter of intent issued, but where the transaction was funded/supported in the private market. This is consistent with our SOE, which requires Efic to “maintain its demonstration role to private finance providers”.

Overall, the market outlook over the Plan period suggests that growth in the short-term for larger transactions in emerging markets will be challenging, as loan volumes have steadily declined since 2014. Moreover, the number of large projects eligible for Efic support has been curtailed by the fact that, for resource projects, the project sponsor must demonstrate there is significant Australian content, including from Australian SMEs. In those cases, we look for opportunities where Australian SMEs can be involved in the ‘supply chain’ as sub-contractors in the development of these projects.

Overall, the market outlook over the Plan period suggests that growth in the short-term for larger transactions in emerging markets will be challenging, as loan volumes have steadily declined since 2014.

Further, Asian export credit agencies (**ECAs**) have steadily and significantly increased their trade-related support for exporters collectively providing the majority of global ECA finance. As Efic’s balance sheet is significantly smaller than most other ECAs, our role is typically limited to small niche transactions and therefore we expect to see lower levels of activity over the next few years than in previous years.

Prudential standards and controls

Efic is not directly regulated by the Australian Prudential Regulation Authority (**APRA**), however, its SOE states that it should continue to be guided by APRA in managing financial risk. As such, the Board has adopted a “best practice” approach by setting prudential standards which draw upon and in many cases mirror the standards of APRA as well as those set by the Bank for International Settlements (through the Basel Committee on Banking Supervision (**Basel**)).

The key prudential controls established relate to capital management, including managing capital adequacy and large exposures (see section 7. Risk oversight and management). The Board is tasked under the *Efic Act* to operate within sound commercial principles and that includes defining risk appetite, setting limits and maximum risk tolerances, monitoring performance and making dividend recommendations to the Government.

In a practical sense, the Board’s risk appetite limits our exposure to individual counterparties and countries. When limits are approaching capacity, we use risk transfer to sell down risk to reinsurers and other ECAs to create additional capacity.

Efic is also unusual in that a significant component of the overall capital required is for concentration risk. The models used in Basel under Pillar 1 do not capture concentration risk, as they are formulaic in nature, facilitating standardisation and implementation by making assumptions.

One of the key assumptions in the formula for regulatory capital calculations is full diversification – i.e. the assumption is that no concentrations are present in the portfolio. Concentration risk in the Basel context is the ‘spread’ of outstanding obligors, or specifically the level of diversity that exists across a bank's loan portfolios. The lower the diversity, the higher the credit concentration risks.

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

Typically, a bank would spread its risks and therefore Pillar 2 of Basel requires banks to assess their overall risk profile (in addition to the risks specified under Pillar 1) and to calculate any further capital that should be held against these additional risks, such as concentration risk. Banks and other regulated ECAs only disclose regulatory capital and actual capital available, so it is difficult to benchmark the amount of capital allocated by these institutions under Pillar 2 for concentration risk.

The key point for Efic is that a single measure (i.e. the Capital Adequacy Ratio) is not appropriate to assess whether Efic's capital is sufficient. Concentration risks from large exposures need to be factored into the analysis of Efic's capital position. Accordingly, Efic ensures that it meets both the minimum Capital Adequacy Ratio set by the Board, as well as ensuring that the actual capital available is greater than the required capital.

It is possible that Efic could meet the minimum Capital Adequacy Ratio and yet not have sufficient required capital, relative to actual capital available, if concentration risks are high.

Stakeholder engagement

Efic regularly engages with its key stakeholders – exporters, Government, private sector financiers, industry groups, the media and civil society organisations. Effective stakeholder engagement improves Efic's reach within Australia's exporter community, garners support for and understanding of Efic's operations, and assists Efic in gaining a greater understanding of the market in which it operates.

Government

Efic's relationship with Government, and particularly with the Minister, is formally governed by the Minister's SOE and the Board's corresponding Statement of Intent (**SOI**) (Appendix 6). Efic maintains less formal engagement with Government through regularly reporting its activities to the Department of Foreign Affairs and Trade (**DFAT**). DFAT is Efic's primary communication conduit with the Minister's office and the offices of other Ministers.

> ***Effective stakeholder engagement improves Efic's reach within Australia's exporter community, garners support for and understanding of Efic's operations, and assists Efic in gaining a greater understanding of the market in which it operates.***

Efic is also focused on building effective relationships with business-focused government departments and agencies, at both the Commonwealth and State level. This includes DFAT and its portfolio agencies (notably the Australian Trade and Investment Commission (**Austrade**) and Tourism Australia, the Department of Industry, Innovation and Science, and the Central Agencies (Treasury, Finance and the Department of the Prime Minister and Cabinet).

The overarching aim of this engagement is to improve cooperation and collaboration, generate increased client referrals and build understanding about Efic's role within Government.

As a Government agency, we are subject to changes in Government policy and priorities. However, over the Plan period, we do not expect any significant changes to Efic's mandate or the way that we do business. However, we do expect that companies will look to take continue to take advantage of the benefits arising out of Australia's multi-lateral and bi-lateral free trade agreements.

Banks

Over the Plan period, we expect that banks will continue to play a key role as a source of referral for business origination, as they are traditional supporters of Efic's operations. Maintaining engagement with banks is essential to developing awareness of Efic, alongside Efic's online initiatives to build awareness among its SME target market.

Despite Efic's business model – directed towards the creation of financing relationships with small exporters – Efic is still very much focused on maintaining strong relationships with banks and the rapidly evolving non-bank financial sector.

As the non-bank financial sector, notably the FinTech sector, grows and evolves, they will also look to exploit gaps in the market. It is difficult to assess the impact that FinTechs will have on Efic over the Plan period, although it is possible that their model could reduce the need for Efic's services in the SME space in the medium to longer term.

Industry

Efic is focused on working with selected industry associations – particularly smaller industry groups and bilateral business chambers that have a clear export focus – to increase their understanding of Efic and to raise awareness of our services with their members. Over the Plan period, we expect industry associations to be another key source of referral, particularly for the SME business.

Media

The market need for Efic is strongest among SMEs. However, identifying and accessing these clients can be difficult. In the SME business, Efic faces an ongoing challenge given the highly fragmented nature of the export community. To continue driving brand awareness, we have developed a digital media and marketing strategy and will also use social media platforms to reach our client base over the Plan period.

Civil Society Organisations (CSOs)

CSOs continue to gain a greater understanding of Efic's policies and procedures through more regular interactions, and through its hosting of annual forums. Our engagement with CSOs over the Plan period will continue as part of our corporate responsibility obligations. We aim to engage in a way that is relevant to the objectives of CSOs and support transactions in a way that is ethically, environmentally and socially responsible.

Impact of changes in the environment on business performance

As a self-funding organisation with commercial principles, we support Australian exporters regardless of the market conditions. Even during times when the private sector may withdraw from markets, we will continue to support commercially viable export activity.

Some risks, however, are beyond our control. Growth opportunities for Australian exporters in a globally competitive world, geopolitical tensions impacting emerging markets and ongoing regulatory changes, particularly in the banking environment, all impact on our ability to deliver on expected outcomes. So despite our best intentions, our actual performance relative to our planned performance can be materially different. Indeed, it is possible that adverse circumstances in any one year could result in us recording a financial loss.

Our mandate from Government is to operate in the 'market gap', so our planned outcomes are also influenced by the risk appetite of the private sector. So for example, if the private sector is willing to provide finance, we step away from the transaction; however if the private sector is unwilling or unable to provide finance, we step in.

Similarly, when we take part in a transaction, our involvement often encourages other financiers to participate, which is consistent with our mandate to 'crowd in' the private sector. When we need to step away from a transaction, we may have already performed significant due diligence and incurred costs in order to provide the client with an indicative offer. However, our mandate is met when our client can access funds, even though our involvement is not always reflected in our planned performance.

Over the Plan period, we expect that available finance for SMEs and transactions of scale in emerging and frontier markets to fluctuate but primarily remain limited. This reflects a number of factors including: the small sums of money required by individual SMEs combined with the specialised and ad hoc nature of the financing required; the strong competition for capital; and the centralised nature of Australia's financial system.

In assessing how we may perform against our planned outcomes, it is important to note that success for us is not always reflected by an increase in profitability or the number and value of facilities provided. There are many variables that can impact these. Rather, success for us is supporting as many commercially-viable exporters as possible, in an environment characterised by market volatility and uncertainty.

Large exposures, concentration risks and potential currency movements also impact on our business. Efic's actual capital available is denominated in Australian dollars (**AUD**), whereas we have traditionally written larger loans in the currency required by our clients, which is typically United States dollars (**USD**). This gives rise to a currency mismatch, in that the numerator for capital adequacy purposes is fixed in AUD but the denominator is in a foreign currency, or specifically, the AUD equivalent of that foreign currency. Similarly, large exposures and concentration risks denominated in a foreign currency are measured relative to capital fixed in AUD. Substantial movements in the exchange rate can therefore impact on capital adequacy and large exposure limits, even though the underlying credit exposure in foreign currency is unchanged.

Similarly, substantial movements in the exchange rate can impact our reported profit as approximately 86 per cent of our facilities (and therefore revenues and credit provisions) are denominated in foreign currencies (USD 84%, Euro 1%, other 1%). The Plan assumes a constant exchange rate over the Plan period and therefore any variations will either have a positive or negative impact on reported outcomes. For example, a decline in the AUD/USD exchange rate will result in a higher AUD equivalent of USD fees and risk premiums, however this is offset by higher credit provisions as the AUD equivalent of USD exposures is higher.

Of course, any significant changes arising from changes in government policy or priorities may also impact our performance relative to the Plan. Therefore, in assessing how we may perform against our planned outcomes, it is important to note that success for us is not always reflected by an increase in profitability or the number and value of facilities provided. There are many variables that can impact these, as outlined above. Rather, success for us is supporting as many commercially-viable exporters as possible, in an environment characterised by market volatility and uncertainty.

4. Capability

The Plan for 2017-18 focuses on four core capabilities to achieve our purpose, namely:

- Our staff
- Our systems
- Our services
- Our solutions

Our staff

The future of Efic's business is heavily reliant on the quality and skills of our staff, and their ability to deliver results for our clients and stakeholders.

Efic has identified three key areas of focus that will enable the organisation to strengthen the culture and capabilities to attract and retain the best people, and deliver on our corporate plan. These are:

- *Culture* – to develop the distinctive attributes of a high performance culture that enables our people to learn, grow, perform at their best, and deliver exceptional results for Efic and its clients.
- *Leadership* – effective leadership is fundamental to a high performance culture, employee engagement and developing a talent pool and succession for future growth.
- *Diversity and Inclusion* – a diverse and inclusive workplace contributes to achieving business outcomes through strengthened decision making, enhances Efic's employee brand, and is crucial to our talent attraction and employee engagement strategy.

Our People and Culture strategy incorporates a wide range of initiatives to further strengthen these key areas of focus and sustainably deliver high performance.

We have made good progress across a number of areas including:

- Developing a compelling employee value proposition to ensure the continued attraction, engagement and retention of talented people.
- Significant progress towards a more diverse and inclusive culture driven by an Executive led Diversity and Inclusion Council which focuses on increasing senior women and indigenous representation, and delivering an environment that encourages openness, inclusiveness and diversity of thought.
- Leadership and sponsorship of flexible and agile working arrangements based on a whole of life approach to employee engagement.
- A comprehensive health and wellbeing program aimed at offering our people the benefits of improved health awareness, self-management, and work/life balance.
- Offering our people a targeted range of learning and development opportunities, including internal transfers, secondments, mentoring, professional development and on the job training, to build their skills and capabilities for career success.

Our continued investment in People and Culture demonstrates Efic's commitment to developing its people and their ability to make a significant impact through their work.

Our systems

Information technology sytems in Efic are undergoing significant change to support a digital transformation across the business, accelerating business activities, processes and competencies to fully leverage the changes and opportunities of digital technologies available to us today. An important aspect of this change is the use and adoption of more cloud based services.

Our cloud strategy is formed on making maximum use of software-as-a-service (SaaS) where this provides us with an opportunity to implement a new system quickly, access new functionality, and/or reduce the cost and risk associated with running existing systems ourselves.

Good progress in this transition is being made with extensions into the Microsoft Azure cloud for Office 365 and EficDirect, through to the automation of core processes that integrate with those systems, producing substantial gains via process automation that are measured in days of time saved. An integral component of this program has been the implementation of an electronic data and records management system as a key enabler to the “in system” vs. “on paper” approach of the past.

This involves digitising Efic’s business records, together with the formulation of related policies, procedures and employee training. Aligned to this new digital records environment, Efic has also purchased electronic signature software to improve workflows in relation to the execution of electronic documents.

EficDirect on-line portal

The Small Business Export Loan is Efic’s first loan product to be offered online via Efic’s online portal EficDirect. Launched in March 2016, the EficDirect online portal will remain critical to Efic successfully fulfilling its purpose over the Plan period. EficDirect will continue to allow Efic to provide a lower cost solution for our customers and a higher volume product for Efic in circumstances where exporters have been unable to secure finance from the private sector. Over the Plan period we will continue to innovate by driving more Efic products online; facilitating a better customer experience and creating further efficiencies for our organisation.

Using ongoing customer feedback we will continue to make improvements and deliver the following features and benefits to users of EficDirect:

- **Expanded eligibility criteria** – we will continue to review eligibility criteria such as loan size and export transaction type to ensure that more customers will have access to finance via the EficDirect portal;
- **Customer experience and innovation** – we continue to simplify the application process to refine and improve the user experience and reduce the number of pages required to be completed as part of the application process while maintaining our rigorous credit, legal and compliance standards;
- **First time exporters** – we will continue to look for ways to include rather than exclude certain businesses from being able to access EficDirect such as opening up the portal to new exporters who have a successful domestic business but want to start exporting their products and services;
- **More flexibility** – we will expand the criteria we apply to conditional approvals providing exporters greater funding certainty; and
- **Third party applicants** – we will continue to look to facilitate ease of completion of the EficDirect application for exporters by permitting authorised third parties such as finance, legal and other professionals or consultants to complete applications on behalf of their clients.

Our services

Efic’s implementation of its continuous improvement program continues to drive efficiencies and eliminate redundant processes across the business. The mantra of “efficiency, simplicity and creativity” permeates throughout the organisation and helps focus management’s attention on delivering processes that create a positive customer experience. The customer is at the centre of our continuous improvement program.

We will therefore continue to refine our standard form documentation and accelerated execution process to improve our average turnaround on SME transactions. We have continued to update and improve the legal documentation for our key SME products with new direct debit authority forms and the corresponding capability for all our AUD funded loan products.

We are also investing heavily in our IT platform to ‘web enable’ our applications and use cloud-based solutions for easier and faster access which helps lower our costs of delivering services.

The growth of the SME book over the past 12 months continues to highlight a number of opportunities to improve and update our processes. We have adopted new company search services from Equifax (formerly known as Veda) that provide a more pragmatic approach to structuring transactions that has also helped to reduce delays.

EficDirect has also seen ongoing process improvements with a more refined and simplified interface seeing some customers complete applications in under an hour, with the approval of an application in 7 business days plus 2 days to payment, once the offer has been formally accepted.

Our solutions

Our financial solutions include:

- Longer-term finance, where we provide a direct loan or a guarantee. Loans and guarantees can also help an overseas buyer to finance the purchase of Australian goods or services, either as buyer credit to offshore companies or governments, or as project finance.
- Bonding and security guarantees, which can help Australian companies with their security obligations. We can either issue bonds directly or provide a guarantee to a bank issuing a bond. These can include advance payment, performance, warranty and US surety bonds.
- Various insurance solutions including political risk insurance, bond insurance and export payments insurance, but not short-term credit insurance.

Specifically for SMEs we offer:

- Working capital support, where we provide either direct short-term loans, or a working capital guarantee to allow a bank to approve the funds needed.
- Export Contract Loan (ECL) product for SMEs with annual revenue of over $250,000 with a specific export contract. Loan amounts are typically greater than $100,000 and are available in multiple currencies with tailored repayment terms to support an export contract.
- Export Line of Credit (ELOC) product that allows customers to have a revolving line of credit and access to funds over a set term.
- Small Business Export Loan (SBEL) product of up to 1 year for SMEs established for at least 2 years with annual revenue between $250,000 and $10 million. Loan amounts are between $20,000 and $350,000, with fixed monthly principal and interest repayments.

  Key aspects of the SBEL include:

  - Convenient online application process in as little as 30 minutes
  - Fast approvals in up to 7 business days and access to funds after 2 business days
  - Conditional approvals when a purchase order may not be available as yet
  - Ability to track the application in real time through the EficDirect online portal
  - Flexible loan terms to suit the SMEs business cash flow needs
  - Access to an unsecured loan based on the business’ ability to service the loan
  - 3rd parties can apply on behalf on an export customer
  - No penalty for early repayment

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

We also provide financial services to Australian exporters that the Government considers are in the national interest. For all transactions written on the National Interest Account, the Commonwealth receives all net income and must reimburse us for any losses.

5. Strategies

In fulfilling our purpose of facilitating and encouraging Australian export trade on a commercial basis, the business activities that will unlock finance for export success and help us to achieve our strategic goals during the Plan period are consistent with those outlined in previous Corporate Plans, namely:

STRATEGY	ACTIVITY	IMPACT
Focussing on the industry sectors where access to finance is most challenging	Now that Efic has well established SME origination teams in NSW, Victoria, Queensland, SA and WA, each of those States has developed its own industry focus. The plan is for State originators to identify and align with industry associations and other alliance partners who are likely to have a large number of exporters struggling with access to finance. For example, in WA mining services is a target area, in South Australia and Queensland it is agriculture and in NSW and Victoria the focus is on advanced manufacturing and defence.	Improved identification and alignment of Efic's finance offering with the export sector in individual States and Territories. Improved targeting of exporters by better and more strategic engagement with local industry, trade and export associations. These refinements will lead to us meeting with 25% more SME exporters in 2017-18 which will result in originating 18% more SME opportunities. This growth is expected to continue over the Plan period.
Enhancements to EficDirect	We will continue to upgrade and enhance the EficDirect on-line portal. The Plan shows 60 SBEL transactions in Year 1 of the Plan valued at $7.6m growing to 100 transactions by Year 4 valued at $11.9m. The EficDirect platform however, offers much scope to upscale and manage significantly more transaction volume. Continued enhancements to EficDirect in the next 12 months seek to provide a better customer experience leading to higher conversion rates and an increase in overall Export Finance business activity. We are also seeking to leverage EficDirect as a delivery channel for other products to improve efficiency and lower costs.	Results for our online end-to-end loan process indicate a significant reduction in turnaround time, compared to our offline loan process. While the online process is still in its infancy, we expect this process will drive a reduction in costs over the Plan period. Our improved online presence makes it easier for prospective clients to find out about Efic and contact us when support is required, contributing to a positive impact on transaction volume. Reduced turnaround times result in a better customer experience and free up resources to complete more complex transactions.
Pro-active approach to leverage the Corporate, Sovereign and Project Finance Business	Efic needs a viable CSPF business to remain profitable over the long term. The CSPF business provides an annuity stream of income given most exposures are for longer tenors and transaction sizes are of significantly greater value than Export Finance transactions. The CSPF business will drive greater business activity through a continually increased and refreshed transaction pipeline and taking a more proactive approach to transaction delivery for its customers.	Improved customer responsiveness. Enhanced ability to leverage increased Australian SME participation in the large projects and transactions supported by Efic.

STRATEGY	ACTIVITY	IMPACT
Prudent Risk Appetite Framework	Large exposures, concentration risk, and overall capital management, including appropriate country and counterparty limits, balanced against appropriate reinsurance, are key elements in our risk appetite. Individual counterparty risk is also a key element in prudent risk management.	Ensures balanced growth within relevant and appropriate risk parameters while maintaining financial viability. Facilitates the optimisation of opportunities within the Board approved risk appetite statement.
Structural change needed to deliver efficiencies	Continuous improvement initiatives have delivered cost efficiencies, making it simpler for clients to engage with Efic and creating surplus capacity that has been effectively utilised to service the NAIF. Increasingly, however, such initiatives are now only delivering marginal benefits. Targeted structural changes to our business is therefore proposed in the next 12 months to deliver the efficiencies needed to meet the financial challenges of the Plan period. During the Plan period, an independent review of our operating model will also take place. Efic has asked the Channel Group to focus on opportunities in the areas of revenue optimisation, operational efficiencies and productivity and customer experience.	The Plan shows total costs remaining flat at $33.7m as a result of these initiatives in 2017-18, despite our continued investment in the business. The Plan does not include any revenue initiatives or cost savings from the Channel Group review.
Developing and engaging our employees	Efic will continue to promote diversity and develop people-related initiatives that are consistent with best employer practice. The Plan will cover performance pay linked to productivity outcomes from continuous improvement initiatives and encouraging higher levels of performance through targeted training and development.	We will attract and retain high quality employees. Our employees will be highly engaged and agile to meet the demands of our mandate.
Practising appropriate Corporate responsibility	We continue to introduce efficiencies to reduce our corporate footprint, such as electronic documentation and electronic signatures applied to legal documentation. We are committed to examining the impacts that our day-to-day operations have on the environment and identifying ways to reduce these impacts.	Reduce our environmental footprint. Save costs from eliminating redundant processes e.g. using electronic signatures rather than ‘wet ink’ signatures.
Crowding in the private sector	We regularly liaise with the banks to provide them an opportunity to participate in transactions we are considering or have already executed. All SME transactions are formally referred to the banks before we offer our financial support to the transaction.	When we step forward, our intended participation often encourages the participation of other financiers. In many cases this may require Efic to step away from the transaction.

STRATEGY	ACTIVITY	IMPACT
Ensuring the long-term future of Efic	In some ways this is also the overarching theme – whatever Efic does is designed for the benefit of our clients, both large and small, but it must be done in a way that is sustainable.	Generating a profit over the business cycle and paying a return to the Government by way of dividends and competitive neutrality charges.

The above strategies are primarily directed towards activities on our Commercial Account. We also operate a National Interest Account where the Minister can direct us to enter into a facility (see Appendix 3).

6. Business performance

This is what we are aiming to achieve over the next 4 years on the Commercial Account:

Year Ended 30 June		2016/17 Actual	2017/18 Plan	2018/19 Plan	2019/20 Plan	2020/21 Plan
No. of transactions:	No.					
- SME		191	200 - 250	225 - 275	250 - 300	275 - 325
- Corporate, sovereign & project finance		7	2 - 10	2 - 10	2 - 10	2 - 10
- Total		198	202 - 260	227 - 285	252 - 310	277 - 335
No. of facilities:	No.					
- SME		147	175 - 225	200 - 250	225 - 275	245 - 295
- Corporate, sovereign & project finance		6	2 - 10	2 - 10	2 - 10	2 - 10
- Total		153	177 - 235	202 - 260	227 - 285	247 - 305
Value of facilities signed:	$m					
- SME		108	150 - 170	165 - 185	180 - 200	200 - 220
- Corporate, sovereign & project finance		288	270 - 300	270 - 300	270 - 300	270 - 300
- Total		396	420 - 470	435 - 485	450 - 500	470 - 520
Export contracts supported	$m					
- SME		558	730 - 780	800 - 850	875 - 925	970 - 1000
- Corporate, sovereign & project finance		438	380 - 500	380 - 500	380 - 500	380 - 500
- Total		996	1110 - 1280	1180 - 1350	1255 - 1425	1350 - 1500
Commercial account profit (pre tax)	$m	16.6	15.8	19.2	21.0	24.9
Commercial account profit (post tax)	$m	11.6	11.1	13.4	14.7	17.4
Cost-to-income ratio	%	67.0%	68.1%	64.1%	62.4%	58.9%
Cost-to-income ratio (exc reallocations)	%	73.0%	74.3%	70.1%	68.3%	64.2%
Return on equity	%	2.6%	2.4%	2.9%	3.1%	3.6%
Total Capital	$m	667	678	685	695	707
Risk weighted assets	$m	2,652	3,662	3,580	3,923	4,175
Capital adequacy ratio	%	25.2%	18.5%	19.1%	17.7%	16.9%

The ‘market gap’ mandate makes it is difficult to predict the levels of business activity that we undertake in any particular year. The ‘market gap’ is a dynamic concept and largely outside the control of Efic, as it is dependent on the amount of private sector finance available for viable export opportunities at any one time.

For that reason, our planned business activity relating to the volume and value of transactions, facilities and exports supported are in a range and the planned outcomes in the latter years of the Plan are dependent on achieving planned outcomes in the prior years. The planned profitability and financial outcomes are based on the midpoint of these ranges and similarly, if business activity is significantly different to the Plan, the financial outcomes will be impacted.

It should also be noted that we incur costs implementing our mandate that cannot be recovered from the exporters we support. These costs are referred to as Community Service Obligations and include costs associated with operating as a commercial entity but with a narrow market gap mandate (see section 7.0 Risk oversight and management – Community Service Obligations). Typically, this results in a higher cost-to-income ratio and a lower return on equity than other financial institutions of comparative size and scale. We are currently investigating ways to measure the impact of the Community Service Obligations on our financial outcomes.

Our planned 2017-18 outcomes:

- between 200 and 250 new SME transactions on the Commercial Account, valued between \$150 - \$170 million, supporting export contracts of over \$730 million.
- between 2 and 10 new Corporate, Sovereign and Project Finance facilities on the Commercial Account, valued at between \$270 - \$300 million, supporting export contracts of over \$380 million.
- pre-tax profit on the Commercial Account of \$15.8 million and post-tax profit of \$11.1 million.
- risk-weighted assets growing from \$2.7 billion to \$3.7 billion.
- capital available growing from \$667 million to \$678 million, assuming a 50 per cent dividend payout ratio, giving a capital adequacy ratio of 13.0 per cent and 18.5 percent (including callable capital).
- no new facilities written on the National Interest Account.

We expect beyond 2017-18 that:

- SME transactions on the Commercial Account will grow to around 300 annually, valued at over \$200 million after 4 years, supporting export contracts of nearly \$1.0 billion. Of the 300 transactions, over 100 will be generated through EficDirect in the \$20,000 to \$350,000 facility range, supporting around \$24 million of export contracts. As a consequence, the average size of facilities signed will decline, which is consistent with the SOE for Efic to focus on SMEs.
- Corporate, Sovereign and Project Finance facilities on the Commercial Account to be broadly steady over the Plan period, with around 6 facilities per annum valued at around \$286 million, supporting exports of over \$400 million.
- profit on the Commercial Account rising to \$24.9 million pre-tax and \$17.4 million post-tax in Year 4, after taking into account a conservative write-off for credit losses across the portfolio.
- risk-weighted assets growing to \$4.2 billion, with cash capital growing modestly through retained earnings from \$451 million to \$482 million.
- capital available growing to \$707 million after 4 years, giving a capital adequacy ratio of 12.1 per cent and 16.9 per cent (including callable capital) and capital required (economic capital) growing to \$447 million after 4 years, giving a capital required to risk weighted asset ratio of 10.7 per cent.
- no further facilities will be written on the National Interest Account.

Facilities signed

We expect moderate growth in the number and value of facilities for SMEs over the Plan period, with most of the growth being in short-dated facilities (less than 12 months). Importantly, we are forecasting strong growth in the number of new SME exporters supported, growing from 80 in 2016-17 to over 150 by year 4 of the Plan.

We also forecast that facilities for corporate, sovereign and project finance will remain relatively flat over the Plan period. The nature of these larger facilities means we could experience a material permanent shortfall in growth if one or more falls away.

Competitive neutrality

A 'Debt Neutrality' charge of 10 basis points and a 'Tax Equivalent' charge of 30 per cent on accounting profit, in addition to an equivalent 'state tax' that covers payroll and land tax, will continue to be paid under competitive neutrality arrangements.

We expect to pay $9.2 million in Debt Neutrality charges and $5.3 million in state equivalent taxes over the Plan period, which are considered part of our normal operating costs. In addition over the same period, we expect to pay $24.3 million as a tax equivalent charge.

Pre-tax profit

We are planning for a pre-tax profit on the Commercial Account of $15.8 million in 2017-18, which may vary up to $3.0 million to be in the range of $12.8 million - $18.8 million, depending on the value of business signed and movement in foreign exchange rates. The planned profit after tax of $11.1 million is marginally below 2016-17, but grows each year of the Plan as business activity increases, reaching $17.4 million by year 4.

Revenue

We expect premium and fee income from our SME and Corporate, Sovereign and Project Finance business, net of reinsurance and allowances for funding, liquidity and credit risk, to be $34.3 million in 2017-18, compared to $31.2 million in 2016-17. Of the $34.3 million, a significant proportion is annuity income from the existing portfolio, with a smaller proportion from new business expected to be signed in 2017-18.

Treasury income from funding and investing (other than capital and reserves) is expected to decline, as the impact of the debt neutrality charge increases. This is because existing debt (debt issued before 1 July 2015) is not impacted by the charge but once that debt matures, the charge applies to any new debt issued. Once the full impact of the debt neutrality charge is realised, revenue from funding and investing will be negligible.

Due to low domestic interest rates, revenue from the investment of our capital and reserves is budgeted to fall from $11.4 million to $11.0 million in 2017-18, based on an average yield of around 2.5 per cent. However, investment income is expected to increase gradually over the remainder of the Plan as retained earnings grow and interest rates rise.

Operating costs

Overall total costs will be flat in year 1 of the Plan and thereafter at around 2% for the remainder of the Plan. However, on the Commercial Account, operating costs have decreased from $35.2 million in 2015-16 to $33.7 million in 2016-17 and will remain at $33.7 million for 2017-18. The decrease in costs on the Commercial Account is due to efficiency savings within Efic, which has enabled employee and other costs to be reallocated to support the Northern Australia Infrastructure Facility (NAIF) and the National Interest Account.

We expect NAIF to contribute $1.8 million of expense savings in 2017-18 from leveraging existing infrastructure and systems. Similarly, and consistent with previous years, we expect to recover around $1.3 million for administering the National Interest Account on behalf of the Government.

Details are shown in the table below:

	Actual 2016-17	Budget 2017-18
Commercial Account	$33.7m	$33.7m
Northern Australia Infrastructure Facility	$1.6m	$1.8m
National Interest Account	$1.4m	$1.3m
TOTAL	$36.7m	$36.8m

Dividend

We provide our Board with a detailed analysis of our current and forecast capital requirements each year to support any proposed dividend. It is forecast that we will pay a dividend of 50 per cent of profit over the Plan period.

7. Risk oversight and management

Our Risk Management Framework sets out core principles and the types of risks that Efic face, forming the basis of our Risk Appetite Statement and the Risk Control Matrix. The Risk Management Framework is a high level public document and is available on Efic's website.

Our Risk Appetite Statement is not a public document, as it describes in detail the manner in which our risk appetite and tolerances, and qualitative and quantitative limits, are established and subsequently controlled. Our approach to risk management and capital management is based around assessing the level of, and appetite for, risk and ensuring that the level and quality of capital is appropriate to that risk profile.

Similarly, our Risk Control Matrix (RCM) is not a public document, as it sets out each of the individual risks that the business faces, as well as the mitigants in place and the people responsible for managing the risks. It also includes our ratings regarding the likelihood and consequences of each risk. By assigning practical responsibilities to individuals and management, the RCM engenders a culture of risk awareness. Risks are classified depending on their nature – strategic, reputation, credit/country, market and operational/financial. 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 that we are managing.

Reflecting this, the RCM is reviewed on a regular basis to capture new risks or identify changes to existing risks from changes in strategic direction identified in the Corporate Plan. This interaction with strategy is central to a consistent approach to risk and strategic management across Efic.

In order to ensure effective monitoring and governance, our risk appetite incorporates a balanced mix of both quantitative and qualitative measures. These are monitored within well-established risk policies, risk tolerances and operational limits set by the Board, the *PGPA Act*, and the *Efic Act* and Regulations.

The development of the Risk Management Framework and regular discussions with the Board and Audit Committee underlines Efic's commitment to continuously improve its risk management practices, with particular emphasis on planning to identify new risks. The assessment and underwriting of risk is central to Efic's financial management framework. All transactions underwritten by Efic are reviewed by the Board or by management in accordance with delegated authorities from the Board. Country risk is assessed by a team of economists specialising in the assessment of country-related economic and political risks.

Contingent liability and loan ceilings

Efic operates within a strong prudential regulatory environment. The controls imposed on Efic include:

- regulations under sections 68 and 69 of the *Efic Act*, which limit the total amount of Commercial Account loans Efic can make and the maximum contingent liability Efic can carry under Commercial Account insurance contracts and guarantees given. The total amount of loans permitted under Efic's Commercial Account is currently set at $1.8 billion.
- approvals from the Finance Minister under section 59 of the *Efic Act*, which limit the type and amount of funding that Efic can obtain under various borrowing programmes.
- a direction from the Minister (in accordance with section 9(2) of the *Efic Act*).

Treasury operations

Efic's treasury functions are carried out within a control framework approved by the Board and compliance with the *Efic Act*, the *PGPA Act* and associated approvals required by the Australian Government.

Within this framework, we aim to prudently minimise the cost of funding our loan assets on both the Commercial Account and National Interest Account, and to prudently maximise the return on our investments, including funds representing our equity, cash reserves and working capital. In transacting on wholesale markets, our Treasury unit manages credit risk prudently within Board and management approved limits and does not trade speculatively.

The framework for our funding activities is set out within section 61 of the *Efic Act*, which 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, out of money appropriated by the Federal Parliament, and section 59 allows Efic to borrow or raise money, subject to written approval of the Finance Minister. To date, we have funded our activities under section 59 approvals.

We borrow in the global debt-capital markets to fund our lending operations. The core function of our treasury is to prudently raise funding at competitive rates and to manage the investment of capital and reserves, and the surplus liquidity portfolio. We use derivative products to minimise currency and interest rate risks arising from our core businesses, and treasury's funding and investing operations. Our power to enter into derivative transactions derives from our general powers in section 11 of the *Efic Act*.

We do not take currency exposures on our assets and liabilities. We effectively eliminate this exposure by borrowing in the same currency as the assets or, typically, by borrowing in another currency and using cross-currency swaps and other foreign exchange instruments to remove the foreign exchange exposure. Similarly, we use interest rate swaps and futures to match the interest rate profiles of our liabilities with those of our loans.

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

Capital adequacy guidelines

Under section 56 of the *Efic Act*, the Board is required 'to ensure, according to sound commercial principles, that capital and reserves of Efic at any time are sufficient' in order to (a) meet the likely liabilities of Efic and (b) make adequate provision of defaults in loan payments. The Minister also states, under the current SOE, that "while EFIC is not an Authorised Deposit-taking Institution (ADI), it should continue to be guided by the Australian Prudential Regulation Authority (APRA) in managing financial risk".

These requirements only relate to our Commercial Account activities. The Board fulfils these obligations by setting regulatory standards, that draw upon both the standards of APRA and those set by the Bank of International Settlements through the Basel Committee on Banking Supervision.

The Board treats Efic's capital as equivalent to the regulatory capital under Basel and APRA guidelines, and uses this as the basis for setting risk tolerances with regard to large exposures and capital adequacy.

The Board is required to include as capital the $200 million of callable capital that is available from the Commonwealth in accordance with the provisions of section 54 of the *Efic Act*. The Minister has power under Section 55A(2) to direct Efic to pay specified dividends within a specific period.

Efic's lending business is essentially similar to a 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 our role of working beyond the limits of the commercial market. We have therefore based our assessment of capital adequacy on the prudential standards and calculations used for regulating banks.

The Board has endorsed a model that takes into account the APRA guidelines and the Basel Committee framework. The model covers credit risk, operational risk, market risk and credit concentration risk.

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

Large exposures

We have also modelled our large exposure policy on Basel and APRA guidelines. Australian banks are required to consult with APRA prior to committing to any aggregate exposures to non-government, nonbank counterparties exceeding 10 per cent of their capital base.

APRA has also indicated a maximum exposure per non-bank counterparty (or related group of counterparties) of 25 per cent of capital but has emphasised that this is an upper limit. Only better-rated risks would be contemplated for these levels of exposures.

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

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

Exceptions in excess of the 15 per cent target for ERS 3 or worse exposures would require consideration by the Board in light of such issues as the creditworthiness of the relevant counterparty or group of related counterparties, the tenor of the exposure and the level of Australian content in the particular transaction.

Under current delegations the Board must approve all transactions that involve commitments over $50 million.

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

- 37.5 per cent for risk transfer partners rated ERS 1 or 2.
- 50 per cent for risk transfer partners rated ERS 1 from government-backed export credit agencies.

For bank counterparties, APRA has indicated a maximum exposure of 50 per cent of capital. The Board has endorsed the application of this limit of 50 per cent of capital to all treasury activities with bank counterparties (defined by us as authorised deposit-taking institutions under the *Banking Act 1959 (Cth)* and rated BBB– and above, and other financial entities rated AA– and above), provided any exposure in excess of 25 per cent of our capital has a maturity of six months or less.

For large exposure purposes, our Board includes as eligible capital the $200 million of callable capital that is available from the Commonwealth in accordance with the provisions of section 56 of the Efic Act.

Concentration risk

We also need substantial capital to manage concentration risk, which is created as a natural consequence of filling those financing gaps that the private sector will not, or cannot, support. These gaps may also be in a particular industry or sector, so in order to ensure an appropriate level of diversity across our portfolio, we look beyond traditional capital adequacy ratios to determine the amount of capital required to manage our business prudently.

Currency risk

We must manage currency risk closely as, while our actual capital available is in Australian dollars, over 86 per cent of our commercial account exposure is in foreign currency. This ‘currency mismatch’ means that large movements in exchange rates can influence our large exposure and country limits, and our capital adequacy, even though our underlying foreign currency exposure has not changed.

Credit policy

Consistent with the principles set out by the Basel Committee on Banking Supervision, the Board periodically reviews and confirms the credit risk strategy and significant credit risk policies of Efic.

Management bears responsibility for implementing the credit risk strategy approved by the Board and for developing detailed policies and procedures for identifying, measuring, monitoring and controlling credit risk.

Our significant credit policies are contained in our credit guidelines that were first approved by the Board in March 2000 and have been confirmed (with relevant amendments) annually since then.

Corporate responsibility

We are committed to supporting the growth of Australian businesses internationally, in a way that is ethically, environmentally and socially responsible. We are committed to our stakeholders – our clients, the Government, our employees and the wider community. Our corporate responsibility strategy outlines the ways in which we fulfil these responsibilities. The key components of our corporate responsibility strategy are:

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

Stakeholder engagement was discussed earlier in this Plan while the other three areas of corporate responsibility are outlined below.

Transactions

Our corporate values include a commitment to uphold best-practice environmental and social standards in the transactions that we support. To respond to this value we:

- examine the environmental and social risks involved in all transactions. Our policy and procedure for environmental and social review of transactions details how we do this;
- engage independent experts to audit the application of relevant policies and procedures. This assures our stakeholders that we are compliant with our commitments; and
- disclose a variety of information on our transactions at different times and in different formats to address stakeholder requirements.

We have established a robust environmental and social risk management framework and are transparent about that framework's implementation. Efic incorporates two globally recognised approaches in its environmental and social assessment of transactions. We are bound by the Organisation for Economic Co-operation and Development (OECD) Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the Common Approaches). We also voluntarily apply the Equator Principles, a globally recognised benchmark used by many financial institutions to manage environmental and social risk in projects.

We screen and, where relevant, classify all transactions to identify the type and degree of environmental and social risk evaluation necessary. When our screening and classification process identifies potential environmental or social impacts, it benchmarks the project associated with the transaction, typically against relevant Performance Standards of the International Finance Corporation (IFC), a member of the World Bank Group. The IFC Performance Standards were selected as Efic's usual benchmark as they are a widely used and understood global standard.

Footprint

An 'environmental footprint' measures the environmental impact of a person, an activity or a business. We manage our footprint by examining four key areas: our building, business operations, travel, and purchases and contracts. Metrics for reporting our performance in each of these four areas are discussed each year in Efic's Annual Report

Business Ethics

The success of our business depends on our stakeholders' trust and confidence in us. This trust can only be maintained if we act ethically. We demonstrate our commitment to ethical behaviour through the following actions:

- Transparency – aiming to strike a balance between public accountability and client confidentiality;
- Anti-corruption initiatives – considering both international conventions and Australian laws;
- Governance Framework – having risk management and financial control frameworks in place that are appropriate for our business;
- Human Rights – Efic demonstrates its responsibility to respect human rights in our Human Rights Statement;

- Compliance Program – commits to meeting appropriate standards of legal compliance across all of our activities;
- Staff Policies – including our Code of Conduct and policies that deal with insider trading and whistle-blower protection; and
- Sustainable lending – our compliance with the OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries.

Community Service Obligations

We operate as a commercial entity, but with a narrow mandate from Government to ensure we only focus on areas that are in most in need of our support. For example, in addition to the market gap mandate, the Government through the SOE has also mandated that Efic must "focus on support for SMEs seeking to expand their opportunities in overseas markets".

The SOE also restricts what business Efic can do. By way of example, the SOE states that "EFIC shall cease to support onshore resource projects (and related infrastructure) given that the private finance sector is active in this part of the market". The SOE also limits the number of facilities that can be provided to an exporter. Again by way of example, the SOE states the Minister's expectation that Efic "… limit the number of Commercial Account facilities provided to the same company to three facilities within a three year period".

These are just two examples of the types of restrictions placed on us relative to the private financiers. To ensure we accurately measure our effectiveness and efficiency, we continue to investigate ways to measure the costs as well as the benefits of government ownership, including the impact of Community Service Obligations, on our financial outcomes.

Statutory environment

Efic's was established under and is governed by the Efic Act. It is designated as a "corporate Commonwealth entity" under the PGPA Act and it subject to relevant PGPA Act provisions and rules applying to such entities.

Efic is part of the Australian Government's Department of Foreign Affairs and Trade (DFAT) and the Minister for Trade, Tourism and Investment is responsible for Efic.

The SOE expresses and formalise the Minister's expectations of Efic and the Board's SOI outlines the Board's intention to operate in a manner that meets those expectations.

The Minister has a number of powers in relation to Efic, as set out in the Efic Act. The Minister may approve, or direct, Efic's entry into transactions on the National Interest Account. The Minister may also issue directions under Section 9 of the Efic Act, the details of which are published in our Annual Report.

As Australia's ECA, Efic must also have regard to Australia's international obligations pursuant to specific requirements under the Efic Act. This includes working with DFAT to ensure we operate in line with Australia's operations under relevant bilateral agreements, and as a member of the OECD, Paris Club, World Trade Organisation and the United Nations.

As a member of the Export Credits Group for the OECD, we comply with the provisions of the OECD Arrangement on Officially Supported Export Credits, which sets, among other things; minimum fees that OECD ECAs can charge for certain designated transactions.

The *Efic Act* and *PGPA Act* provide the legislative framework for the governance, reporting and accountability of Efic. The *PGPA Act* also confers on directors various responsibilities and powers to promote high standards of accountability and performance, responsibility for the financial management of Efic and compliance with reporting requirements. The directors' duties are broadly consistent with the duties of directors under the *Corporations Act 2001* (Cth).

We are also subject to a series of other specific statutory and regulatory requirements that influence our operations such as Freedom of Information, Work Health and Safety, Anti-Money Laundering, Fair Work, Privacy, Competition and Consumer Protection, and Financial Services Licensing.

Appendix 1 – Commercial Account (Profit and Loss)

COMMERCIAL ACCOUNT PERFORMANCE					
	Actual	Budget	Budget	Budget	Budget
Financial performance	2016/17	2017/18	2018/19	2019/20	2020/21
Corporate, sovereign & project finance	**28.4**	**28.5**	**29.1**	**30.0**	**33.8**
SME	**2.8**	**5.8**	**7.2**	**7.6**	**8.2**
Total export finance	**31.2**	**34.3**	**38.4**	**41.5**	**49.2**
Interest margin & other income	5.0	3.3	3.3	3.3	3.3
Debt neutrality charge	(1.1)	(1.7)	(2.1)	(2.5)	(2.9)
Total treasury	**3.9**	**1.6**	**2.9**	**2.4**	**1.9**
Investment income	11.4	11.0	12.9	14.3	14.9
Other income & unrealised foreign exchange	0.9	(0.4)	0.0	0.0	0.0
Total capital, reserves and foreign exchange	**12.3**	**10.6**	**12.9**	**14.3**	**14.9**
Other income	**2.9**	**3.0**	**3.1**	**3.2**	**3.3**
Total income	**50.3**	**49.5**	**57.3**	**61.4**	**69.3**
Normal operating costs	(32.4)	(32.4)	(33.0)	(33.6)	(34.3)
Payroll tax equivalent (CN charge)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)
Land tax equivalent (CN Charge)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Total operating costs	**(33.7)**	**(33.7)**	**(34.3)**	**(34.9)**	**(35.7)**
Total Commercial Account profit before tax	**16.6**	**15.8**	**23.0**	**26.5**	**33.6**
Tax neutrality charge	(5.0)	(4.7)	(5.8)	(6.3)	(7.5)
Total Commercial Account profit after tax	**11.6**	**11.1**	**17.2**	**20.2**	**26.1**
Allocation of operating expenses					
Commercial export finance	33.7	33.7	34.3	34.9	35.7
National Interest	1.4	1.3	1.2	1.2	1.1
Northern Australia Infrastructure Facility	1.6	1.8	2.0	2.1	2.1
Total operating expenses	**36.7**	**36.8**	**37.5**	**38.2**	**38.9**

Appendix 2 – Commercial Account (Capital and Risk Weighted Assets)

COMMERCIAL ACCOUNT PERFORMANCE					
	Actual	**Budget**	**Budget**	**Budget**	**Budget**
Capital available	2016/17	2017/18	2018/19	2019/20	2020/21
Equity at start of period	444.8	451.4	455.9	463.6	471.6
Profit	11.6	11.1	13.4	14.7	17.4
Revaluation	0.0	0.0	0.0	0.0	0.0
Cash flow hedge	(0.3)	(0.2)	(0.2)	0.0	0.0
Available-for-sale investments*	1.0	(0.6)	0.0	0.0	0.0
Dividend paid/payable	(5.7)	(5.8)	(5.6)	(6.7)	(7.4)
Equity at end of period	**451.4**	**455.9**	**463.6**	**471.6**	**481.6**
Eligible allowance for credit risk in capital	15.9	22.0	21.5	23.5	25.1
Efic capital	**467.3**	**477.9**	**485.0**	**495.1**	**506.7**
Callable capital	200.0	200.0	200.0	200.0	200.0
Capital available (including callable capital)	**667.3**	**677.9**	**685.0**	**695.1**	**706.7**
Capital required					
Export finance	154.2	226.4	220.2	246.1	265.1
Treasury	30.7	35.0	35.0	35.0	35.0
Other assets	5.6	5.6	5.6	5.6	5.6
Operational capital	10.6	10.3	10.3	10.3	10.3
Capital before concentration capital	**201.1**	**277.3**	**271.1**	**297.0**	**316.0**
Concentration capital	159.6	142.8	156.8	142.8	130.5
Total capital required	**360.7**	**420.1**	**427.9**	**439.8**	**446.5**
Capital ratios					
Risk weighted assets	2,652.4	3,662.1	3,579.9	3,923.3	4,175.1
Ratio excluding callable capital (8% min)	17.6%	13.0%	13.5%	12.6%	12.1%
Ratio including callable capital (16% min)	25.2%	18.5%	19.1%	17.7%	16.9%
Capital required to RWA	13.6%	11.5%	12.0%	11.2%	10.7%

Appendix 3 – National Interest Account

The Minister can direct us to enter into a facility, or give approval for us to enter into a facility, if the Minister believes it is in the 'national interest' to do so.

Transactions on the National Interest Account (**NIA**) tend to involve:

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

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

Financial performance

The NIA Plan shows the interest margin decreasing slightly each year. The interest margin comprises both the default interest in respect of the rescheduled soft loans to Indonesia plus a portion of the borrowing margin on NIA funding. The interest margin is calculated on outstanding balances which decrease each year, as no new loans are anticipated over the Plan period.

In 2017-18, expected premium and fee income of $13.0 million is slightly down from $13.9 million in 2016-17 and includes the fees being received in respect of the Papua New Guinea Liquefied Natural Gas (PNGLNG) facility. Premium and fee income continues to decline over the Plan period as principal repayments received every six months reduce the balance, which is the basis for the income calculation.

Credit insurance recoveries expected from Iraq in 2017-18 of $19.9 million is in line with the $19.9 million received in 2016-17 under the bilateral agreement.

There is no debt forgiveness in 2017-18 for Indonesia compared with $7.6 million in 2016-17 as the cap for the debt for health swap of $75 million in total forgiveness was met during the year.

NIA profit over the Plan period will be subject to some volatility given the amount of revenue received in foreign currencies. We have not budgeted for any currency gains or losses, as we have used constant exchange rates over the Plan period for the NIA.

Rescheduled debt

The rescheduled debt with Iraq relates to credit insurance claims for exports of wheat, cheese and split peas, among others.

Rescheduled debt with Indonesia primarily relates to export finance transactions under the discontinued Development Import Finance Facility (**DIFF**).

Rescheduling debt with Cuba relates to an outstanding loan that was to support the sale of sugar cultivation and harvesting equipment.

Appendix 4 – National Interest Account (Profit and Loss)

National Interest Account					
	Actual	**Budget**	**Budget**	**Budget**	**Budget**
Financial performance	2016/17	2017/18	2018/19	2019/20	2020/21
Interest margin	**0.9**	**0.7**	**0.6**	**0.5**	**0.3**
Premium and fees	13.9	13.0	10.7	9.4	8.5
Other income & unrealised foreign exchange	(0.1)	0.0	0.0	0.0	0.0
Total income	**14.7**	**13.7**	**11.3**	**9.9**	**8.8**
Allocated operating costs	**(1.4)**	**(1.3)**	**(1.2)**	**(1.2)**	**(1.1)**
Profit before provisions	**13.3**	**12.4**	**10.1**	**8.7**	**7.7**
Specific provision for writeback/(losses)	0.1	0.2	0.2	0.3	0.3
Profit after provisions	**13.4**	**12.6**	**10.3**	**9.0**	**8.0**
Credit insurance recoveries (Iraq)	19.9	19.9	20.3	20.1	19.9
Debt for health swap (Indonesia)	(7.6)	0.0	0.0	0.0	0.0
National Interest Account profit	**25.7**	**32.5**	**30.6**	**29.1**	**27.9**

Appendix 5 – Statement of Expectations

THE HON ANDREW ROBB AO MP

MINISTER FOR TRADE AND INVESTMENT

13 NOV 2014

Mr Andrew Mohl
Chairperson
Export Finance and Insurance Corporation
Level 10, Export House
22 Pitt Street
SYDNEY NSW 2000

Dear ~~Mr Mohl~~ Andrew

I am writing to outline the Australian Government's statement of expectations for the Export Finance and Insurance Corporation (EFIC). This statement outlines the Australian Government's key priorities and objectives for EFIC consistent with section 34 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and replaces the statement of expectations sent to you on 19 July 2011.

Mandate and scope of operations

The Government considers that EFIC plays an important role in facilitating exports. As outlined in the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act), EFIC will continue to:

- facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in such trade;
- encourage banks and other financial institutions carrying on business in Australia to finance, or assist in financing, export contracts or eligible export transactions;
- administer payments and related matters under export contracts in respect to overseas aid projects for which money was made available by the Commonwealth; and
- provide information and advice about finance and insurance arrangements to support Australian export trade.

However, EFIC must not provide financial services or products on its Commercial Account (CA) unless EFIC is satisfied that private sector providers are unable or unwilling to support financially viable business activities. EFIC should ensure its activities fill the 'market gap' where private sector finance is not forthcoming. I expect EFIC to monitor the capacity of the commercial markets and to take this into account

Telephone (02) 6277 7420 Parliament House, Canberra ACT 2600 Facsimile (02) 6273 4128 when determining the scope of its activities.

The Government has decided to get the best out of EFIC by having it focus on support for small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets. I welcome EFIC's recent improvements to make it easier for SMEs to access its services and I expect EFIC to continue to improve and simplify its services to ensure SMEs have every opportunity to access markets and expand their businesses overseas.

While prioritising EFIC support on SMEs facing challenges accessing finance, the Government recognises that large projects or firms can help SMEs access markets through supply-chain participation. To achieve a balance in the level of support for large transactions, I am introducing some stipulations around the support EFIC can provide to large projects or firms.

EFIC shall cease to support onshore resource projects (and related infrastructure) given that the private finance sector is active in this part of the market. EFIC may, however, continue to provide support to SME suppliers of domestic resource projects (and related infrastructure) where the SME good or service is integral to the performance of a resource-export project (and related infrastructure).

EFIC may continue to provide support for large overseas resource projects, but only where the EFIC Board is satisfied that EFIC is not crowding out the private sector, the transaction does not come at the expense of SME transactions, and the project has significant Australian content including through SME supply chain participation.

Where EFIC approves transactions involving SME suppliers to domestic resource projects (and related infrastructure) or large overseas resource projects, I expect EFIC to provide the Department of Foreign Affairs and Trade with an assessment of the transactions' compliance with the relevant criteria above and to report this publicly (subject to any confidentiality considerations).

EFIC is to maintain its demonstration role to private finance providers. In most circumstances, after one or two transactions with the same company, EFIC will have demonstrated to the private sector that commercial returns are possible. I therefore expect EFIC to limit the number of CA facilities provided to the same company to three facilities within a three year period. Further facilities with the same firm must be approved by the EFIC Board on the basis that the transaction is to an emerging market or where the Board assesses that the transaction will not crowd out the private sector.

The costs and time associated with seeking finance can be a burden on exporters, particularly SMEs. The Government intends to amend the EFIC Act and enhance EFIC's demonstration role by allowing EFIC to provide loans in a broader range of circumstances. This enhanced range of products and services that EFIC can provide will be available following receipt of royal assent of the EFIC (Direct Lending and Other Measures) Bill 2014 (the 'Bill').

For repeat transactions (companies with more than three transactions with EFIC in a three year period) EFIC will report to DFAT the basis for the support, in line with my expectations above.

EFIC should continue to publish its *Policy and Procedures for environmental and social review* and regularly review the policy to ensure it is consistent with best-practice environmental and social standards, including the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises, the Equator Principles and the OECD Common Approaches. EFIC should continue to publicly disclose its prospective involvement in transactions associated with projects that have potentially significant adverse environmental or social impacts (Category A projects).

Other matters

In addition to the requirements above, and your responsibilities under the EFIC Act and the PGPA Act to provide me and the Minister for Finance with a range of information and services, EFIC is also to:

- provide products and services having regard to the Australian Government's World Trade Organization (WTO) and other international commitments, including the United Nations Convention against Corruption;
- comply with the OECD Arrangement for Officially Supported Export Credits;
- where appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits, and the WTO;
- provide DFAT and any other relevant agencies with any non-legally privileged information they request to support them in preparing advice on policy related aspects of export credits and EFIC's operations;
- comply with Government and Parliamentary requirements in relation to the provision of information, noting exceptions available under the *Freedom of Information Act 1982* and the possible availability of public interest immunity;
- inform me and DFAT of any approaches, whether bilaterally or multilaterally, to restructure or relieve outstanding Development Import Finance Facility loans;
- comply with Ministerial Directions, including those relating to the Democratic People's Republic of Korea, Iran, Zimbabwe and the exploitation of uranium as well as with Australian laws implementing United Nations Security Council and Australian autonomous sanctions.

I expect EFIC and DFAT to have a Service Level Agreement in place in relation to the management and administration of the NIA.

Pricing arrangements

I expect EFIC's CA operations to be conducted on a commercial basis. As such, the pricing of EFIC's products and services should not undercut the private sector where private sector support is present, nor undercut pricing for comparable risks when private sector support is absent. This enhancement of EFIC's demonstration role is central to EFIC meeting its policy objective of helping commercially viable exporters overcome financial barriers while also encouraging private sector participation.

To help ensure this the Government has decided that competitive neutrality policies should be applied to EFIC's operations. In line with this, the Government is currently seeking amendments to the EFIC Act that will require EFIC to pay a tax equivalent charge and provide for the option of the imposition a debt neutrality fee. Subject to the current expectation of the Bill receiving royal assent, competitive neutrality charges will commence in the financial year 2015/16.

It is my expectation that the National Interest Account (NIA) should also normally be conducted on a commercial basis. Any risk on the CA is not to be transferred to the Commonwealth without specific authorisation from me, as Trade and Investment Minister.

Governance and reporting

As a corporate Commonwealth entity, as defined in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), EFIC is subject to the accountability, management, performance and reporting requirements specified in that Act. I expect EFIC's Board and Senior Management to manage EFIC's financial matters with care and diligence in accordance with the applicable obligations of the PGPA Act and the EFIC Act. Together you should strive to maintain a culture of professionalism and continuous improvement throughout the organisation.

EFIC should continue to maintain systems to manage its risks. While EFIC is not an Authorised Deposit-taking Institution (ADI), it should continue to be guided by the Australian Prudential Regulation Authority (APRA) in managing financial risk. EFIC will also provide regular reporting to DFAT, the Treasury and the Department of Finance on its cumulative exposures per industry and per country.

EFIC should continue to provide regular reports on the risk the Commonwealth is bearing directly through the NIA. Commonwealth exposures will continue to be reported through the statement of risks in the Budget papers.

I expect EFIC to publish through its on-line register information on all transactions within eight weeks of signature, including the name of the client, the sector, the goods/services involved, the country, the type of facility and the value of the facility. In addition to the enhanced pricing disclosure arrangements and within appropriate confidentiality and legal parameters, I expect EFIC to share the pricing and terms of its transactions with relevant financiers operating in the domestic market. This will help demonstrate that commercial returns are possible and encourage private sector financiers to take on EFIC clients.

I expect EFIC to work closely together with Austrade, Tourism Australia, the Department of Industry and DFAT in delivering their services to Australian businesses. This will involve a coordinated approach at all levels between the organisations.

I look forward to receiving a response from you on EFIC's plans to meet these expectations. I anticipate that EFIC will make these intentions and expectations publicly available.

Yours sincerely,

Andrew Robb

Appendix 6 – Statement of Intent

Australian Government | Efic | Finance for Australian Exporters

26 February 2015

The Hon Andrew Robb AO, MP
Minister for Trade and Investment
Parliament House
CANBERRA ACT 2600

Dear Minister Robb

STATEMENT OF INTENT

Thank you for your letter dated 13 November 2014 detailing the Government's expectations concerning the operations and performance of the Export Finance and Insurance Corporation (Efic). I am pleased to respond with a Statement of Intent, which outlines how Efic will direct its operations to meet your expectations. I further note that this Statement of Intent replaces the previous Statement of Intent dated 18 August 2011.

Mandate and scope of operations

I acknowledge Efic's obligation to abide by the *Export Finance and Insurance Corporation Act 1991 (Efic Act)*. I also acknowledge that Efic is to provide financial services or products on its Commercial Account (CA) only when there is a 'market gap'. That is, when we are satisfied that private sector providers are unable or unwilling to support financially viable business activities. Efic will continue to monitor the capacity of the commercial markets and take this into account when determining the scope of its activities.

In line with your expectations, Efic is focused on supporting small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets. Efic will also continue to improve and simplify its services to ensure that SMEs have every opportunity to expand their international business activity by accessing the necessary finance. The proposed amendments to the Efic Act will improve Efic's lending flexibility and will greatly assist in this regard.

Efic support for new large domestic resource projects (and related infrastructure) will cease. However, Efic will continue to provide support for SMEs participating in the supply chain of domestic resource projects (and related infrastructure) where the good or service is deemed integral to the performance of the export project (and related infrastructure).

Efic will continue to provide support for large overseas resource projects where the Board is satisfied that Efic is not crowding out the private sector, the transaction does not come at the expense of SME transactions, and the project has significant Australian content including through SME supply chain participation. We will determine the required level of SME supply chain participation on a case-by-case basis, relative to Efic's overall participation in the project.

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Efic will continue to publish our Policy and Procedure for environmental and social review of transactions and regularly review the policy to ensure it is consistent with best-practice environmental and social standards, including the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises, the Equator Principles and the OECD Common Approaches. Efic will continue to publicly disclose its prospective involvement in Category A projects.

Other matters

Efic will continue to:

- Provide its products and services having regard to the Government's World Trade Organisation (WTO) and other international commitments, including the United Nations Convention Against Corruption;
- Comply with the OECD Arrangement for Officially Supported Export Credits;
- Where appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits and the WTO;
- Provide DFAT and any other relevant agencies with any non-legally privileged information they request to support them in preparing advice on policy related aspects of export credits and Efic's operations;
- Comply with Government and Parliamentary requirements in relation to the provision of information, noting exceptions available under the *Freedom of Information Act 1982* and the possible availability of public interest immunity;
- Inform you and your department of any approaches, whether bilaterally or multilaterally, to restructure or relieve outstanding Development Import Finance Facility loans;
- Comply with Ministerial Directions, including those relating to the Democratic People's Republic of Korea, Iran, Zimbabwe and the exploitation of uranium as well as with Australian laws implementing United Nations Security Council and Australian autonomous sanctions.

Efic has a Service Level Agreement with DFAT regarding the management and administration of the NIA. Efic will also continue to work closely with DFAT, Austrade, Tourism Australia, the Department of Industry and other relevant agencies and departments, to ensure that respective services are delivered efficiently to business. This will involve a coordinated approach at all levels between the organisations.

Yours sincerely,

James M Millar AM
Chairman