EFIC
Export Finance
& Insurance Corporation

Annual Report 2011

Overcoming financial barriers for exporters

Contents

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This document is available online at www.efic.gov.au/annual-report

All monetary figures are Australian dollars unless stated otherwise.
For information about EFIC's products, please refer to our website, www.efic.gov.au

Report of Operations

Mission

Purpose

To support the growth of Australian businesses internationally.

Mission

Overcoming financial barriers for exporters.

By providing financial solutions, risk management options and professional advice when the private market lacks capacity or willingness, we create opportunities for Australian exporters and offshore investors to grow their international business.

Values

Results

EFIC exists to make viable export transactions and offshore investments happen. We invest time to fully understand our customers' needs and build effective working relationships. We deliver practical solutions in the timeframes required.

Enterprise

EFIC operates on a commercial basis. We manage our business prudently to ensure its long-term viability. Being commercial also means having an enterprising approach to finding effective solutions for our customers. We challenge convention and encourage innovation.

Responsibility

EFIC practises responsible lending in both financial and ethical contexts. We uphold best-practice environmental and social standards in the transactions we support and in managing our business.

Performance against principal objectives

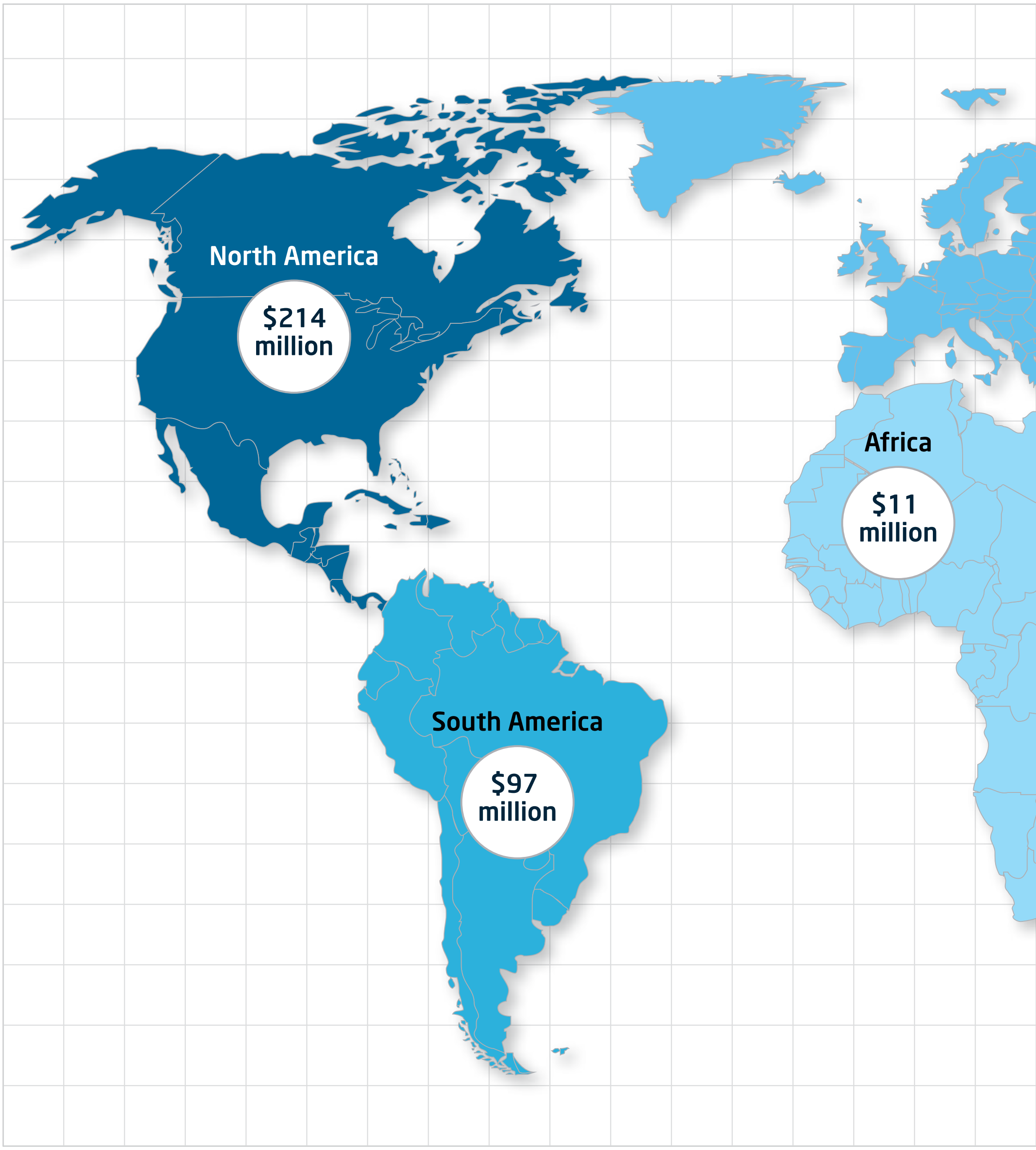
Support Australian exports and overseas investments

Objective	2010-11	
	Target	Outcome
Value of facilities signed	$760 million	$593.1 million
Value of exports and overseas investments supported	Over $4.1 billion	Over $3.4 billion
Number of facilities provided	95	101

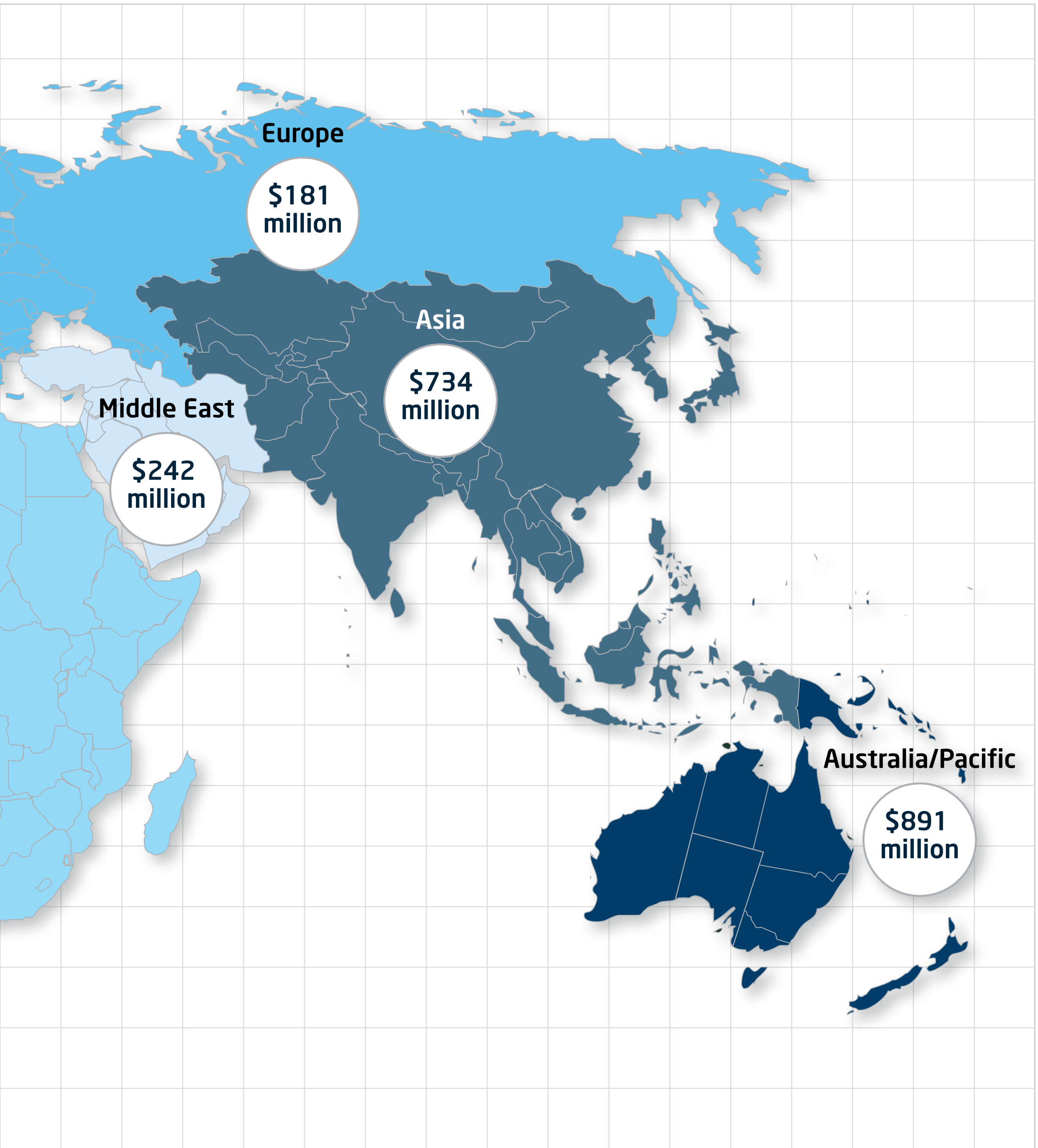
Generate sustainable profit within the market gap and prevailing policy and pricing constraints

Objective	2010-11	
	Target	Outcome
Profit on the Commercial Account	$25.1 million	$30.2 million
Capital adequacy ratio	Above 16 per cent of risk-weighted assets including callable capital, and 8 per cent on a cash capital basis	34.6 per cent of risk-weighted assets including callable capital, and 23.4 per cent on a cash capital basis
Manage EFIC's overall portfolio risk within the market gap	Weighted average risk grade over the business cycle of between 4 and 4.5, where 4 is equivalent to a rating of BB/Ba and 5 is equivalent to B/B	Weighted average risk grade between 3.7 and 3.9 (3.9 at June 2011)

Exposures by region



At 30 June 2011, EFIC managed maximum exposures of $2.4 billion across 28 countries.*



*Maximum exposures for the Commercial Account and National Interest Account and includes facilities not yet drawn.

Summary and statement by the Board

EFIC performed strongly in 2010-11, entering into more than 100 facilities to support Australian exporters and investors in over 40 countries.

During the year, EFIC provided facilities totalling $593.1 million (2009-10: $971.3 million) and supported export contracts and overseas investments of over $3.4 billion (2009-10: over $5.9 billion). EFIC's profit on the Commercial Account was $30.2 million (2009-10: $38.3 million).

With ongoing capacity constraints in financial markets, many of EFIC's larger transactions in the 2010-11 financial year continued to involve clients with better risk profiles than is usual for our business. As a result, the credit quality of our portfolio has remained strong. EFIC ended the financial year with a weighted average risk grade of 3.9, which is equivalent to between BBB and BB. When the market normalises, we expect our average risk grade to return to historical levels.

EFIC ended the financial year with a capital adequacy ratio of 34.6 per cent, including $200 million of callable capital. By comparison, bank supervisors around the world, including the Australian Prudential Regulation Authority, generally require a minimum ratio of around 8 per cent. EFIC's strong capital base allows us to support many small- and medium-sized exporters. However, the level of demand to support large, long-term transactions continues to be greater than we can prudently meet on the Commercial Account.

EFIC's Board is confident that at a time of heightened credit risk, EFIC has appropriate controls in place and can responsibly meet the needs of Australian companies exporting and investing overseas. The assessment and underwriting of risk is central to our financial management, as is maintaining appropriate capital and reserves to support the level of risk that we accept.

During the year, Sally Pitkin was reappointed to the EFIC Board for a second three-year term, while David Crombie completed his term on the Board. Mr Crombie's extensive business experience, particularly in agriculture, was a valuable contribution to the Board. In April 2011, Jennifer Seabrook was appointed to the EFIC Board. In addition, Bruce Gosper replaced Ric Wells, who served on the Board as alternate Government Member for almost two years.

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

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

Andrew Mohl
CHAIRMAN

18 AUGUST 2011

Angus Armour
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

The EFIC Board at 30 June 2011 (left to right):
David Evans, Anthony Sherlock, Jennifer Seabrook, Angus Armour, Andrew Mohl (Chairman), Michael Carapiet (Deputy Chairman), Sally Pitkin, Bruce Brook and Bruce Gosper (Dennis Richardson not shown).

The year in review

During 2010–11, EFIC provided over 100 facilities worth $593.1 million, supporting exports and overseas investments valued at over $3.4 billion. We recorded a profit on EFIC's Commercial Account of $30.2 million, reflecting the continuing strength of our underwriting of new transactions and the repayment of existing facilities.

These strong results came in a year of significant volatility, persistent demand for debt to finance large-scale resource projects and related infrastructure, an uneven recovery in the global economy and in commercial credit markets, and a high Australian dollar.

EFIC continued to help Australian exporters of all sizes overcome financial barriers by supporting exports to over 40 countries. We were particularly active in supporting the construction sector, which accounted for close to half of EFIC's new signings by dollar value, as well as the ship building sector. At the same time, we expanded our support to small- and medium-sized enterprises (SMEs) exporting across diverse industry sectors, including increased support for agribusiness.

Despite improvements in credit markets, our Structured Trade and Project Finance team continued to experience substantial demand from large corporate borrowers. We responded to ongoing constraints in the private sector by providing working capital solutions to Incat to finance the construction of a fast ferry for a Uruguayan customer, and to Leighton to fund the purchase of equipment necessary to perform mining contracts. We also provided finance facilities for the buyers of vessels from Western Australian shipbuilders Austal, for the export of a catamaran to Denmark; and to Thornycroft, which will supply vessels to Indonesia.

Demand for EFIC's performance bonds remained strong, reflecting ongoing shortfalls in supply from commercial banks in the face of increased business activity, particularly in the engineering and resource development sectors. EFIC established bonding lines for clients such as Transfield Services, UGL and Brookfield, and extended existing facilities for Clough Engineering, Leighton and McConnell Dowell. We have also progressed on several transactions under our strategy to support the development of domestic export-focused projects.

Our SME team had another year of strong growth, responding to the continuing challenges Australian SME exporters face in financing their export opportunities. Demand for EFIC's traditional SME products, in particular bonding facilities and working capital guarantees, remained high. In addition, we issued our first Producer Offset loans to help finance Australian film and television productions, and almost 20 SME exporters took up our new foreign exchange facility guarantee. We reintroduced the export working capital guarantee and signed agreements with ANZ and Westpac to help Australian exporters with financing requirements. We also supported exports to Pakistan under a landmark risk-sharing agreement with the Asian Development Bank to boost Australian trade with developing economies in South Asia.

In May 2011, EFIC released an updated policy and procedure outlining how it undertakes its environmental and social review of transactions. We engaged closely with stakeholders, including civil society organisations, in developing the new policy and procedure. The two documents demonstrate our commitment to corporate social responsibility, and provide improved transparency in how we integrate the principles of ecologically and socially sustainable development into our consideration of transactions.

While commercial lenders are gradually regaining their appetite for credit risk, world financial markets remain volatile and demand for finance from both the large corporate and SME sectors is strong. Notably, EFIC is increasingly being asked to deliver cornerstone components of financing for large projects. In response, we will continue to adapt our products and approaches to help Australian firms win new export contracts and protect their offshore investments.

Angus Armour
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
18 AUGUST 2011

Report of Operations

New business and exports supported

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Structured Trade and Project Finance team

Credit appetite returned in 2010-11, with greater commercial bank activity, including renewed interest from foreign banks seeking to rebuild their presence in Australia. Nevertheless, demand persisted for EFIC's support and the Structured Trade and Project Finance team entered into 10 facilities totalling $426.1 million for large corporate borrowers on the Commercial Account in the year to 30 June 2011.

Despite renewed interest from the private sector, a gap remains for certain types of transactions, including bonding facilities and buyer credits. This gap was driven by single exposure capacity constraints and an inability to provide bonding facilities that match the levels of activity in the engineering and resource development sectors, where concentration limits and country restrictions are also a factor. EFIC's traditional buyer credit business continued to support exports of capital goods and services.

EFIC's recent focus has been drawn to large-scale resource projects and related infrastructure in Australia and the region. The demand for debt to finance these projects is unprecedented and EFIC, together with export credit agencies from other countries, is increasingly being asked to deliver cornerstone components of the financing required because traditional sources cannot now satisfy the longer-tenor commitment requirements for such projects. We will engage in these opportunities, within the terms of EFIC's mandate, though these types of transactions can take up to 18 months to complete and have a higher risk of not reaching completion as world conditions change and commercial capacity increases.

Examples of the transactions undertaken during the year follow.

Working capital

During the year, two transactions were completed in which EFIC provided working capital solutions to two longstanding clients: Incat and Leighton.

Incat required working capital to finance the construction of a new 99-metre fast ferry for its repeat client, Buquebus. The ferry will be the world's first dual-fuel, gas turbine-powered fast ferry and is proposed to operate on the River Plate, between Buenos Aires in Argentina and Montevideo in Uruguay. The concept, developed by Incat, will be an important development as an alternative, cleaner fuel ferry to conventional diesel-powered ferries presently in operation throughout the world. The facility was provided with support from ANZ and will be repaid on delivery of the vessel to its new owner in late 2012. For more details, see the case study on page 15.

Leighton again sought our assistance to finance the purchase of mining equipment to expand its contract mining operations, this time in Mongolia. Leighton now has four mining contracts in that country, which is likely to become a significant producer of commodities in the next few years. For more details, see the case study on page 16.

Buyer finance

We completed two new buyer finance facilities this year. Austal won a contract to supply a 113-metre catamaran to Danske Færger A/S, a Danish company providing a ferry service between Bornholm Island in the Baltic Sea and Ystad in Sweden. The vessel, which was completed in April 2011 and commenced service in July 2011, is the largest catamaran built by Austal. For more details, see the case study on page 17.

The second buyer credit transaction supported another Western Australian shipbuilder, Thornycroft. It has a contract with the Indonesian police force to supply vessels, which will be prefabricated in Australia and assembled in Indonesia. The borrower is the Indonesian Ministry of Finance.

Bonding facilities

Demand for performance bond facilities remained strong in 2010–11. Clients for which EFIC established bonding lines included Transfield Services Limited, UGL Limited and Brookfield, with extensions of existing facilities for Clough Engineering, Leighton and McConnell Dowell. This reflects the increased volume of business being undertaken, both internationally and domestically, in relation to new exporting activity rather than a contraction in the provision of these facilities from the private sector. Our clients are encouraged to use bank bonding lines where possible; however, EFIC's facilities are an important part of contractors' financing platforms, enabling them to bid for new work with the confidence that if they are successful, they have the bonding capacity their clients require.

Finance for domestic export-focused projects

We continued with our strategy of assisting to build exporting capacity and revenues by supporting the development of domestic export-focused projects, where there is a shortfall of capacity in the private market. EFIC's participation in these financings is considered vital to maximise the support of other export credit agencies. Companies that we do not support directly may still benefit indirectly from our participation, for example where they provide the 'Australian content' necessary for EFIC's support through their engagement with our clients.

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Support for large corporate clients

CASE STUDY

Incat Tasmania Pty Ltd

Construction finance facility

Export destination: Uruguay

EFIC provided a multimillion dollar construction finance facility, 50 per cent of which is guaranteed by Australia and New Zealand Banking Group Limited (ANZ), to support Tasmanian shipbuilder Incat's contract with Uruguayan company Buquebus.

Incat will use the facility to finance the construction of the world's first dual-fuel, high-speed passenger catamaran capable of operating on either liquefied natural gas or diesel. Incat sought support from EFIC and ANZ for additional capital to construct the ship for its South American customer.

Recognising the innovative product, the contract size and the benefits of having this world-first vessel constructed locally in Hobart, EFIC worked with Incat's bank, ANZ, to provide a construction finance facility that will enable Incat to deliver on the contract.

This ship represents a significant step in the global move for natural gas-powered ships to replace those operated with less environmentally friendly fuels. This is the eighth Incat vessel built for Buquebus and the sixth such vessel supported by EFIC.

EFIC's partnership with ANZ has allowed Incat's debt requirement to be met in a way that has delivered a great outcome for all parties involved.

The 99-metre high-speed ferry will have capacity for 1,000 passengers and 158 cars and is due to be delivered in October 2012. Buquebus proposes to operate the vessel on its River Plate service between Buenos Aires in Argentina and Montevideo in Uruguay.

CASE STUDY



Leighton Holdings Limited

Loan facility

Project location: Mongolia

Leighton LLC (Leighton), a wholly owned subsidiary of Leighton Holdings Limited, has operated the Ukhaa Khudag coal mine in Mongolia since 2009. As a result of Leighton's strong performance, the mine owner requested that Leighton expand the mine's capacity, creating a requirement for additional mining equipment.

To enable Leighton to acquire the equipment needed and deliver the expanded capacity, EFIC provided a US$81.7 million loan to BNP Paribas to finance Leighton's purchase of equipment necessary to perform its mining contracts.

This transaction with Leighton demonstrates EFIC's ability to tailor our solutions in supporting Australian exporters. To facilitate Leighton's fulfilment of these contracts, which in turn has the potential to generate further revenue to Australia, EFIC has structured a solution to enable the lease financing of mining equipment to Leighton.

Major projects like Leighton's Mongolian mining operations have significant and complex financing needs which cannot all be met by the commercial market. EFIC will work with all parties involved to provide the necessary support Leighton requires to continue to expand its mining services business in Mongolia.

EFIC's understanding of the fundamentals of Leighton's business and support of the Ukhaa Khudag mine project will enable Leighton to further cement its position in the Mongolian mining industry.

EFIC recognised Leighton's track record of delivery and diversified portfolio of work. The direct loan facility will help Leighton deliver world-class mining solutions to clients, both through the quality of its people and the safety and reliability of its operations.

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CASE STUDY



Austal Ships Pty Ltd

Direct loan

Export destination: Denmark

Western Australian shipbuilder Austal Ships Pty Ltd, a world leader in the design and manufacture of high-performance aluminium vessels, won a contract to construct a 113-metre high-speed catamaran ferry for a buyer in Denmark.

The buyer, Danske Færger A/S, is jointly owned by the Danish Government and private shipping company Clipper Group Limited. EFIC provided a €48 million, 12-year loan to Danske Færger to help finance the ferry's purchase.

The vessel will be used in a ferry service operating between Rønne on the Danish island of Bornholm and Ystad in Sweden. The ferry service is intended both to improve the transport service for Bornholm residents, and to meet seasonal demand from holiday-makers.

The catamaran was built at Austal's shipyard in Western Australia. Designed to carry 1,400 passengers and 360 cars, it is the largest catamaran yet built by Austal.

SME team

EFIC's SME team is focused on finding solutions to the financing challenges faced by Australian exporters with an annual turnover of less than $150 million.

2010–11 was another year of strong growth. The team signed 90 facilities worth $136.7 million across a wide range of products and sectors, reflecting the continuing challenges SME exporters face in obtaining finance from the commercial market.

Market demand for EFIC's traditional SME products, in particular bonding facilities and working capital guarantees, remained strong. In addition, we expanded our role in providing non-recourse trade finance through risk participation agreements with major financial institutions based in Australia and overseas. This has been in response to reluctance in the Australian financial market to take on certain country risks.

While banks have continued to be our focus for distribution, clients have also come through new channels such as Screen Australia and the foreign exchange hedging provider Travelex. Our alliances with these specialised organisations have provided us with a wider reach and access to SMEs requiring our assistance.

Product innovation

There has been strong SME uptake of EFIC's two new products released in May 2010: the foreign exchange facility guarantee provided through Travelex; and the Producer Offset loan, which complements the Australian Government's Producer Offset scheme.

At 30 June 2011, 19 SMEs had taken up the foreign exchange facility guarantee, enabling them to extend their hedging programs with Travelex to cover more of their export contracts and better protect their export profits.

The Producer Offset loan assists small film and television productions that have international distribution agreements and are eligible for the Australian Government's Producer Offset incentive, but have difficulty attracting finance in the commercial market. In 2010-11, EFIC supported the telemovie *Panic at Rock Island*, and two documentary series, *Who Do You Think You Are?* (Series 4) and *Outback Fight Club*.

Product development

In 2010 EFIC reintroduced the export working capital guarantee in response to demand from exporters for working capital finance for export contracts. This guarantee provides exporters with support for their revolving working capital requirements and is delivered through banks.

EFIC signed master working capital guarantee facilities with ANZ and Westpac to support exporters' financing requirements, from the signing of an export contract through to receipt of the final payment under the contract from their buyer. The facilities cover a wide range of industries and goods and services exports.

At 30 June 2011, EFIC had provided 16 export working capital guarantees, worth $54.4 million.

Risk participation agreements

In June 2010 EFIC signed risk participation agreements with Westpac and ANZ. In 2010-11, these banks – by sharing non-payment risk with EFIC – were able to provide trade finance on a non-recourse basis to Australian exporters of such diverse goods as fish to Spain and coal to Europe's largest steel producer.

In May 2011 EFIC signed a landmark US$65 million risk-sharing agreement with the Asian Development Bank (ADB), which expanded the Australian banking sector's capacity to support Australian exporters in the markets of Bangladesh, Pakistan and Sri Lanka. Under the agreement, EFIC effectively guarantees up to 50 per cent of the bank counterparty risk when ADB guarantees a letter of credit under ADB's existing Trade Finance Program. Exporters are also able to benefit from the arrangement without any changes to current processes. For more information, see page 40.

At 30 June 2011, EFIC and ADB had completed four transactions under the new arrangement.

Support for agribusiness

During 2010-11, the SME team provided increased support for agribusiness exports through various EFIC products.

To support the export of cattle, we provided export working capital guarantees, documentary credit guarantees and bonds for two Australian companies – Australian Rural Exports Pty Ltd and Wellard Rural Exports Pty Ltd – for contracts with China, Turkey and Russia.

EFIC also provided foreign exchange facility guarantees to Travelex for exporters of wheat, wool, seeds, meat, grains and pulses.

Support for SMEs

CASE STUDY



Ferra Engineering Pty Ltd

Export working capital guarantee
Export destination: United States

When Brisbane-based Ferra Engineering Pty Ltd (Ferra) won its third subcontract to supply parts to the F-35 Joint Strike Fighter (JSF) program, it needed additional working capital to deliver on the subcontract.

EFIC provided a $2.7 million export working capital guarantee to Ferra's bank, Westpac, enabling the bank to lend this amount to Ferra to assist in financing the subcontract.

Ferra, a specialist manufacturer of aerospace structures and sub-systems, had secured a contract to supply weapons bay adapters for the JSF being developed by Lockheed Martin Corporation (Lockheed). Ferra was a supplier to one of Lockheed's key subcontractors.

While Ferra's work involved substantial costs for materials and labour, under the subcontract it would not receive payment until after the parts were shipped. This meant that the company faced a working capital shortage and needed additional funding to perform the subcontract.

With support from EFIC, Westpac was willing to provide a loan for working capital to Ferra. EFIC's export working capital guarantee gave the bank a guarantee for repayment of the loan.

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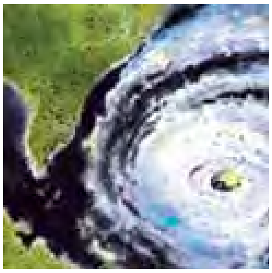
CASE STUDY



Environmental Systems & Services Pty Ltd

Export working capital guarantee

Export destination: Samoa

Environmental Systems & Services Pty Ltd (ES&S) is an advanced technology company specialising in solutions in fields such as meteorology, seismology and geotechnical engineering.

ES&S won a subcontract for the procurement and installation of a new weather forecasting system in Samoa, and training in use of the meteorological warning facilities.

EFIC provided a six-month $500,000 export working capital guarantee to ANZ, enabling the bank to lend the same amount to ES&S to assist in financing subcontract works.

EFIC's support enabled ES&S to access additional working capital to undertake the contract and provide essential improvements to Samoa's weather forecasting and meteorological warning facilities.

CASE STUDY

Gold Peg International Pty Ltd

Performance bond

Export destination: Europe

Victorian company Gold Peg International Pty Ltd (GoldPeg), a specialist food technology business, won a contract to supply food processing equipment and control hardware and software to a dairy cooperative in Europe.

Under the contract, GoldPeg was required to provide a performance bond for 50 per cent of the contract value – cash that the company needed for working capital for its growing business.

EFIC assisted GoldPeg by issuing the bond to the buyer.

GoldPeg has supplied and install a specialised cooker, called a GoldPeg International Cooker Stretcher (GPiCS), for industrial production of natural mozzarella. Unlike a traditional wet cooker, which requires large quantities of water, GoldPeg's innovative, environmentally friendly technology uses direct steam injection for continuous cooking.

The GPiCS was specifically developed by GoldPeg for producing natural mozzarella and pasta filata varieties of cheese, and was tested extensively by the Commonwealth Scientific and Industrial Research Organisation.

GoldPeg has a long relationship with EFIC: since 2002, EFIC has provided six performance bonds on behalf of the company, supporting export contracts worth $7 million.

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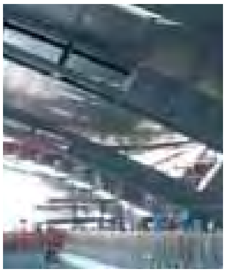
CASE STUDY



JML Engineered Facades Pty Ltd

Performance bond

Export destination: Qatar

JML Engineered Facades Pty Ltd (JML), a New South Wales-based specialist in glass facade engineering, secured a $10.6 million contract to supply and install a range of building facades and associated works at several areas of the New Doha International Airport in Qatar.

The company's customer in Qatar, the head contractor for the new airport project, required that JML arrange a performance bond for approximately $1 million, issued by a bank with a local presence.

JML's bank requested full cash cover for the bond, and JML would also need to find a bank in Qatar that would issue the bond.

To help JML meet its customer's requirements, EFIC drew on its relationship with Citigroup, which has an established network in the Middle East. EFIC issued a guarantee to Citigroup, which in turn issued a bond to the customer through the bank's Qatar branch.

JML secured the contract in Qatar following its recent work on the expansion of the Dubai International Airport. The company has completed a number of contracts in the Middle East, including work on the Dubai Rail Metro.

Facilities signed

Table 1: Facilities signed by EFIC in 2010-11

Exporter/Investor/ Counterparty	Sector	Goods/Services	Country	Facility type	Amount (A$ million equivalent)	Environmental category
Anglo Coal Australia Pty Ltd	Mining	Coal	Various	RPA	30.32	Low potential (Note 2)
Asian Development Bank - Pakistan	Financial & insurance services	Wool	Pakistan	RPA x3	0.15	Low potential (Note 2)
Australian Rural Exports Pty Ltd	Wholesale trade	Breeding cattle	Russia	Bond x2	8.40	C
Australian Rural Exports Pty Ltd	Wholesale trade	Breeding cattle	China	EWCG x 10	47.60	C
Australian Rural Exports Pty Ltd	Wholesale trade	Breeding & feeder cattle	Turkey	EWCG x 1	2.20	C
Bronx International Pty Ltd	Manufacturing	Paint & galvanising line	Turkey	Bond x2	0.60	C
Bronx International Pty Ltd	Manufacturing	Paint & galvanising line	Guatemala	Bond	2.30	C
Brookfield Australian Investments Ltd	Construction	Engineering services	United Kingdom	Bonding line	48.00	Note 1
Clough Groups	Construction	Engineering services	Papua New Guinea	Bonding line	16.60	Note 1
Danske Færger A/S	Ship building & repair services	High-speed catamaran	Denmark	Loan	66.80	C
Ecotech Pty Ltd	Manufacturing	Air quality systems	Brazil	EFG	0.20	C
Environmental Systems & Services Pty Ltd	Professional, scientific & technical services	Meteorological satellite receiving systems	Samoa	EWCG	0.50	C
Ferra Engineering Pty Ltd	Manufacturing	Weapon bay adaptors	United States	EWCG	2.70	C
Focus Fisheries Pty Ltd	Agriculture, forestry & fishing	Fish	Spain	RPA	0.28	C
Gasco Pty Ltd	Manufacturing	Industrial heaters	United Arab Emirates	Bond	0.30	C
Gold Peg International Pty Ltd	Manufacturing	Food processing equipment	Denmark	Bond	0.40	C
GRM International Pty Ltd	Construction	Project management services to the UN	Zimbabwe	Bond	2.10	C
Incat Tasmania Pty Ltd	Ship building & repair services	High-speed catamaran	Uruguay	Loan	37.50	C
JML Engineered Facades Pty Ltd	Construction	Building facades	United Arab Emirates	Bond	0.90	C
Knog Pty Ltd	Wholesale trade	Cycling accessories	Various	EWCG	0.60	C
Leighton Asia (Northern) Ltd[#]	Construction	Contract mining services	Mongolia	Loan	76.70	B
Leighton Holdings Ltd	Construction	Engineering services	Various	Bonding line	50.00	Note 1
McConnell Dowell Corporation Ltd	Construction	Engineering services	Australia	Bonding line	25.00	Note 1
Oz Mannequins Pty Ltd	Manufacturing	Mannequins	United States	EWCG x2	0.80	C
Parnell Manufacturing Pty Ltd	Wholesale trade	Veterinary pharmaceuticals	United States	EFG	3.80	C
Perth Hide and Skins Export	Manufacturing	Cattle hides	Taiwan	DCG	0.20	C

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Exporter/Investor/ Counterparty	Sector	Goods/Services	Country	Facility type	Amount (A$ million equivalent)	Environmental category
Redflex Traffic Systems Pty Ltd	Manufacturing	Traffic cameras	Saudi Arabia	DCG x2	2.70	C
Shark Bay Salt Pty Ltd	Mining	Solar salt	Indonesia	DCG x15	16.60	C
Thornycroft Maritime and Associates (Aust) Pty Ltd	Professional, scientific & technical services	Patrol vessels	Indonesia	EFG	25.50	C
Transfield Services Ltd	Professional, scientific & technical services	Engineering services	Australia	Bonding line	30.00	Note 1
UGL Ltd	Construction	Engineering services	Various	Bonding line	50.00	Note 1
Wagners Group	Manufacturing	Concrete plant	Papua New Guinea	Bond x2	4.60	C
Wellard Rural Exports	Agriculture, forestry & fishing	Breeding cattle	Russia	Bond	8.00	B
Wellard Rural Exports	Agriculture, forestry & fishing	Feeder & slaughter cattle	Turkey	DCG	19.40	C
EFIC Headway clients	Various	Various	Various	EFIC Headway* x15	6.10	N/A
Foreign exchange facility guarantee clients	Various	Various	Various	FXG x19	4.19	N/A
Producer Offset loan clients	Various	Film & video production	Various	Loan x3	1.10	N/A
Total facilities (101)					**593.14**	

Note 1: Facility involves a bonding line. Individual projects supported under the line are separately evaluated.

Note 2: Considered under EFIC's 2011 Policy for Environmental and Social Review of Transactions.

* Includes renewals of existing facilities.

The negotiations for this facility had been completed prior to 30 June 2011 although execution of the documentation occurred on 19 July 2011.

DCG: Documentary credit guarantee

EFG: Export finance guarantee

EWCG: Export working capital guarantee

RPA: Risk participation agreement

FXG: Foreign exchange facility guarantee

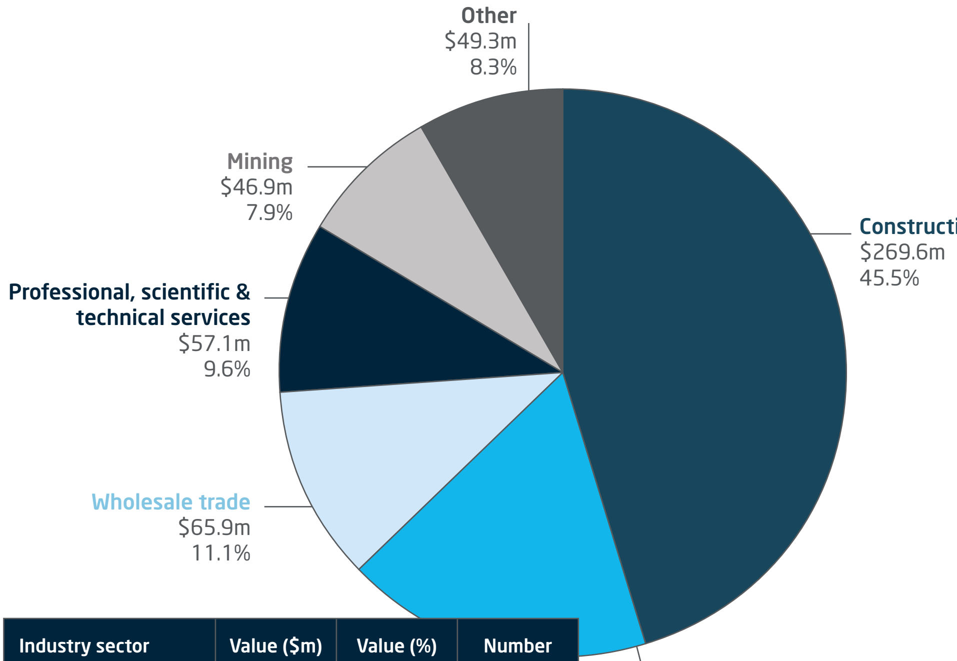
Signings and exports supported

During 2010-11, EFIC entered into 101 facilities on the Commercial Account worth a total of $593.1 million, underpinning exports and overseas contracts for Australian companies of nearly $3.5 billion. There were no signings on the National Interest Account.

As Figure 1 shows, EFIC's involvement in various bonding lines meant that construction was the main industry supported in terms of dollar value, accounting for over 45 per cent of total signings. This was followed by ship building and repair services at just under 18 per cent.

In terms of the number of transactions, wholesale trade was the main industry, accounting for 28 per cent of total signings, reflecting the number of SME transactions EFIC supported during the year.

Figure 1: Signings by industry sector supported*



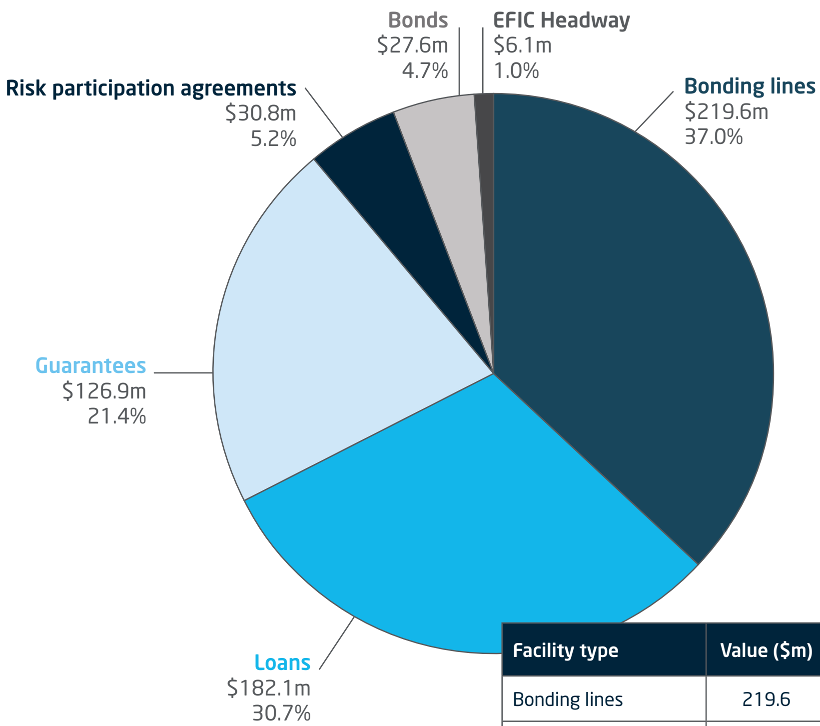
Industry sector	Value ($m)	Value (%)	Number
Construction	269.6	45.5	9
Ship building & repair services	104.3	17.6	2
Wholesale trade	65.9	11.1	28
Professional, scientific & technical services	57.1	9.6	6
Mining	46.9	7.9	16
Other	49.3	8.3	40
Total	**593.1**	**100.0**	**101**

* Based on Australian and New Zealand Standard Industrial Classification (ANZSIC).

Bonding lines represented 37 per cent of the total value of signings by facility type, and direct loans accounted for another 31 per cent (Figure 2).

Of the total number of signings, EFIC Headway facilities and guarantees (including export working capital guarantees, foreign exchange facility guarantees and documentary credit guarantees) accounted for 71 per cent, followed by bonds at 12 per cent.

Figure 2: Signings by facility type



Facility type	Value ($m)	Value (%)	Number
Bonding lines	219.6	37.0	6
Loans	182.1	30.7	6
Guarantees	126.9	21.4	57
Risk participation agreements	30.8	5.2	5
Bonds	27.6	4.7	12
EFIC Headway	6.1	1.0	15
Total	**593.1**	**100.0**	**101**

Financial performance

The 2010–11 Commercial Account profit of $30.2 million was above the target of $25.1 million. Most of the difference was due to specific provision writebacks and the release of an allowance for litigation and claims. Profit was also enhanced by higher investment income and lower operating costs, which helped offset lower origination income from credit downgrades in the portfolio and slower than expected facility drawdowns.

On the National Interest Account, there was a profit of $7.7 million in 2010–11, compared with a targeted loss of $1.2 million. Most of the difference was due to a recovery from Iraq of $8.2 million relating to credit insurance claims paid in the 1980s, in addition to favourable movements in exchange rates on Egypt exposures. For the National Interest Account, Commonwealth Government policy requires EFIC to comply with a whole-of-government approach to managing foreign exchange risk.

The profit or loss from activities on the National Interest Account is transferred to the Commonwealth and does not form part of EFIC's net profit or loss.

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EFIC's exposures

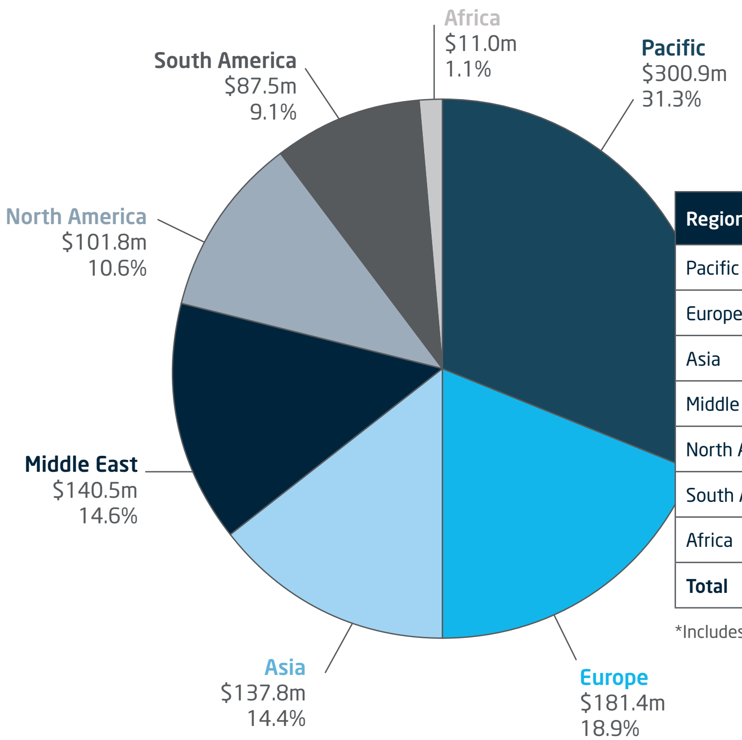
Commercial Account

EFIC's Commercial Account exposures of nearly $961 million comprise loans, export finance guarantees (EFGs) (including funded EFGs), EFIC Headway working capital guarantees, political risk insurance, bonds, medium-term export payments insurance and rescheduled credit insurance debts. The facilities vary in maturity up to 15.5 years, but typical loan and guarantee facilities are for 10 years on an amortising basis. The average remaining maturity of facilities outstanding at 30 June 2011 was 2.6 years, and 7.5 years on a weighted average basis.

The exposures represent risks on the overseas purchasers of Australian goods and services exports, the majority of which are held in the private sector and on Australian parties directly or indirectly involved in the export of goods and services to overseas purchasers. While exposures remain predominantly to private sector companies – both customers and reinsurers – EFIC continues to accept risks on governments and public sector entities (classified as 'Public administration and safety' by the Australian and New Zealand Standard Industrial Classification (ANZSIC)) in developing countries. At 30 June 2011, EFIC's highest private sector exposures were to the manufacturing and construction industries. However, as this year's signings translate to exposure in later years, EFIC's risk profile will continue to change.

The distribution of exposures by geographical region, industry sector and facility type at 30 June 2011 is shown in Figures 3 to 5.

Figure 3: Commercial Account at 30 June 2011 – exposures by region*

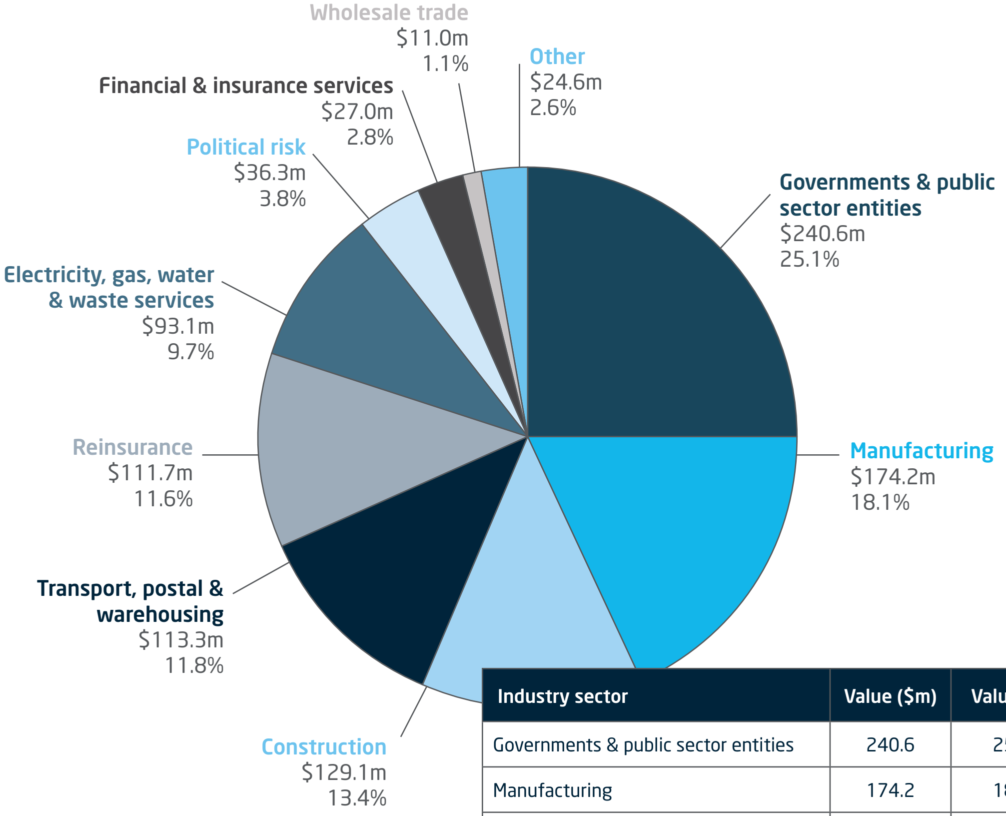


Region	Value ($m)	Value (%)
Pacific	300.9	31.3
Europe	181.4	18.9
Asia	137.8	14.4
Middle East	140.5	14.6
North America	101.8	10.6
South America	87.5	9.1
Africa	11.0	1.1
Total	**960.9**	**100.0**

*Includes exposures that have been reinsured.

Commercial Account *continued*

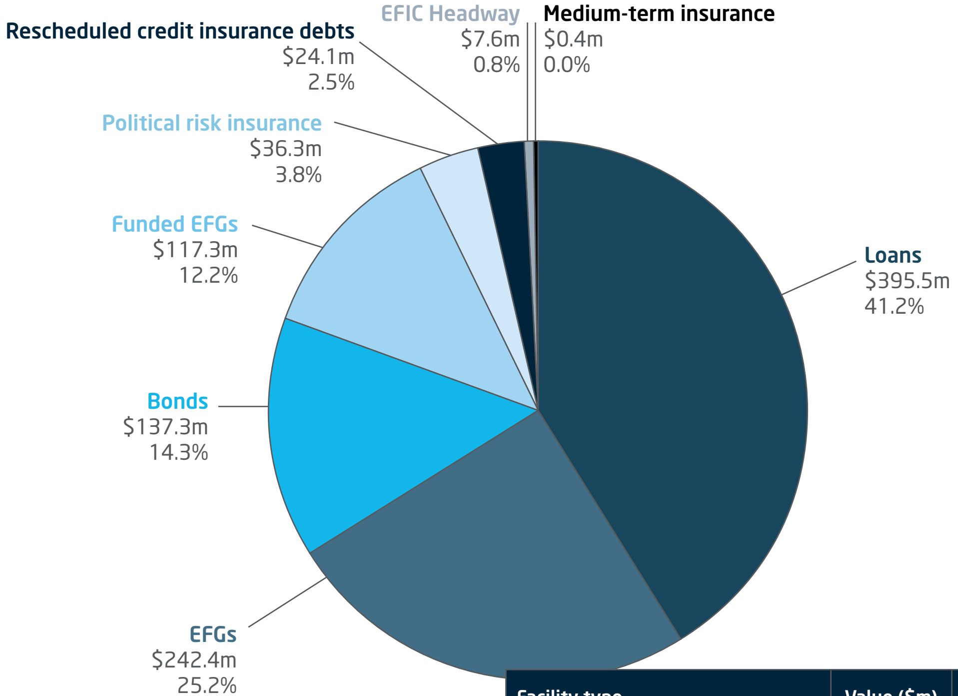
Figure 4: Commercial Account at 30 June 2011 – exposures by industry sector*



Industry sector	Value ($m)	Value (%)
Governments & public sector entities	240.6	25.1
Manufacturing	174.2	18.1
Construction	129.1	13.4
Transport, postal & warehousing	113.3	11.8
Reinsurance	111.7	11.6
Electricity, gas, water & waste services	93.1	9.7
Political risk	36.3	3.8
Financial & insurance services	27.0	2.8
Wholesale trade	11.0	1.1
Other	24.6	2.6
Total	**960.9**	**100.0**

*Based on Australian and New Zealand Standard Industrial Classification (ANZSIC).

Figure 5: Commercial Account at 30 June 2011 – outstanding facilities by type



Facility type	Value ($m)	Value (%)
Loans	395.5	41.2
EFGs	242.4	25.2
Bonds	137.3	14.3
Funded EFGs	117.3	12.2
Political risk insurance	36.3	3.8
Rescheduled credit insurance debts	24.1	2.5
EFIC Headway	7.6	0.8
Medium-term insurance	0.4	0.0
Total	**960.9**	**100.0**

National Interest Account

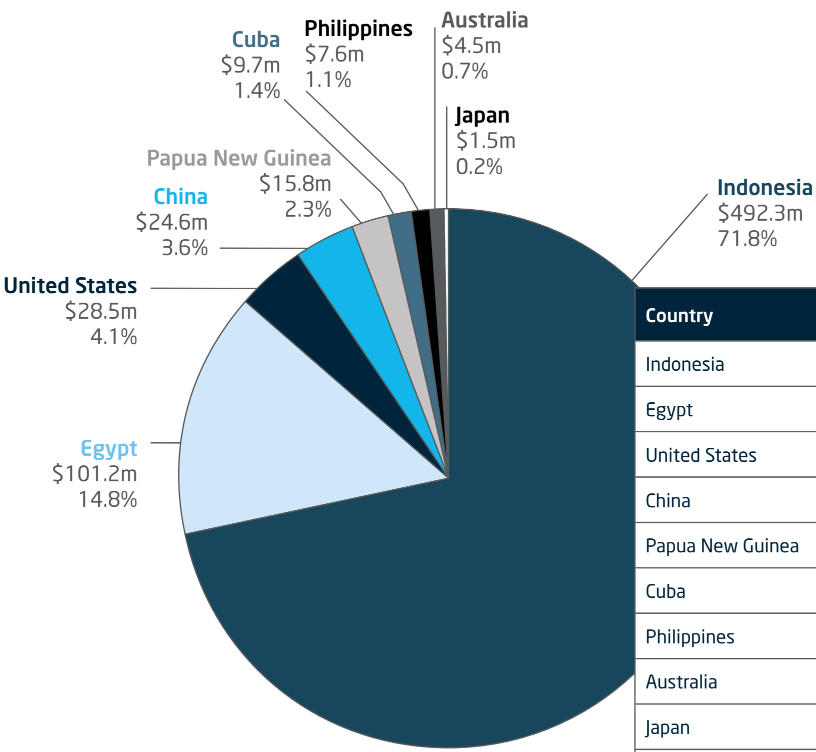
The National Interest Account exposures of nearly $686 million are almost all loans to sovereign countries or their agencies. The largest exposure is to the Indonesian Government. The change in distribution by country during the financial year 2010-11 mainly reflected repayments and movements in the Australian dollar.

The National Interest Account exposures arose mainly from two sources:

- Loans made under the Australian Government's aid-supported mixed credit program, the now discontinued Development Import Finance Facility. Reflecting the priorities of Australia's overseas aid program at the time, these loans include exposures of $492 million to Indonesia, $25 million to China and $8 million to the Philippines (excluding reinsurance sourced from North America).
- In the mid- to late 1980s and early 1990s, EFIC paid credit insurance claims on exports to Egypt. These debts were subsequently rescheduled through the Paris Club. Egypt has paid all amounts due under the rescheduling agreement in full and on time. The balance of rescheduled credit insurance debts owed by Egypt is $101 million.

The distribution of exposures by country at 30 June 2011 is shown in Figure 6.

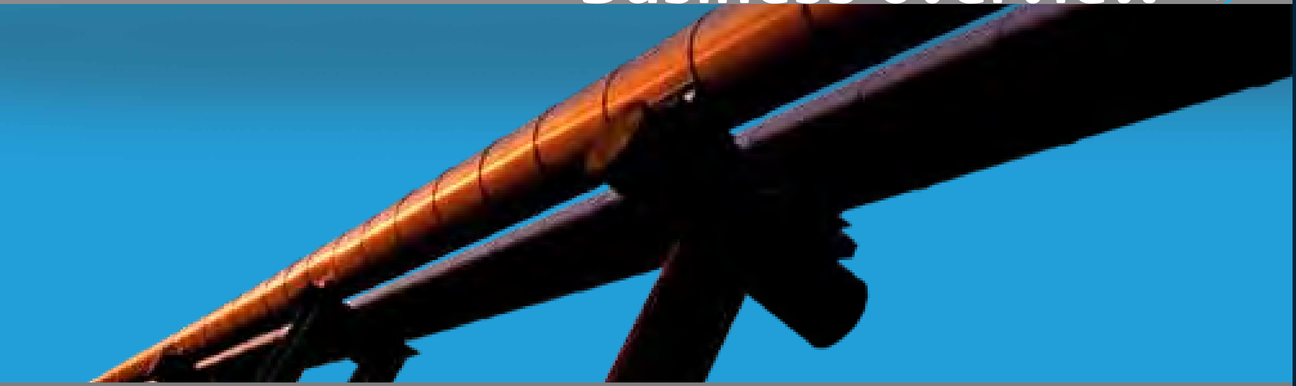
Figure 6: National Interest Account at 30 June 2011 – exposures by country*



Country	Value ($m)	Value (%)
Indonesia	492.3	71.8
Egypt	101.2	14.8
United States	28.5	4.1
China	24.6	3.6
Papua New Guinea	15.8	2.3
Cuba	9.7	1.4
Philippines	7.6	1.1
Australia	4.5	0.7
Japan	1.5	0.2
Total	**685.7**	**100.0**

*Includes exposures that have been reinsured.

Business overview



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An overview of EFIC's role

EFIC provides finance and insurance solutions to help Australian exporters overcome the financial barriers they face when growing their business overseas. As the Australian Government's export credit agency, we help successful businesses to win, finance and protect export trade or overseas investments where their bank is unable to provide all the support they need.

EFIC is a Commonwealth authority and its Board members and employees are subject to various obligations under the *Export Finance and Insurance Corporation Act 1991* (Cth) (EFIC Act) and the *Commonwealth Authorities and Companies Act 1997* (Cth) (CAC Act). EFIC employees are also subject to a Code of Conduct.

The EFIC Board is responsible for the corporate governance of EFIC, managing its affairs and overseeing its operations. EFIC imposes a strong commercial discipline on governance and risk management through its governance framework.

EFIC's legislation provides for two distinct platforms from which Australian exports can be supported.

Commercial Account

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

National Interest Account

In the case of the National Interest Account, the Minister for Trade can direct EFIC to enter into a facility, or give approval for EFIC to enter into a facility, if the Minister believes that it is in the 'national interest' to do so. If a transaction is written on the National Interest Account, the Commonwealth receives the net income from EFIC and must reimburse EFIC for any losses.

National Interest transactions tend to involve:

- financial commitments which are too large for EFIC's balance sheet
- risks which EFIC considers are too high for it to prudently accept on its own account
- transactions which would be commercially acceptable if EFIC did not already have significant exposures to a country or entity related to the transaction.

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EFIC Act

EFIC is Australia's export credit agency (ECA) and has performed its 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.

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)
- to provide information and advice regarding insurance and financial arrangements to support Australian exports.

EFIC is a self-funding organisation operating in accordance with commercial principles. We operate in that part of the market that is not served by the private market. In July 2011 this mandate was formalised in the Statement of Expectations issued by the Minister for Trade and is defined as the segment of the credit and insurances services market where the capacity of commercial sector financiers and/or insurers is limited or insufficient to support the needs of financially viable Australian exporters and investors. Our role is to complement, not compete with, private financiers and insurers.

EFIC's obligations to third parties are guaranteed by the Commonwealth of Australia. This guarantee has never been called. EFIC attributes this success to the strong risk management framework that we have implemented for identifying, evaluating and managing risk.

CAC Act

As a Commonwealth statutory corporation that holds money on its own account, EFIC is a Commonwealth authority and subject to the CAC Act and to regulations and orders made under it. The CAC Act sets out requirements in relation to aspects of EFIC's corporate governance, financial management and reporting, which are additional to those in the EFIC Act.

Accountability

EFIC is part of the Australian Government's Foreign Affairs and Trade portfolio and the Minister for Trade is responsible for EFIC. During the financial year 2010–11, the Hon Dr Craig Emerson MP was appointed Minister for Trade after the federal election on 21 August 2010 in place of the Hon Stephen Smith MP, previously Minister for Foreign Affairs and Trade, who was appointed Minister for Defence.

The Minister for Trade has a number of powers in relation to EFIC, as set out in the EFIC Act. The Minister may give written directions to EFIC in respect of the performance of its functions or the exercise of its powers if satisfied that it is in the public interest that directions be given. The Minister may also approve, or direct, entry into transactions on the National Interest Account (see page 41). In relation to the Commercial Account, the Minister cannot require EFIC to obtain ministerial approval for a particular transaction or direct EFIC to enter into a particular transaction. Details of ministerial directions must be published in EFIC's annual report, which is tabled in Federal Parliament.

Any budgetary appropriation in respect of EFIC that relates to the National Interest Account is effected through the Department of Foreign Affairs and Trade and is scrutinised by the Federal Parliament.

EFIC is required to provide the Minister for Trade with a Statement of Intent in response to the Minister's Statement of Expectations. These statements express and formalise the Minister's expectations of EFIC and the Board's intention to meet those expectations.

As a Commonwealth authority under the CAC Act, EFIC is required to notify the Minister for Trade of certain significant events, such as the acquisition or disposal of interests in companies or other ventures. The EFIC Board must also keep the Minister informed about EFIC's operations and provide any information required by the Minister for Trade or the Minister for Finance.

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

EFIC's solutions for Australian exporters

EFIC provides financial and insurance solutions to help Australian exporters overcome the financial barriers they face when growing their business overseas. We help businesses to compete for and win export contracts, finance their export activities, and protect their contract payments and overseas investments. Several of EFIC's solutions can meet more than one of these business needs, depending on the type of financial obstacle an exporter encounters.

We work directly with exporters or with their banks to provide our solutions, many of which can be tailored to meet the needs of both large and small exporters.

In 2010–11 EFIC reintroduced the export working capital guarantee in response to demand from exporters to support their revolving working capital requirements, and signed master working capital guarantee facilities with ANZ and Westpac.

EFIC's website, www.efic.gov.au, provides comprehensive information about its products.

Helping exporters compete for and WIN export contracts

When an exporter is competing to win export contracts, finance can be as important as the quality of their product or service.

EFIC helps Australian exporters with the finance they need in order to win international business. EFIC understands the issues exporters face in competing for overseas contracts:

- when buyer finance is key to winning a deal, EFIC can support the exporter's bid with a competitive finance package
- if a performance bond or warranty bond is a condition of a contract or tender, EFIC may be able to help when the exporter's bank cannot
- if the exporter needs funds from their buyer in order to start work on their contract, an advance payment bond from EFIC can give their buyer the confidence to make an upfront payment
- when doing business in the United States, EFIC can arrange the local surety bonds an Australian exporter may require to compete for contracts in that market.

Our solutions to help exporters compete for and win export contracts include:

- buyer finance – direct loans and export finance guarantees (EFGs)
- advance payment bonds, performance bonds and warranty bonds
- a US bonding line.

Helping exporters FINANCE their export activities

Finance for export activities

It takes more than a competitive product or service and a keen buyer to succeed as an exporter. Turning business prospects into sales or investments often depends on securing finance.

Financial issues are common concerns for fast-growing export businesses. A shortage of working capital, for example, can prevent an exporter not just from filling current orders but from pursuing new export opportunities and expanding their export business.

EFIC can assist in overcoming these financial barriers. Our finance solutions for individual export transactions and broader export activities can help to free up an exporter's working capital and to finance their production. Our solutions to help exporters finance their export activities include:

- working capital guarantees – export working capital guarantees and EFIC Headway
- buyer finance – direct loans and EFGs
- documentary credit guarantees
- export payment insurance
- advance payment bonds and performance bonds
- foreign exchange facility guarantees
- Producer Offset loans.

Project finance

Assembling the finance for a large-scale overseas investment or project can often be challenging, particularly if the project is in an emerging market that commercial banks consider too risky.

EFIC's extensive experience in financing complex cross-border transactions in emerging and developed markets can help get an investor's project underway. Our experts can structure a financial package to meet the particular needs of an investor's overseas project and its participants.

Helping exporters PROTECT their contract payments and overseas investments

Exporting or investing internationally involves risks. While some of these are within an exporter's control, many are not.

EFIC helps protect Australian businesses engaged in overseas trade or investment against a wide range of risks that are beyond their control, such as a buyer failing to pay or political events disrupting an overseas investment.

Our solutions help exporters and overseas investors minimise their risk of non-payment, while meeting a buyer's need for finance or a long-term payment schedule. We can also provide insurance against the risk that a buyer may wrongfully demand payment on a contract bond.

If an investor is involved in a project in a country where the uncertain political environment could impact their investment, our political risk insurance can protect them against financial loss caused by political events.

Our solutions to help protect Australian companies' export contract payments and overseas investments include:

- export payments insurance
- bond insurance
- political risk insurance
- documentary credit guarantees
- foreign exchange facility guarantees.

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EFIC's role in the financial markets

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

EFIC does not compete with the commercial market, but provides complementary capacity to enhance the competitiveness of Australian companies. Our export finance and medium-term insurance are consistent with the OECD Arrangement on Officially Supported Export Credits ('OECD Arrangement') for the operation of government-supported agencies or government-supported medium- to long-term export credit programs (those with credit terms of two years or more). The OECD Arrangement is aimed at preserving a level playing field in officially supported export products, and sets certain parameters in relation to direct loans, EFGs, documentary credit guarantees and medium-term export credit insurance: for example, minimum interest rates and premiums, and maximum payment terms. Investment insurance, short-term working capital facilities and bonding facilities are not covered by the OECD Arrangement.

One of EFIC's functions is to encourage banks, other financiers and insurers to support exports and overseas investments. Our participation in larger transactions can often encourage private financiers to share the risks involved. EFGs, which provide explicitly for bank risk participation, support this objective. In the recent difficult credit conditions, we have adapted this product by providing funding to our partner banks to assist their participation in particular transactions. We also use risk transfer activities, mainly insurance contracts with private insurers, on a transaction-by-transaction basis. This approach encourages increased private sector support for exports and overseas investments, reduces our risk concentrations and preserves our capital for further support.

International risk-sharing relationships

During 2010–11, EFIC continued to pursue international risk-sharing relationships to support Australian businesses exporting and investing overseas.

Asian Exim Banks Forum

EFIC endorsed a framework financing agreement with the other members of the Asian Exim Banks Forum (the export credit agencies of China, India, Indonesia, Japan, Korea, Malaysia, the Philippines and Thailand). The Reciprocal Risk Participation Agreement forms the basis for EFIC and Asian export-import banks to jointly finance large projects that are beyond the capacity of commercial lenders or a single export-import bank. With international projects and contracts increasingly involving multisourcing (using suppliers from several countries), the agreement will help EFIC and its partner agencies work together to support exporters from member countries. The framework benefits exporters, banks and borrowers, as they only need to negotiate financing arrangements with a lead ECA, which then shares the risk with other participating ECAs.

The risk-sharing agreement also benefits export-focused projects located in Australia, such as oil or gas extraction projects where the resource will be exported, or the construction of infrastructure like rail or port facilities to enhance Australia's export capacity. As most exports from these projects are destined for Asian Exim Bank Forum member countries, especially China, India, Japan and Korea, agencies from these countries have a vested interest in working with EFIC to arrange project finance.

Asian Development Bank

EFIC and the Asian Development Bank (ADB) signed a risk-sharing agreement to make it easier for some of Asia's developing economies to import crucial Australian goods. Many companies in the least developed economies of Asia struggle to obtain the trade finance they need to buy key inputs for export production or end products from overseas, including from Australia. The agreement enables EFIC to share the risk that ADB – through the bank's Trade Finance Program (TFP) – takes in guaranteeing letters of credit for exports of Australian goods into Bangladesh, Pakistan and Sri Lanka. ADB's TFP, which provides guarantees and loans through banks to support international trade, targets Asia's most challenging markets and does not assume risk in relatively developed markets such as China, India, Malaysia and Thailand. The EFIC-ADB risk-sharing agreement is ADB's first such agreement with an export credit agency.

Berne Union

EFIC continued to pursue risk-sharing relationships with other members of the Berne Union, the leading international association for the export credit and investment insurance industry. The 48 members of the Berne Union, which include both ECAs and private insurers, supported US$1.4 trillion of exports and investments in the 2010 calendar year, representing around 10 per cent of global export and investment flows.

By sharing not just risk-taking capacity, but also information about countries, banks and buyers, EFIC and other Berne Union members expanded their ability to meet clients' needs in a difficult financial environment.

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Commercial Account and National Interest Account

The EFIC Act provides for EFIC to enter into transactions on both the Commercial Account (Part 4) and the Commonwealth's National Interest Account (Part 5).

EFIC routinely writes transactions on its Commercial Account and the Board and management make decisions to accept eligible business with the risks and financial results of that business allocated to this account.

In comparison, the Minister for Trade makes the decisions regarding business on the National Interest Account. Transactions are usually referred to the Minister for consideration by the Board where the size or risk exceeds the parameters of the Commercial Account. These transactions are subject to the Minister's consideration as to whether undertaking them would be in the national interest.

EFIC manages the day-to-day operation of National Interest Account business, but the Commonwealth is responsible for the financial consequences of these transactions. EFIC remits to the Commonwealth the revenue from the portfolio for these transactions and the Commonwealth reimburses EFIC for the costs of servicing the portfolio and for any losses arising from it.

The results of the Commercial Account and the National Interest Account are identified separately in EFIC's Financial Statements. Because the Commonwealth is responsible for the National Interest Account, EFIC's net operating profit and retained profit reflect only Commercial Account activities. The National Interest Account profit is directly attributable to the Commonwealth and is not reflected in EFIC's equity.

EFIC's financial operations

EFIC is self-funding and operates on a commercial basis, charging customers fees and premiums and earning interest on loans and investments, including the investment of its cash capital, reserves and working capital.

At 30 June 2011, EFIC's equity, including retained profits, was $408.1 million. In addition, the EFIC Act provides that $200 million of callable capital is available to EFIC from the Commonwealth, which helps underpin its activities in supporting exports and overseas investments. This callable capital has never been called.

The Commonwealth also guarantees our creditors the payment of all monies payable by us. This guarantee has never been called. Regulations under the EFIC Act set upper limits on EFIC's aggregate liabilities under facilities, guarantees and insurance contracts that it may enter into on the Commercial Account, and EFIC operates within these limits.

EFIC Annual Report 2011

Report of Operations

Governance and corporate matters

Corporate governance

EFIC Board

The EFIC Board is responsible for the corporate governance of EFIC, managing its affairs and overseeing its operations. This includes establishing EFIC's strategies, defining its risk appetite, monitoring performance, making decisions on capital usage, including large exposures, and making dividend recommendations to the Government.

The Minister for Trade is responsible for EFIC and appoints members of the Board, except for the Managing Director.

The majority of the Board is from the private sector, with the Secretary of the Department of Foreign Affairs and Trade, or his alternate, representing the Australian Government.

Apart from the Managing Director, who is a full-time employee, all Board members are non-executive directors.

The Board is rigorous in ensuring that a Board member does not participate in discussions or decisions where there is, or may be, a conflict between that member's interests and the interests of EFIC or one of our customers. EFIC maintains a register of Board members' disclosed interests.

EFIC is required to provide the Minister for Trade with a Statement of Intent in response to the Minister's Statement of Expectations. These statements express and formalise the Minister's expectations of EFIC and the Board's intention to meet these expectations.

The Board met eight times in 2010–11 and its membership is set out on pages 48–53.

Governance

EFIC is a Commonwealth authority and its Board members and employees are subject to various obligations under the *Export Finance and Insurance Corporation Act 1991* (Cth) (EFIC Act) and the *Commonwealth Authorities and Companies Act 1997* (Cth) (CAC Act). EFIC employees are also subject to a Code of Conduct.

EFIC is part of the Australian Government's Foreign Affairs and Trade portfolio and the Minister for Trade is responsible for EFIC. A key obligation imposed on EFIC by the CAC Act is to produce for each financial year an annual report, which is tabled in Federal Parliament.

EFIC imposes a strong commercial discipline on governance and risk management through its governance framework.

One of the requirements imposed on Board members and employees by the EFIC Act is to keep information about clients confidential. A breach of the legislative secrecy obligation is a criminal offence potentially punishable by a jail sentence (section 87 of the EFIC Act). The EFIC Act permits EFIC to publish a limited amount of information about its transactions.

EFIC is partially exempt from Freedom of Information (FOI) legislation.

The partial FOI exemption and the strong secrecy obligation upon the EFIC Board and employees recognise the need to keep confidential the commercial information EFIC obtains from Australian exporters and investors in order to decide whether to enter into insurance, loan or other financial obligations.

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

Principle 1

Lay solid foundations for management and oversight

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

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

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

1.3 The Board has formally determined its own responsibilities and set them out in its Board Charter, and defined the powers of the Managing Director, and set out those powers in an instrument entitled 'Statement of the Powers of Managing Director'. Powers beyond the scope of this statement are reserved for the Board.

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

1.5 The Managing Director assesses annually the performance of senior executives under EFIC's performance management program.

Principle 2

Structure the Board to add value

2.1 A majority of the Board consists of independent members:

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

2.2 The Board's performance is reviewed, at a minimum, every two years. The most recent evaluation was completed in December 2009 and addressed issues such as Board composition and skills, quality of information received, roles and responsibilities, exercise of powers and effectiveness, operation of meetings, induction and education, stakeholder obligations and risk management. The main findings of the review were that the Board operates professionally and effectively.

2.3 The Board holds 'in camera' discussions without management at the end of each meeting to assess the effectiveness of the meeting and identify areas for improvement.

2.4 Management provides the Board with comprehensive and timely information on relevant matters to enable the Board to discharge its duties effectively, including provision of Board papers one week before each Board meeting. Directors are able to obtain additional information if they wish, and have access to all members of the EFIC Executive team.

2.5 EFIC publishes its key performance indicators in its annual report.

Principle 3

Promote ethical and responsible decision-making

3.1 EFIC has a Code of Conduct.

3.2 In addition, EFIC's Corporate Responsibility Policy (CRP) sets out many of the principles that enable EFIC to attain an appropriate balance between the responsibilities EFIC owes to its varied stakeholders. It assists EFIC to balance the need to achieve its purpose of overcoming financial barriers for exporters, while fulfilling its responsibilities to its broader, non-customer stakeholders. The CRP covers:

- responsibilities to exporters, particularly under EFIC's Customer Service Charter (which is published on EFIC's website), and confidentiality and privacy obligations
- responsibilities to the Australian Government
- responsibilities to EFIC's employees
- assessment of environmental and social issues (under EFIC's Policy for Environmental and Social Review of Transactions) in relation to transactions, information disclosure and anti-corruption initiatives.

Further details about EFIC's CRP are on page 60. The CRP is also published on EFIC's website.

EFIC has a policy on diversity incorporating measurable objectives and an assessment of those objectives annually by the Board. EFIC's Diversity Policy can be accessed on EFIC's website.

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

Principle 4

Safeguard integrity in financial reporting

4.1 EFIC has had an Audit Committee of the Board since inception. Details of Committee members and their qualifications appear on pages 49–51. The Board has set out the accountabilities of the Committee in a charter, available on EFIC's website. The Committee has broad responsibilities to the Board regarding risk oversight and management, including:

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

All three Committee members, including the Committee Chair, are independent, non-executive Board members. The Committee Chair is not Chair of the Board. The Committee met four times in 2010–11. EFIC's risk management system operates under the review of the Committee.

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

4.3 In accordance with the CAC Act, the Auditor-General conducts the annual external audit of EFIC. The Auditor-General contracted Ernst & Young to assist with the audit work for 2010–11.

Principle 5

Make timely and balanced disclosure

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

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

5.3 EFIC also keeps the Minister for Trade informed of developments in the financial markets that have an impact on exporters and provides information to assist the Government with policy development.

Principle 6

Respect the rights of the shareholder

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

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

6.3 EFIC respects the international agreements to which Australia is a party that relate to its business. Among the key agreements are the:

- World Trade Organization Agreement on Subsidies and Countervailing Measures
- OECD Arrangement on Officially Supported Export Credits
- OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits
- OECD Recommendation to Deter Bribery in Officially Supported Export Credits
- OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries
- OECD Guidelines for Multinational Enterprises
- Berne Union Guiding Principles.

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Principle 7

Recognise and manage risk

7.1 EFIC's risk management systems and procedures are structured around key requirements of the CAC Act, the EFIC Act, other relevant legislation, regulatory guidance and prudential standards, as well as prudent commercial practice.

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

More information about the framework is on pages 69 and 70 and the full framework is available on EFIC's website.

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

7.4 EFIC has contracted Deloitte to carry out the internal audit function within EFIC.

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

Principle 8

Remunerate fairly and responsibly

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

8.2 Board members (other than the Managing Director) do not receive any performance-related remuneration. Board members are not entitled to any retirement benefits beyond statutory superannuation entitlements. An explanation of the Remuneration Tribunal's operations and practices is available on its website (www.remtribunal.gov.au).

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

Board membership

Andrew Mohl

BEc (Hons)

Born 1955

Chairman

Term of Board appointment: from 09/12/2008 to 08/12/2011

Board attendance: 8 of 8

Independent Board member

Non-executive member

Andrew Mohl is a director of the Commonwealth Bank of Australia and the AMP Foundation and an executive coach to chief executive officers. He is also a member of the Board of Governors for the Committee for Economic Development of Australia, the Advisory Council of the Australian School of Business at the University of New South Wales and the Corporate Council of the European Australian Business Council. Andrew was Managing Director and Chief Executive Officer of AMP Limited from 2002 to 2007 and has over 30 years of financial services experience, including as Managing Director of AMP Financial Services and AMP Asset Management, Managing Director of ANZ Funds Management, Group Chief Economist at ANZ Banking Group and Deputy Head of Research at the Reserve Bank of Australia.

Michael Carapiet

MBA

Born 1958

Deputy Chairman

Term of Board appointment: from 28/11/2005 to 27/11/2008 and 09/12/2008 to 08/12/2011

Board attendance: 6 of 8

Independent Board member

Non-executive member

Michael Carapiet is Chairman of the SAS Trustee Corporation Board, and a director of Southern Cross Media Group Limited and Macquarie Specialised Asset Management. He was Executive Chairman of Macquarie Capital and Macquarie Securities until he retired in July 2011. Michael has over 30 years' financial experience, including leading major international project transactions, cross-border deals and corporate finance assignments across a number of companies, industries and countries.

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Angus Armour

BA (Hons), MBA, FFin, FAICD

Born 1963

Managing Director and Chief Executive Officer

Appointed: 31/10/2003

Board attendance: 8 of 8

Executive member

Angus Armour joined EFIC in 1993 in the project finance area and after a succession of divisional management and strategic roles was appointed Managing Director in 2003. Prior to joining EFIC, he worked with Export Development Canada in project and asset finance in Europe, Latin America and the United States, and the International Finance Corporation's project advisory team for the South Pacific. He is a Trustee of the Committee for Economic Development of Australia and member of its NSW State Council. He is also a member of the European Australian Business Council. In 2008 he served as Chairman of the Asian Exim Banks Forum and in 2006-07 as Vice President of the Berne Union, the international association of export credit and investment insurance companies. Angus was appointed President of the Berne Union in October 2009.

Bruce Brook

BCom, BAcc

Born 1955

Board member; Audit Committee member

Term of Board appointment: 01/03/2010 to 28/02/2013

Board attendance: 6 of 8

Board Audit Committee attendance: 4 of 4

Independent Board member

Non-executive member

Bruce Brook has over 30 years' experience in finance across a wide range of public companies, including WMC Resources Ltd, ANZ Banking Group Limited and Pacific Dunlop Limited. Now a professional company director, Bruce is Chairman of Programmed Maintenance Services Limited, and a director of Snowy Hydro Limited, Deep Exploration Technologies CRC, CSL Limited and Boart Longyear Limited. He is also a member of the Financial Reporting Council.

David Evans

BEc

Born 1964

Board member

Term of Board appointment: from 09/12/2008 to 08/12/2011

Board attendance: 8 of 8

Independent Board member

Non-executive member

David Evans is Managing Partner of Evans and Partners Pty Ltd, the investment advisory company he established in June 2007. He has extensive experience in investment banking and stockbroking and worked for 18 years at JB Were & Son and Goldman Sachs JBWere Pty Ltd, where his final role was Managing Director and Chief of Staff. David is Chairman of Essendon Football Club, and a director of the National Stroke Foundation and the Open Family Foundation.

Sally Pitkin

LLB, LLM, FAICD

Born 1959

Board member; Audit Committee member

Term of Board appointment: from 16/07/2007 to 15/07/2010 and 01/08/2010 to 31/07/2013

Board attendance: 7 of 7

Board Audit Committee attendance: 4 of 4

Independent Board member

Non-executive member

Sally Pitkin is a professional company director whose directorships have spanned publicly listed and private companies across a diverse range of sectors. She was a partner with Clayton Utz specialising in banking and finance law, corporate governance and privatisation, with 23 years' experience. Currently a Director of ASC Pty Ltd, UQ Holdings Pty Ltd, the Committee for Economic Development of Australia (CEDA) and Super Retail Group Limited, she is also State President of CEDA, a State Councillor of the Australian Institute of Company Directors, and a member of the Queensland Competition Authority and the Queensland Sustainable Energy Advisory Council.

Jennifer Seabrook

BCom, ACA, FAICD

Born 1957

Board member

Term of Board appointment: from 05/04/2011 to 04/04/2014

Board attendance: 2 of 2

Independent Board member

Non-executive member

Jennifer Seabrook is a Special Advisor to Gresham Partners Limited. She is a non-executive director of Iress Market Technology Limited, Iluka Resources Limited and Bank of Western Australia Limited. Jennifer is also a member of the Australian Government's Takeovers Panel and the Australian Securities and Investments Commission's External Advisory Panel.

During her career, Jennifer has worked on a variety of mergers, acquisitions, equity capital markets and capital structuring advisory transactions.

Anthony Sherlock

BEc

Born 1941

Board member; Audit Committee Chairman

Term of Board appointment: from 28/11/2005 to 27/11/2008 and 09/12/2008 to 08/12/2011

Board attendance: 7 of 8

Board Audit Committee attendance: 4 of 4

Independent Board member

Non-executive member

Anthony Sherlock has over 30 years' experience in credit risk management and corporate administration. He has served on a number of public company boards and is a Director of Kerry Gold, Royal Botanic Gardens Foundation and Stockland Capital Partners Limited.

Dennis Richardson

BA (Hons)

Born 1947

Government Board member

Appointed: 15/03/2010

Board attendance (including alternate): 7 of 8

Represents the Australian Government

Non-executive member

Dennis Richardson is Secretary of the Department of Foreign Affairs and Trade. From June 2005 to December 2009 he was Australian Ambassador to the United States and from 1996 to 2005, Director-General of the Australian Security Intelligence Organisation. Dennis was Deputy Secretary of the Department of Immigration and Multicultural Affairs from 1993 to 1996. Between 1986 and 1991 he held various senior public service roles in the departments of the Prime Minister and Cabinet and Immigration, including Principal Adviser to the Prime Minister from 1990 to 1991.

Alternate government member

Bruce Gosper

BA (Hons), Dip Pub Policy

Born 1957

Appointed: 04/03/2011

Board attendance (as alternate): 3 of 3

Represents the Australian Government as alternate Government Board member

Non-executive member

Bruce Gosper is Deputy Secretary of the Department of Foreign Affairs and Trade (DFAT). Prior to that, he was Ambassador and Permanent Representative to the World Trade Organization in Geneva. Bruce has held the roles of First Assistant Secretary, Office of Trade Negotiations at DFAT and Minister (Commercial) at the Australian Embassy in Washington. He has also been Adviser to the Minister for Trade and Assistant Secretary, Agriculture Branch at DFAT. Before joining DFAT, Bruce worked for the Department of Primary Industries and Energy, as Minister-Counsellor (Agriculture) at the Australian Embassy in Tokyo, and for the Department of Trade and Resources.

Members whose term ended in 2010-11

David Crombie

BEc

Born 1944

Term of Board appointment: 01/10/2007 to 30/09/2010

Board attendance: 2 of 2

Independent Board member

Non-executive member

Ric Wells

BA (Hons)

Born 1955

Appointed: 14/06/2009

Board attendance (as alternate): 4 of 5

Represents the Australian Government as alternate Government Board member

Non-executive member

Board and Audit Committee

During the year, the first term of Mr Crombie and Ms Pitkin expired and pending the decision of the Minister to renew for a second term, Mr Crombie and Ms Pitkin each attended one Board meeting as an observer.

The Board reviewed the charter for the Audit Committee during the year and amended the charter to clarify its function, duties and responsibilities. The Board also considered its own charter and agreed no changes were necessary.

Transactions with Board members and Board member-related entities

The Board members have declared that they do not have any interest in contracts, transactions, arrangements or agreements with EFIC, other than contracts entered into, or to be entered into, in the ordinary course of EFIC's business.

Note 22 to the Financial Statements sets out the aggregate amount of remuneration received, or due and receivable, by the Board members during the year ended 30 June 2011.

Mr Richardson, Mr Wells and Mr Gosper are Commonwealth employees.

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

- the Commonwealth guarantees the payment by EFIC of any money that becomes payable by EFIC to a third party
- in connection with National Interest Account transactions, EFIC is indemnified by the Commonwealth.

Material transactions are detailed in the Financial Statements.

Declared potential conflict of interest

The Board carefully manages conflicts of interest, or potential conflicts of interest, in relation to EFIC transactions. Other than as set out below, no Board member declared a conflict of interest or potential conflict of interest relating to an EFIC transaction considered during 2010-11.

Mr Sherlock declared a conflict of interest or potential conflict of interest in relation to a possible EFIC transaction with Downer EDI. Mr Sherlock did not participate in the discussion or the decision relating to the transaction.

Our people

Organisational structure and staff numbers

EFIC's organisational structure is outlined below. Summary figures relating to our number of employees (in full-time equivalents) are shown in Table 2.

Table 2: Number of employees

	30 June 2011	30 June 2010
Employees (excluding short-term)	**84.4**	82
Short-term contract employees	**1.4**	4
Total	**85.8**	86

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Managing Director & CEO
Angus Armour
Executive Director, Origination & Portfolio Management
Peter Field
Executive Director, SME & Mid Market
Andrea Govaert
Structured Trade & Project Finance
Transaction Management
Portfolio Management
SME & Mid Market
Alliance & Product
Trade, Commodity & Agribusiness
Human Resources
Marketing
Product Management & Risk Transfer
Government & Industry Relations

Diversity

In line with our internal principles of integrity, openness and accountability, EFIC is an equal employment opportunity (EEO) employer that encourages and values a work environment in which all staff are treated with fairness and equity. EFIC recognises that a diverse workforce can lead to strategic advantages through the exchange of skills, experiences and perspectives, which foster creativity and innovation and enhanced problem-solving capability. As a diverse organisation, EFIC supports and encourages the contribution of all people from different cultural backgrounds, age groups, life experiences, marital status, sexual orientation, religious beliefs, disability and gender. EFIC's diversity policy is published on EFIC's website.

We foster a positive, inclusive and equitable organisational culture by ensuring that employees are not harassed or discriminated against at any time in their employment. We provide equal opportunity in all aspects of employment, including conditions of employment, recruitment and selection, remuneration, training and development and promotion, all of which are supported by procedures and practices that encourage fairness and equity. We regularly review our policies and practices and train all employees, including management, on EEO and anti-discrimination matters.

EFIC has a formal commitment to reconciliation between Indigenous and non-Indigenous Australians through its *Reconciliation Action Plan* (RAP). Under the plan, EFIC aims to engender a greater awareness and appreciation of Indigenous culture among staff and, in the course of conducting its business with banks and allies including Austrade, to ensure Indigenous Australian companies involved in exporting are aware of EFIC's services. EFIC has a Reconciliation Committee that meets on a quarterly basis to support the activities outlined in the RAP.

The *Equal Employment Opportunity (Commonwealth Authorities) Act 1987* (Cth) promotes equal opportunity in employment for members of designated groups, including women and people from non-English speaking backgrounds. In accordance with the reporting requirements of the Act, statistics on EFIC's workforce profile are shown in Table 3. Although EFIC employees can be classified by role (for example, managers and administrators, professionals and associated professionals, clerical and service workers), the statistics in Table 3 are grouped by salary range due to EFIC's size and the generality of role classifications.

Table 3: Representation of workforce as at 30 June 2011

Employee diversity profile							
		Female	Male	NESB	ATSI	PWD	**Total staff**
Annual FTE salary*	Up to $75,000	21	1	13	0	0	22
		95%	5%	59%	nil	nil	**24%**
	$75,001 to $150,000	17	20	16	0	0	37
		46%	54%	43%	nil	nil	**41%**
	$150,001 and above	7	24	12	0	1	31
		23%	77%	39%	nil	3%	**34%**
	Totals	45	45	41	0	1	90
		50%	**50%**	**46%**	**0%**	**1%**	(85.8 FTE)

NESB: Non-English speaking background or parents of a non-English speaking background

ATSI: Aboriginal or Torres Strait Islander

PWD: People with a disability

FTE: Full-time equivalent

*Salary excludes superannuation.

Training and development

EFIC is committed to staff development and biannual performance reviews for staff includes an analysis of each staff member's professional development needs. Our training program this year has focused on meeting these documented needs by running programs to enhance skills such as credit analysis, and providing coaching to employees as needed. We have also conducted compliance training for the whole organisation.

EFIC encourages postgraduate study through a studies assistance program, which provides staff with financial support and study leave.

Work-life balance

We understand the pressures that balancing working life and family or personal commitments can bring. To assist employees to find this balance, we provide the following staff benefits.

Part-time work: At 30 June 2011, 12 employees, or 14 per cent of the workforce, worked part-time.

Employee assistance program: A free professional and confidential counselling service is available to all employees and their immediate families.

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

Special leave: Special leave is available to staff for reasons including moving house, emergency or disaster situations, observance of religious holidays, bereavement, blood donations and Defence Force Reserve training, as well as ceremonial leave for Aboriginal and Torres Strait Islander employees.

Carer's leave: As part of our sick leave benefit, staff members can take up to 10 days of their sick leave each year to care for immediate family members who are ill.

Flexible work arrangements: We give employees the opportunity to work flexible hours wherever possible.

Annual leave: It is EFIC's policy that staff members take a minimum of two weeks' consecutive leave each year to ensure that each person has a significant break from work. Staff can apply for extra annual leave and can purchase extra leave over a 12-month period.

Commonwealth Disability Strategy

EFIC implements the Commonwealth Disability Strategy through a range of actions. We take the following steps to include people with disabilities in consultations about issues which affect them:

- We provide access to EFIC via the internet and to a toll-free telephone service that allows concerns or feedback to be provided on any issue.
- Our Occupational Health and Safety Committee openly consults with staff.

Making information available in accessible formats to people with disabilities is a key consideration. The most effective means of providing information in accessible formats is through our website. EFIC is compliant with the Priority 1 checkpoints of the World Wide Web Consortium's accessibility standards, in line with the guidelines of the Australian Government Information Management Office.

We provide both internal and external complaint mechanisms through which people can raise concerns. Our Customer Service Charter provides a mechanism for customers to provide feedback if they are not satisfied with our service.

Occupational health and safety

Management structure

EFIC's Occupational Health and Safety (OHS) Committee meets quarterly and plays an integral role in the management of OHS. The OHS Committee has five members. Two are management representatives: the Chair of the Committee is a member of EFIC's Executive team and one member is a Human Resources representative. The three staff representatives include a Health and Safety Representative. Committee members represent EFIC employees and are responsible for reporting to the Committee on staff concerns and consulting with staff on matters discussed in the Committee.

Identifying and mitigating risks

Employees are encouraged to discuss OHS concerns with Committee members and to put forward agenda items for OHS Committee meetings. EFIC's Health and Safety Representative conducts a quarterly workplace inspection in consultation with staff and identifies matters for immediate action.

OHS risks and measures to manage those risks are consolidated in EFIC's OHS Risk Assessment Matrix. The OHS Committee reviews the matrix annually.

Given the nature of its operations, EFIC has identified travel as a risk that requires specialised monitoring. All frequent travellers have access to an annual full medical check. EFIC has also contracted a specialist organisation to provide detailed medical, business and cultural information and assistance to travellers before and during international trips.

All employees also undergo annual training on OHS.

Health and Safety Management Arrangements

EFIC's Health and Safety Management Arrangements (HSMA) set out the consultative mechanisms, agreed responsibilities and other arrangements required to maintain a safe workplace.

Consultative arrangements for developing and reviewing the HSMA and staff involvement

The main way in which EFIC consults with employees on OHS matters is through the OHS Committee.

The HSMA were developed in consultation with staff, and are reviewed annually by the OHS Committee. All staff are encouraged to participate in the review by discussing OHS concerns with Committee members or putting forward agenda items for the Committee meeting.

Informing employees about OHS arrangements

EFIC engages regularly with employees to ensure they are aware of OHS arrangements. Formal engagement includes regular staff climate surveys and staff briefings by the Managing Director and Executive team and focus group meetings for particular sections of the workforce, such as frequent travellers. Important OHS information is also communicated through the staff intranet.

OHS initiatives

EFIC's initiatives to ensure the health, safety and welfare of employees and contractors include:

- engaging international travel specialists International SOS to provide extensive security and medical assistance to staff members before and during international business trips
- offering free health checks to staff who travel frequently
- ongoing development of the 'myEFIC' intranet site to improve communication and access to information across the organisation
- providing staff and their immediate families with access to an employee assistance program, which is regularly reviewed by the Human Resources department
- purchasing additional equipment for use by staff travelling to remote destinations, such as satellite phones
- providing a corporate income protection (salary continuance) insurance policy for eligible employees
- arranging reviews of workstations by an accredited rehabilitation provider, as requested by staff, to address any ergonomic issues
- consulting with experts regarding OHS guidelines and standards as part of the office refurbishment, including OHS risk assessments and ergonomic reviews
- making available flexible work practices, paid parental leave and the purchase of additional annual leave, to reduce the pressures of balancing work and family life.

Accidents or dangerous occurrences

There were no serious injuries during 2010-11. EFIC conducts regular testing and preventative maintenance on its plant and equipment, including air conditioning, and undertakes all reasonable steps to eliminate or minimise risks to staff and visitors to the building.

Investigations and notices

EFIC did not receive any notices under the *Occupational Health and Safety Act 1991* (Cth) during 2010-11.

Corporate responsibility

Approach to corporate responsibility

EFIC's Corporate Responsibility Policy (CRP) sets out the principles used to balance our different responsibilities to our various stakeholders. It assists us to fulfil our responsibilities to our broader, non-customer stakeholders while pursuing our mandate of facilitating and encouraging Australian export trade and investment. The CRP helps EFIC achieve the delicate balance between maintaining customer commercial confidentiality and providing transparency of our operations.

The policy sets out our responsibilities to exporters, the Australian Government, our employees and the wider community. Further information about the CRP and related reporting is available on our website.

EFIC has a statutory requirement under section 516A of the *Environmental Protection and Biodiversity Conservation Act 1999* (Cth) to report its environmental performance. Our reporting is in two parts: how environmental and social issues are considered in the provision of EFIC's solutions for exporters; and EFIC's direct environmental performance.

Environmental and social review of transactions

EFIC's corporate values include a commitment to uphold best-practice environmental and social standards in the transactions it supports. Over the period 2009-11, EFIC undertook a review of its 2005 Environment Policy and prepared a new policy and procedure. Our Policy for Environmental and Social Review of Transactions sets out the principles we apply to meet our corporate values, and our Procedure for Environmental and Social Review of Transactions describes how we implement the policy. The EFIC Board adopted the policy on 17 February 2011.

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

In the review of the 2005 Environment Policy, EFIC considered a range of factors such as: practical experience of implementing the policy; feedback from EFIC's stakeholders; concurrent reviews of the OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits (the Common Approaches) and the International Finance Corporation (IFC) Performance Standards; and the evolution of EFIC's business. EFIC also had dialogue with representatives of three civil society organisations which provided valuable feedback for the new Policy and Procedure.

EFIC's new policy continues to adopt the IFC Performance Standards as its general benchmark for environmental and social review.

EFIC has voluntarily joined two other initiatives: the United Nations Environment Programme Finance Initiative and the Equator Principles. Both initiatives are consistent with EFIC's Policy for Environmental and Social Review of Transactions.

EFIC's Policy for Environmental and Social Review of Transactions includes a screening process that recognises:

- the broad range of potential social and environmental impacts arising from export transactions and overseas investments
- an exporter's or investor's role in a transaction, which can determine their responsibility and ability to manage environmental and/or social impacts
- the different roles that EFIC plays in transactions.

Screening identifies two types of transaction: projects (which are further divided into new and existing projects) and non-projects (where a transaction is not associated with an identified location or operation). New projects are classified according to their potential for environmental and/or social impact as follows:

- **Category A:** potentially significant adverse environmental and/or social impacts
- **Category C:** minimal or no adverse environmental and/or social impacts
- **Category B:** environmental and/or social impacts in the spectrum between A and C.

Existing projects and non-projects are further divided according to whether they have a potential for environmental and/or social impact. During 2010–11 we considered a mix of transactions under the 2005 and 2011 policies.

Table 4 summarises the number of EFIC's medium- to long-term facilities and their type of environmental review for 2010–11 and includes comparative data for the previous two financial years. The table excludes transactions involving EFIC Headway and transactions dealing only with foreign exchange products, receivables financing and Producer Offset loans (these transactions are considered to have low potential for environmental and social impact).

Table 1 on pages 24 and 25 shows more information about EFIC's transactions in 2010–11.

Table 4: Environmental review summary*

Year	Environmental review				
	Category A	Category B	Category C	Existing project and non-project potential impact	
				Yes	No
2010-11					
All facilities	0	2	22	0	2
Project finance	0	0	0	N/A	N/A
2009-10					
All facilities	1	4	13	Not separately considered	Not separately considered
Project finance	1	0	0		
2008-09					
All facilities	0	2	15	Not separately considered	Not separately considered
Project finance	0	0	0		

*Projects involving multiple facilities are counted as a single facility for the purpose of this table.

EFIC's operations: environmental performance

EFIC operates from Export House, which is located at 22 Pitt Street, Sydney. EFIC owns Export House and currently occupies four floors of the building; the remaining six floors are let to tenants. EFIC took occupancy of an additional floor during 2010 to allow refurbishment to progressively take place on its normal three floors.

In managing our environmental performance, we endeavour to minimise the building's environmental footprint. Table 5 summarises the available information on EFIC's energy use, water use, wastewater generation, solid waste generation and business travel in the 2009–10 and 2010–11 financial years. Two years of data are presented to allow comparison between the years.

Table 5: EFIC's environmental performance

Parameter	2009-10	2010-11
Energy use		
Electricity, megajoules/m2		
EFIC occupancy	975[1]	930[1]
Building services (EFIC's share)	571[2]	536[2]
Green energy, megajoules	0	0
Gas, megajoules	0	0
Water and wastewater		
Water, kilolitres	5,293[3]	5,410[3]
Sewage, kilolitres	3,414[3]	2,664[3]
Solid waste		
	Not available[4]	Not available[4]
Business travel by EFIC employees		
Total domestic	0.67 million km	0.74 million km
Total international	2.13 million km	2.81 million km

1 This figure represents EFIC's energy use only, that is, energy consumed on the three main floors it occupies. It includes EFIC's computer facilities which, like all computer services, have a high energy demand. Energy consumption for the fourth floor was not included as the figures were unreliable.

2 Building services are common facilities for all floors of Export House and include lighting to common areas, lifts and air conditioning.

3 The water and wastewater figures represent total usage by Export House. It is not possible to separate figures for water use and wastewater generation by floor or by tenancy.

4 Data on the generation of waste cannot be calculated with the existing building design and current waste contract. Systems will be established to obtain this data as part of the refurbishment.

Given the major refurbishment underway, the energy consumption and water and wastewater generation figures are not comparable between the two years.

EFIC employees' international business travel increased significantly during 2010–11. A majority of this travel is associated with either due diligence for new transactions or the management of existing transactions. EFIC accepts higher risks than its commercial peers and the travel is considered essential to appropriately manage those risks.

EFIC's environmental performance at Export House is managed within principles that seek to promote energy efficiency, recycling and other measures to reduce the environmental footprint of the premises. EFIC is undertaking major refurbishment works to its premises, with the objective of obtaining a 4.5-star rating under the National Australian Built Environment Rating System.

The renovations commenced in early 2011 and are expected to take around 18 months to complete. They include:

- Air conditioning and lighting designed to reduce the building's energy use (and associated greenhouse gas emissions). Lighting is also designed to minimise eye strain and headaches from flicker. Air conditioning systems use zero refrigerants with ozone depletion potential.
- Each new floor has user-controlled lighting zones and movement sensing controls to save energy by lighting only those areas in use.
- All new bathrooms and kitchens have water-efficient fixtures, including low-flow basins, showers and toilets and 5A-rated dishwashers.
- During the renovations, over 80 per cent of the construction and demolition waste (by weight) is being re-used or recycled.

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- Workstations, chairs, tables and flooring were selected based on environmental performance. A majority of furniture and flooring items are durable, designed for easy disassembly and re-use and contain eco-preferred content.
- A waste management plan is being implemented in stages during 2011 to improve recycling rates within occupied floors.
- Indoor pollutants are minimised by selecting paints, carpets, sealants and furniture with low levels of volatile organic compounds, which can have adverse health effects such as eye, nose and skin irritation, headaches and lethargy. Indoor plants will be situated on each new floor to assist air pollutant removal and further improve indoor air quality.
- Existing bicycle storage, lockers and showers will be improved to encourage building occupants to cycle to work. These improvements will be completed by early 2012.

Systems will be installed to monitor energy and water use and waste generation and assess performance against targets. These will be installed and operating by the end of 2011. There will be a further 12-month monitoring period following the completion of the renovations, to maximise the operational efficiency of all systems that use energy and water.

A tenant guide is being prepared that contains information on energy-efficiency strategies and features of the refurbishment, energy benchmarks and targets for the building, a description of the basic function and operation of all building services, and information on waste and recycling.

Equator Principles reporting

Principle 10 of the Equator Principles requires a signatory to report on its implementation of the Equator Principles, including the number of project finance transactions screened and their categorisation. Table 4 summarises the number of project finance transactions signed over the past three years. EFIC supported no project finance transactions in 2010–11.

Several project finance transactions were considered during the financial year 2010–11 but none has yet proceeded. From July 2011 EFIC will report as 'screened' those projects for which a checklist was initiated under its Procedure for Environmental and Social Review of Transactions.

Indemnities and insurance

All of EFIC's employees and Board members, and certain former employees and Board members, had the benefit of an indemnity from EFIC during 2010–11, covering them for liabilities incurred as an officer of EFIC and related legal costs. The scope of the indemnity is consistent with the requirements of the CAC Act and the *Competition and Consumer Act 2010* (Cth) in relation to such indemnities.

During 2010–11, EFIC did not pay any amount in connection with Board member or employee indemnities.

During the year, EFIC maintained and paid premiums for certain insurance covering its employees and Board members.

Judicial and administrative decisions and reviews

We believe that during the financial year ended 30 June 2011, there were no judicial decisions or decisions of administrative tribunals that have had, or are likely to have, a significant impact on our operations.

The Auditor-General provided his annual Independent Audit Report on EFIC's Financial Statements. The report was unqualified.

Freedom of Information

EFIC has provided quarterly reports and an annual report in relation to Freedom of Information (FOI) requests. During the year, we met our obligations under the *Freedom of Information Act 1982* (Cth) (as amended) (FOI Act), including the Information Publication Scheme (IPS) requirements subject to any exemptions applicable to EFIC.

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

Functions, organisation and powers

EFIC's functions and general powers are detailed in sections 7 and 11 of the EFIC Act. EFIC's powers to provide specified insurance and financial services and products on the Commercial Account and National Interest Account are detailed in Parts 4 and 5 of the EFIC Act respectively. An organisational structure for EFIC is shown on pages 54 and 55.

Arrangements for outside participation

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

Information Publication Scheme

The information EFIC is required to publish under the IPS, other than exempt material, is as follows.

- **IPS Agency Plan:** describes how EFIC complies with the IPS requirements of the FOI Act.
- **Who we are:** information about EFIC's role as the Australian Government's export credit agency, the composition of EFIC's Board (including statutory appointments) and organisational structure.
- **What we do:** EFIC's functions are set out in Parts 4 and 5 of the EFIC Act and our principal accountabilities are to the Minister for Trade and Federal Parliament.
- **Our Board:** information about our Board members, the Board charter and the Board Audit Committee, and our governance framework.
- **Our responses to Parliament:** EFIC will publish any information that it routinely provides to Parliament.
- **Our annual reports**
- **Routinely requested information and disclosure log:** As at 30 June 2011, EFIC had received no routine requests for information. EFIC's disclosure log sets out any information that has been released in response to an FOI access request.

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- **Consultation arrangements:** If EFIC undertakes public consultation on a specific policy proposal, it will make available information about how members of the public can make submissions on the proposal.
- **Our priorities:** are encompassed in our vision, mission and values.
- **Our finances:** EFIC's financial statements are published each year in its annual report.

Other EFIC documents and publications

We also produce a range of publications aimed at informing Australian exporters and companies investing overseas, as well as a broader audience, about EFIC. Key publications in 2010-11 included:

- *Annual Report 2010*
- product fact sheets for various new EFIC products
- case studies for various EFIC transactions
- *EFIC at a glance* flyer – three industry-specific flyers for the treasury and education services industries and our partners
- *Export consultants' referral checklist* – flyer to help partners decide when to refer their clients to EFIC
- *World Risk Developments* newsletter – a regular analysis of worldwide economic and finance developments for Australian exporters and investors abroad
- Special edition of *World Risk Developments* – 'December 2010: the year that was and the one ahead'
- *Country Profiles* – in-depth analyses of business and investment risks in various overseas countries.

In addition, our IPS Agency Plan, Corporate Responsibility Policy, Customer Service Charter, Privacy Policy, Policy for Environmental and Social Review of Transactions and Anti-Corruption Policy are key documents that are available to the public. They are also published on EFIC's website at www.efic.gov.au.

Facilities for access

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

Freedom of Information procedures and initial points of contact

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

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

Telephone: +61 2 8273 5449
Fax: +61 2 9201 2292

Particulars of directions by the Minister

Section 9 EFIC Act directions

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

EFIC complied with the section 9 directions referred to below during the 2010–11 financial year. It is not possible to assess the financial effect on EFIC of these directions.

During the year ended 30 June 2011, directions dated 4 July 2007 were in effect in relation to the following matters:

- EFIC's continuing participation in Australian Government negotiations in the Paris Club
- EFIC's compliance with Australia's obligations under the OECD Arrangement on Officially Supported Export Credits
- funding arrangements arising from the 2006 EFIC Review.

Uranium

A section 9 direction dated 1 June 2010 was in effect during the year ended 30 June 2011 in relation to uranium. The direction states that EFIC must not provide assistance for any transaction linked to uranium without specific written agreement from the Australian Government. It also sets out preconditions that must be satisfied before EFIC submits a request seeking agreement from the Australian Government for EFIC to provide assistance.

The preconditions are designed to be consistent with nuclear non-proliferation standards and safeguards applicable to uranium exports from Australia. To further ensure that Australia's non-proliferation objectives are met during EFIC's participation in a project involving uranium, the documentation evidencing EFIC's support for the project must include certain covenants. These include allowing EFIC to withdraw from the transaction in the event that the uranium activities fail to comply with non-proliferation, environmental or social conditions relating to uranium. The documents also require regular reporting on uranium exports from the mine and notification of changes to uranium-related regulations in the producing country.

Iran

A section 9 direction dated 15 October 2008 was in effect during the year ended 30 June 2011 in relation to trade with Iran.

The direction states that EFIC must not accept an application from a person in respect of any transaction that relates to trade with, or investment in, Iran. Nor is EFIC to provide any insurance or financial services or products or in any other way assist or facilitate any trade with, or investment in, Iran.

Zimbabwe

A section 9 direction dated 27 May 2009 was in effect during the year ended 30 June 2011 in relation to Zimbabwe. Under this direction:

- all decisions regarding support for trade with, or investment in, Zimbabwe must be made by the Board
- the Board must not approve any application prior to referring the matter to DFAT for determination
- the Board must accept as decisive a determination by DFAT on the compliance or otherwise of an application with Australian autonomous sanctions in respect of Zimbabwe.

Democratic People's Republic of Korea

A section 9 direction dated 19 July 2009 was in effect during the year ended 30 June 2011 in relation to the Democratic People's Republic of Korea (DPRK). The direction states that EFIC must not:

- accept an application from a person in respect of any transaction that relates to trade with, or investment in, the DPRK
- provide any insurance or financial services or products or in any other way assist or facilitate any trade with, or investment in, the DPRK.

Section 29 EFIC Act directions

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

During the year ended 30 June 2011, a direction dated 4 July 2007 was in effect which set out facility terms for the provision by EFIC of indemnities or guarantees up to an aggregate of $30 million in relation to advance payments under, or performance of, contracts or proposed contracts.

Section 31 EFIC Act directions

Section 31 of the EFIC Act permits the Minister to issue directions to EFIC to reduce or reschedule any actual or contingent liability of EFIC in respect of National Interest Account transactions.

On 8 July 2010 the Minister issued a section 31 direction requiring EFIC to enter into and perform its obligations under a deed with the Republic of Indonesia. The direction requires the deed to be consistent with, and to implement, the debt cancellation terms of an arrangement signed on 15 July 2010 between the Commonwealth of Australia, the Republic of Indonesia and the Global Fund to Fight AIDS, Tuberculosis and Malaria ('Global Fund'). That agreement records the Commonwealth's intention to forego repayment of up to $75 million in debt service owed to EFIC by the Republic of Indonesia in exchange for investment by the Republic of Indonesia of the equivalent of $37.5 million in tuberculosis programs in Indonesia approved by the Global Fund.

Report of Operations

Risk management and financial matters

Risk Management Framework

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

A key element in the Risk Management Framework is the Risk Control Matrix (RCM), which sets out each of the risks that the business faces as well as the mitigants in place and the people responsible for managing the risks. It also includes management's ratings regarding the likelihood and consequences of each risk. By 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. Operational and financial risks are broken down into a number of subcategories: general processes, external regulation, internal policies, domestic and international laws, and events. Various probability factors are allocated to each risk event, as well as the likelihood of the risk event occurring given existing controls. In this regard, the RCM attempts to capture all of the risks EFIC is managing.

The development of the Risk Management Framework underlines EFIC's commitment to continuously improve its risk management practices, with particular emphasis on planning to identify new risks.

Risk appetite

The Board is of the view that risk appetite goes to the heart of how EFIC does business. A clear statement of our risk appetite is important in giving key stakeholders like clients, Government, employees and regulators an indication of how EFIC will operate from a risk-taking perspective and the type of risk culture that EFIC promotes.

To ensure effective monitoring and governance, EFIC's 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 EFIC Act and the associated regulations, and the CAC Act and regulations and orders made under it.

Risk appetite is set within a range from 'risk intolerant' to 'risk tolerant'. EFIC willingly accepts risks that are aligned with its risk culture and are consistent with its role of providing services in the segment of the credit and insurance services market where the capacity of commercial financiers or insurers is limited or insufficient to support the needs of financially viable Australian exporters and investors.

Further information on EFIC's Risk Management Framework is available on EFIC's website.

Core principles

EFIC's risk management is built on a foundation that includes:

- awareness and commitment to a single mission, common objectives, shared values and a Code of Conduct that are reviewed and renewed periodically
- a suite of policies and procedures which are supplemented by supportive systems
- human resources practices intended to recruit, train and retain employees with the required specialist skills
- delegation of responsibility throughout EFIC and accountability for outcomes
- control processes including structured management reporting, a system of independent review and Board oversight
- an operational philosophy that seeks to anticipate and mitigate risks before they occur and that reflects on the lessons learned when problems arise.

Roles and responsibilities

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

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

The Credit Committee, chaired by EFIC's Chief Credit Officer, examines credit policy and practices in relation to all exposures and potential transactions.

The Risk and Compliance Committee, chaired by EFIC's Compliance Counsel, examines, monitors and regulates compliance risks.

The Treasury Risk Review Committee, chaired by the Head of Treasury, examines treasury activities, limits, noteworthy transactions and current issues.

An independent internal audit service provider is engaged by the Board to review risk management and internal controls. The internal audit service provider, currently Deloitte, reports to the Audit Committee of the Board and the Executive and has full access to staff and information when conducting its reviews.

The Australian National Audit Office and its appointed agent, currently Ernst & Young, perform an independent review of EFIC's financial statements.

The Chief Financial Officer is responsible for managing the Risk Management Framework, including its periodic review and renewal.

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Allowance for credit risk

While it is never possible to know in advance the losses a financial institution will suffer in a particular year, it is possible to forecast the average level of credit losses it can reasonably expect to experience. The Basel II guidelines refer to such losses as 'expected losses'.

Financial institutions view expected losses as a cost component of doing business and manage them by a number of means, including through the pricing of credit exposures and through credit-related provisioning.

The Basel Committee's belief, shared by the Australian Prudential Regulation Authority (APRA), is that credit-related provisions should reflect a financial institution's 'expected' credit losses, whereas capital should principally cover any 'unexpected' losses.

The underlying profitability of EFIC in the longer term depends primarily on actual credit losses in the portfolio. However, in the past a major influence in determining EFIC's annual profit result has been the level of expected losses rather than actual credit losses.

Under 'fair value', expected losses are incorporated into the fair value calculation as an allowance for credit risk. The current model takes into account the magnitude and nature of the exposures, their risk grading, the type of exposure and the maturity. EFIC estimates the magnitude of the losses using external data for losses of similarly graded risks, as its own loss history is too narrow to be statistically sound. The fair-value methodology is based on a whole-of-life portfolio, rather than being event driven, for specific risk characteristics.

Periodically, we review our methodology and results against independent market sources to ensure consistency. We also review the inputs to the model such as probability of defaults and loss given defaults each year and run scenarios that stress-test the model to take into account severe changes in economic conditions, including industry downturns, market-risk events and liquidity conditions.

When it is likely that a loan or debt will not be recovered in full due to a specific event, the model is not used and instead we determine an appropriate amount to set aside for expected loss. The allowance for credit risk provides for possible loan defaults as well as potential claims in relation to off-balance sheet facilities, such as export finance guarantees.

Our allowance for credit risk on our Commercial Account in 2010–11 increased from $45.2 million to $51.9 million. This increase was mainly due to drawdowns and changes in risk grades. We assess individual exposures with a ratings modifier of 'plus' or 'minus'. As a result, a modifier will be applied to a risk party that the underwriter justifies as particularly strong or weak for that credit grade.

We also wrote back $5.3 million for specific events in 2010–11, bringing the balance for specific events to $7.4 million.

We do not make any collective provision for losses on National Interest Account facilities as the Commonwealth reimburses EFIC for any losses.

We monitor closely the financial health and risk grade of each of the counterparties to which EFIC is exposed. At year end, the weighted average risk grade of our Commercial Account exposures (including political risk insurance policies and reinsurers) was an EFIC risk score (ERS) of 3.6. An ERS of 1 is equivalent to a rating of AAA through AA- (Aaa through Aa3) from the major credit rating agencies, while an ERS of 7 is the lowest grade before default. An ERS of 4 is the equivalent of BB+/BB- (Ba1/Ba3).

Allowance for derivative risk

The fair value of any financial instrument should reflect the credit risk associated with the instrument. The global financial crisis resulted in credit downgrades to a significant number of EFIC's counterparties, and to date there has been no material improvement or credit upgrades to those impacted banks.

Accordingly, we apply a credit valuation adjustment (CVA) on positive (in-the-money) exposures which reflects the credit risk associated with a financial instrument, including the creditworthiness of the counterparty to the instrument. In addition, we apply a debt value adjustment (DVA) on negative (out-of-the-money) derivative exposures. EFIC therefore offsets 'losses' from CVA with 'gains' from DVA, resulting in a smaller net impact to profitability.

During the year we provided an additional $0.9 million against derivative counterparty risk, bringing the total provision at 30 June 2011 to $5.3 million.

Capital adequacy

Under section 56 of the EFIC Act, the Board is required 'to ensure, according to sound commercial principles, that the capital and reserves of EFIC at any time are sufficient'. This requirement relates only to our Commercial Account activities. APRA requires banks in Australia to have minimum capital requirements consistent with the Basel II framework. Although EFIC does not have to comply with APRA guidelines, the Board has adopted Basel II principles, in line with best practice, for measuring capital adequacy within EFIC until Basel III guidelines are released and finalised by APRA.

When making this assessment, 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.

EFIC's lending business is essentially similar to a wholesale corporate banking business, although the risk profile is different from that of a typical bank. We have 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 assessments 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 framework issued by the Basel Committee on Banking Supervision. The model covers credit risk, operational risk, market risk and credit concentration risk.

We assign probability of default statistics and loss-given default ratios to each of our facilities and calculate an amount of capital accordingly, with the riskier, longer-dated facilities requiring more capital than the less risky, shorter-dated facilities. We have used probability of default statistics published by the major ratings agencies and Berne Union statistics to assist in constructing the model.

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.

The Board reviews the model and calculations annually and is satisfied that, during the year, EFIC's capital, including callable capital, was adequate to support the risks EFIC assumed.

We will continue to review our capital adequacy in light of our risk profile (both current and projected), the amount of risk concentration in the portfolio, the demand for our support from both SMEs and large corporates and any further external developments.

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Large exposures

EFIC has adopted APRA guidelines in relation to large exposures. Australian banks are required to consult with APRA prior to committing to any aggregate exposures to non-government, non-bank counterparties exceeding 10 per cent of their capital base. APRA has also indicated a maximum exposure per non-bank counterparty (or related group of counterparties) of 25 per cent of capital but has emphasised that this is an upper limit. Only better-rated risks would be contemplated for these levels of exposures.

The Board has endorsed a limit of 25 per cent of capital and reserves (including callable capital) to apply to exposures graded ERS 1 (AAA/AA– or Aaa/Aa3) or ERS 2 (A+/A– or A1/A3), but a 15 per cent target applies for risks graded ERS 3 (BBB/Baa) or worse within the general guideline of 25 per cent. Exceptions in excess of the 15 per cent target would require consideration by the Board in light of such issues as the creditworthiness of the relevant counterparty or group of related counterparties, the tenor of the exposure and the level of Australian content and interest in the particular transaction.

In any event, 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 increases in exposure limits to single counterparties under risk transfer arrangements from a maximum of 25 per cent to 37.5 per cent for risk transfer partners rated ERS 1 or 2; and from a maximum of 25 per cent to 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 EFIC as Approved Deposit-taking Institutions (ADIs) 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 EFIC's capital has a maturity of six months or less.

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

Treasury activities

EFIC's treasury activities are carried out within a control framework approved by the Board and compliant with the EFIC Act, the CAC Act and approvals of the Australian Government. Within this framework, we aim to minimise the cost of funding our loan assets on both the Commercial Account and National Interest Account and to maximise the return on our investments, including funds representing our equity, cash reserves and working capital. Our Treasury unit confines risk to highly rated counterparties and does not trade speculatively.

EFIC's functions and obligations are set out in the EFIC Act, including the framework for EFIC's funding activities by Treasury. Section 61 of the EFIC Act states that 'EFIC must not borrow or raise money except under section 58 or 59'. Section 58 allows the Finance Minister to lend money to EFIC, out of money appropriated by Parliament, and section 59 allows EFIC to borrow or raise money, subject to written approval of the Finance Minister. To date, EFIC has funded its activities under section 59 approvals.

EFIC borrows in the international market to fund its lending operations. The core function of EFIC's Treasury is to obtain competitive rates and to manage the reserves that represent EFIC's capital base. Treasury uses derivative products to minimise currency and interest rate risks involved in EFIC's business. EFIC's power to enter into derivatives transactions derives from its general powers in section 11 of the EFIC Act.

EFIC's management reports regularly to the Board the results of its treasury operations.

The loans we have provided to customers and the rescheduled debts are mostly denominated in foreign currencies. As at 30 June 2011, taking both the National Interest Account and Commercial Account into consideration, 70 per cent were denominated in US dollars and 21 per cent in euro.

EFIC funds its assets in matched currencies, either by borrowing in the appropriate currency or, more usually, by borrowing in another currency and using cross-currency swaps or foreign exchange markets to 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, as noted previously, foreign exchange rates do affect EFIC's 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.

Note 18 of the Financial Statements provides further details of EFIC's financial exposures.

Borrowings

Under section 62 of the EFIC Act, the Commonwealth guarantees all of EFIC's liabilities, including our borrowings from third parties. Section 59 of the EFIC Act allows us to borrow or raise money, subject to written approval of the Finance Minister. The main borrowing instruments currently used are medium-term notes issued in the capital markets and euro-commercial paper.

The main reason we borrow money is to fund loans made to exporters on either the Commercial Account or the National Interest Account.

Funding may also be necessary when contingent liabilities, such as EFGs provided to banks to support the financing of Australian export trade, are called and EFIC pays out the bank. For this reason, we are required to have additional funding available to cover the possibility of borrower defaults and subsequent calls by lending banks on EFIC's guarantees.

We are also authorised to raise funds from our approved commercial paper borrowing facilities in advance of loan funding needs. This facility was introduced in 1990 to maintain a minimum market presence and therefore enhance the effectiveness of EFIC's funding ahead of permanent funding requirements.

We continued to issue short-term euro-commercial paper during 2010–11. Issues were mainly in US dollars.

New capital market issues under our medium-term note programs in 2010–11 raised $632 million, compared with $613 million in 2009–10. We made six issues in 2010–11, compared with eight in 2009–10. All other funding activities for the year were confined to the short-dated commercial paper market and short-term direct loans from banks. During the year, we were able to borrow at sub-LIBOR margins using derivative markets.

The new capital market issues during the 2010–11 year are shown in Table 6 below.

Investments and liquidity

At 30 June 2011, the face value of EFIC's investment and liquidity holdings on the Commercial Account was $1,352.5 million, comprising cash, bank deposits and investment securities. Of this amount, $410.8 million represented cash capital and reserves, while the remainder represented liquidity held to maintain a minimum market presence or to refinance borrowings.

EFIC's treasury investments, which are treated from an accounting perspective as 'available-for-sale', are required to be 'marked to market' and gains or losses are to be reflected through equity, not profit and loss. While our policy is to hold our investments to maturity, they can be sold if necessary. Assuming no credit defaults, any 'unrealised' gains or losses caused by revaluations will not be realised. The investment approval issued by the Finance Minister under the CAC Act requires our treasury investments to be in entities rated AA- or better or ADIs rated BBB- or better.

Table 6: New capital market issues in 2010–11

Arranger	Term (years)	Currency	Amount (million)	US$ equivalent (million)
Royal Bank of Scotland plc, Australia Branch and Citigroup Global Markets Australia Pty Ltd	10	AUD	500	500.5
Citigroup Global Markets Ltd	14*	JPY	500	5.9
HSBC Bank plc	10*	USD	30	30.0
HSBC Bank plc	10*	USD	30	30.0
HSBC Bank plc	10*	USD	40	40.0
Daiwa Capital Markets Europe Ltd	9.6**	NZD	40	19.2
Total				**$626.2**
Equivalent to (as at 30 June 2011)				**A$632 million**

*Callable structure (redeemable by the issuer before the scheduled maturity).
**Structured bonds issued at a deep discount.

Reschedulings and debt forgiveness

In previous years, pursuant to Paris Club determinations, EFIC has rescheduled debts owed by the Indonesian, Egyptian and Iraqi Governments. The Paris Club is a group of government creditors, the role of which is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. There were no new Paris Club reschedulings during 2010–11.

Indonesia

At 30 June 2011, our loans to the Indonesian Government were $492.3 million on the National Interest Account and $10.3 million on the Commercial Account. The National Interest Account loans were predominantly loans supported by aid grants and approved under the now discontinued Development Import Finance Facility. The loans have various maturities, the longest having a final repayment in 2024.

Payments originally due from Indonesia between August 1998 and December 2003 have been rescheduled on three occasions in the Paris Club. The rescheduled payments totalled US$21 million on EFIC's Commercial Account and US$93 million and €108 million on the National Interest Account.

On 8 July 2010 the Minister issued a section 31 direction requiring EFIC to cancel up to $75 million in debt service owed to it by the Republic of Indonesia. This cancellation is contingent on the Republic of Indonesia investing in Global Fund-approved tuberculosis programs (see page 67 for more information). During the year, $7.5 million was cancelled under this program.

Egypt

At 30 June 2011, EFIC was owed $96 million and US$31 million by the Egyptian Government ($24 million on the Commercial Account and the balance on the National Interest Account). These amounts arose from credit insurance claims paid in respect of wheat exports in the mid-1980s. These debts were subject to rescheduling at Paris Club meetings of Egypt's Government creditors in 1987 and 1991 (with partial debt forgiveness agreed at the latter meeting) and are repayable by 2016. At 30 June 2011, all rescheduled amounts had been paid on time as per the rescheduling agreements.

Iraq

Between 1987 and 1992, EFIC paid credit insurance claims, mostly on the National Interest Account, in respect of non-payment by the Iraqi Government for exports from Australia. These credit insurance claims were expensed as paid. The prevailing situation in Iraq following the claim payments prevented EFIC and the Government from pursuing the recovery of this money. After the passage of United Nations Security Council Resolution 1546 and transfer of full sovereignty to the interim Iraqi Government, the country's external debt was restructured in the Paris Club.

The Paris Club agreed to provide Iraq with 80 per cent debt forgiveness in three stages. In May 2006, EFIC signed a bilateral agreement with Iraq, which triggered 60 per cent forgiveness under stages one and two of the debt-relief package. The third and final stage of debt forgiveness, 20 per cent, was made in accordance with the last International Monetary Fund (IMF) Board review of Iraq's three-year IMF Program, in December 2008. The remaining principal debt is to be repaid over 17 years from 2011. Iraq's debt is currently treated as a contingent asset in the Financial Statements. Any recoveries under this agreement will be taken to income as and when received. During the year, $8.2 million was taken up as income on the National Interest Account.

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Dividends

The EFIC Act requires the Board to make a recommendation to the Minister for Trade on the payment of a dividend to the Commonwealth. The Minister, by written notice to EFIC, either 'approves' the recommendation from the Board or 'directs' the payment of a different specified dividend.

During the year, the Minister for Trade directed that EFIC pay a dividend of $28.7 million for the year ended 30 June 2010, representing 75 per cent of the Commercial Account profit for that year.

At the date of publication, a determination in respect of the dividend for the year ended 30 June 2011 had not been made.

Effect of providing non-commercial services

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

Ten-year summary

Years ended 30 June	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Commercial Account										
Export contracts and overseas investments supported	3,473	3,561	817	2,219	1,367	605	176	502	1,967	889
Net interest income	39.6	38.3	44.5	32.2	23.4	19.3	18.5	17.7	15.3	13.7
Premiums and fees (accrual)	0.0	0.0	0.0	0.0	0.0	0.0	16.0	16.9	17.3	13.5
Fair value loans and guarantees	17.5	33.6	14.5	7.2	6.2	21.0	0.0	0.0	0.0	0.0
Total premiums and fees	17.5	33.6	14.5	7.2	6.2	21.0	16.0	16.9	17.3	13.5
Effect of reinsurance	(3.0)	(1.6)	(3.5)	(2.6)	2.8	(1.8)	(3.2)	(1.7)	(1.4)	(0.1)
Net premiums and fees	14.5	32.0	11.0	4.6	9.0	19.2	12.8	15.2	15.9	13.4
Fair value other financial instruments	(6.1)	(7.4)	(4.2)	(1.6)	21.0	0.0	0.0	0.0	0.0	0.0
Other income	3.0	2.6	3.0	2.9	2.4	1.9	2.9	2.7	2.2	2.2
Total revenue	51.0	65.5	54.3	38.1	55.8	40.4	34.2	35.6	33.4	29.3
Operating expenses	(24.5)	(23.8)	(20.6)	(18.8)	(15.5)	(12.5)	(11.7)	(9.0)	(7.2)	(7.6)
Realised foreign exchange profit/(loss)	0.0	0.0	(0.1)	0.0	0.1	(0.2)	(0.1)	0.0	(0.4)	(0.2)
Profit before specific provisions	26.5	41.7	33.6	19.3	40.4	27.7	22.4	26.6	25.8	21.5
(Charge)/credit for sundry allowances	3.6	(3.4)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Charge)/credit for specific provisions	0.0	0.0	0.0	0.0	0.0	0.0	6.7	(3.2)	2.9	2.2
Profit/(loss) from the discontinued credit insurance business*	0.1	0.0	0.2	0.4	0.3	1.0	0.3	4.3	(3.2)	(4.3)
Operating profit before tax	30.2	38.3	33.6	19.7	40.7	28.7	29.4	27.7	25.5	19.4
Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit of the Corporation	30.2	38.3	33.6	19.7	40.7	28.7	29.4	27.7	25.5	19.4
Dividend (paid the following year)	Not decided	28.7	16.8	9.8	20.4	14.3	14.7	12.6	12.7	9.7
Special dividend	0	0	0	0	0	0	0	2.5	0	0
Equity	408.1	407.6	376.7	331.2	359.8	321.7	287.5	266.2	253.7	237.9
Return on average equity (% pa)	7%	10%	9%	6%	12%	9%	11%	11%	10%	9%
Dividend payout ratio	Not decided	75%	50%	50%	50%	50%	50%	55%	60%	50%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	361	341	227	145	120	210	263	274	309	368
Funded EFGs	102	115	55	0	0	0	0	0	0	0
Guarantees and other off-balance sheet exposures	362	403	514	510	408	464	498	529	611	753
Exposures reinsured	112	87	206	212	103	142	97	82	48	15
Rescheduled debts	24	28	24	25	26	33	37	39	41	44
Export finance facilities	961	974	1,026	892	657	849	895	924	1,009	1,180
Retained credit insurance exposures	0	0	0	0	0	0	0	0	16	125
Reinsured credit insurance exposures	0	0	0	0	0	0	0	0	1,176	1,137
Credit insurance facilities	0	0	0	0	0	0	0	0	1,192	1,262
Total Commercial Account facilities	961	974	1,026	892	657	849	895	924	2,201	2,442

*The credit insurance business was divested on 30 September 2003.

Years ended 30 June	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
National Interest Account										
Export contracts and overseas investments supported	0	2,411	530	18	85	33	39	21	134	26
Exports supported by Australian content by drawdown	338	0	0	21	46	21	30	20	108	31
Net interest income (including grant amortised)	1.0	2.9	3.0	0.3	9.5	17.7	18.7	24.4	22.9	22.9
Premiums and fees (accrual)	5.1	7.2	2.8	3.4	4.0	4.5	4.6	6.1	7.8	9.1
Total premiums and fees	5.1	7.2	2.8	3.4	4.0	4.5	4.6	6.1	7.8	9.1
Effect of reinsurance	(0.1)	(0.3)	(0.6)	(1.0)	(1.4)	(1.5)	(1.4)	(0.7)	(1.2)	(1.7)
Net premiums and fees	5.0	6.9	2.2	2.4	2.6	3.0	3.2	5.4	6.6	7.4
Fair value other financial instruments	0.0	0.0	0.0	0.0	60.6	88.0	0.0	0.0	0.0	0.0
Total revenue	6.0	9.8	5.2	2.7	72.7	108.7	21.9	29.8	29.5	30.3
Operating expenses	(1.5)	(2.5)	(2.7)	(1.8)	(3.8)	(4.3)	(4.7)	(4.7)	(5.2)	(5.0)
Realised foreign exchange profit/(loss)	2.5	0.7	(2.9)	2.1	0.1	2.1	(7.9)	(2.3)	(13.6)	(8.7)
Profit before specific provisions	7.0	8.0	(0.4)	3.0	69.0	106.5	9.3	22.8	10.7	16.6
(Charge)/credit for specific provisions	(7.5)	0.1	0.2	1.8	1.4	0.0	2.7	(0.2)	5.8	2.9
Profit/(loss) from the discontinued credit insurance business*	8.2	1.3	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.6)
Operating profit attributable to the Commonwealth	7.7	9.4	(0.2)	4.8	70.4	106.5	12.0	22.6	16.4	18.9
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	567	723	898	893	1,066	1,326	1,398	1,715	1,977	2,378
Guarantees and other off-balance sheet exposures	0	1	4	8	11	8	7	6	35	1
Exposures reinsured	18	33	45	43	52	61	59	66	31	66
Rescheduled debts	101	124	111	111	121	360	532	607	648	772
Export finance facilities	686	881	1,058	1,055	1,250	1,755	1,996	2,394	2,691	3,217
Retained credit insurance exposures	0	0	0	0	0	0	0	0	0	5
Credit insurance facilities	0	0	0	0	0	0	0	0	0	5
Total National Interest Account facilities	686	881	1,058	1,055	1,250	1,755	1,996	2,394	2,691	3,222

*The credit insurance business was divested on 30 September 2003.

Financial Statements

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Notes to and forming part of the Financial Statements

Statement by Board Members and Chief Financial Officer

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

(a) the accompanying financial statements are drawn up so as to give a true and fair view of the performance of the Corporation for the year ended 30 June 2011 and the financial position of the Corporation at 30 June 2011;

(b) the financial statements give a true and fair view of the matters required by Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2010) under subsection 48(1) of the CAC Act;

(c) the financial statements have been prepared in accordance with Australian Accounting Standards;

(d) the financial statements have been prepared based on properly maintained financial records; and

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

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

Signed in accordance with a resolution of the Board.

Andrew Mohl
CHAIRMAN

Angus Armour
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Stuart Neilson
CHIEF FINANCIAL OFFICER

18 AUGUST 2011

Independent Auditor's Report

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Trade

I have audited the accompanying financial statements of the Export Finance and Insurance Corporation (the Corporation) for the year ended 30 June 2011, which comprise: a Statement by Board Members and Chief Financial Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement and Notes to and forming Part of the Financial Statements, including a Summary of Significant Accounting Policies.

The Directors' Responsibility for the Financial Statements

The directors of the Corporation are responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Independence

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

Opinion

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

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

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Export Finance and Insurance Corporation's financial position as at 30 June 2011 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office

Ian Goodwin
Group Executive Director

Delegate of the Auditor-General

Canberra

18 August 2011

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Statement of Comprehensive Income

	Note	COMMERCIAL ACCOUNT **30 June 2011 $ m**	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT **30 June 2011 $ m**	30 June 2010 $ m
Statement of Comprehensive Income for the year ended 30 June 2011					
Interest income	*3(i)*	**123.7**	98.6	**38.4**	50.1
Interest expense	*3(ii)*	**(84.1)**	(60.3)	**(37.4)**	(47.2)
Net interest income		**39.6**	38.3	**1.0**	2.9
Fair value movement of third-party loans and guarantees	*3(iii)*	**14.5**	32.0	-	-
Fair value movement of other financial instruments	*3(iv)*	**(6.1)**	(7.4)	-	-
Other revenue	*3(v)*	**3.0**	2.6	**13.2**	8.2
Operating income		**51.0**	65.5	**14.2**	11.1
Operating expenses	*3(vi)*	**(24.5)**	(23.8)	**(1.5)**	(2.5)
Foreign exchange profit/(loss) on rescheduled credit insurance debts		**0.1**	-	**2.5**	0.7
Profit/(loss) before specific provisions		**26.6**	41.7	**15.2**	9.3
Credit/(charge) to sundry provisions and allowances	*3(vii)*	**3.6**	(3.4)	-	-
Credit/(charge) to specific provisions	*3(viii)*	-	-	**(7.5)**	0.1
Profit/(loss) from ordinary activities		**30.2**	38.3	**7.7**	9.4
National Interest Account attributable directly to the Commonwealth		-	-	**(7.7)**	(9.4)
Net profit attributable to the Commonwealth		**30.2**	38.3	-	-
Other comprehensive income					
Net gain/(loss) taken to equity on cash flow hedge		**(1.5)**	(0.8)	-	-
Net fair value gain on available-for-sale investments		**0.5**	10.2	-	-
Total other comprehensive income for the period		**(1.0)**	9.4	-	-
Total comprehensive income for the period attributable to the Commonwealth		**29.2**	47.7	-	-

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

Balance Sheet

Balance Sheet as at 30 June 2011

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	30 June 2010 $ m
Assets					
Cash and liquid assets	*1(i)*	**0.6**	0.8	**-**	-
Receivables from other financial institutions	*4, 1(j)*	**79.7**	79.7	**-**	-
Amounts receivable from the Commonwealth	*5*	**-**	-	**21.1**	42.9
Available-for-sale investment securities	*6, 1(k)*	**1,268.1**	912.0	**-**	-
Loans and receivables at amortised cost	*7, 1(l)*	**43.4**	61.9	**592.3**	745.0
Loans and receivables designated at fair value through profit and loss	*8, 1(m)*	**480.8**	411.0	**-**	-
Loans to National Interest Account designated at fair value through profit and loss	*1(n)*	**707.5**	913.7	**-**	-
Derivative financial instruments	*9, 1(o)*	**421.6**	285.1	**-**	-
Property, plant and equipment	*10, 1(p)*	**33.1**	33.3	**-**	-
Other assets	*11*	**1.3**	2.6	**20.6**	12.1
Total assets		**3,036.1**	2,700.1	**634.0**	800.0
Liabilities					
Payables to other financial institutions	*12, 1(q)*	**44.0**	63.5	**-**	-
Borrowings from Commercial Account	*1(r)*	**-**	-	**621.1**	783.5
Borrowings designated at fair value through profit and loss	*13, 1(s)*	**2,385.0**	2,041.4	**-**	-
Guarantees designated at fair value through profit and loss	*14, 1(t)*	**25.7**	27.5	**-**	-
Derivative financial instruments	*9, 1(o)*	**150.8**	136.0	**-**	-
Sundry provisions and allowances	*15*	**3.1**	6.2	**-**	-
Other liabilities	*16*	**19.4**	17.9	**12.9**	16.5
Total liabilities		**2,628.0**	2,292.5	**634.0**	800.0
Net assets		**408.1**	407.6	**-**	-
Equity					
Contributed equity		**6.0**	6.0	**-**	-
Reserves		**96.3**	97.3	**-**	-
Retained profits		**305.8**	304.3	**-**	-
Total equity		**408.1**	407.6	**-**	-

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

Statement of Changes in Equity

Statement of Changes in Equity for the year ended 30 June 2011

	Retained Profits $m	Asset Revaluation Reserves $m	Available-for-sale Investment Reserve $m	Cash Flow Hedge Reserve $m	Other Reserves $m	Contributed Equity $m	Total Equity $m
Commercial Account							
Opening balance 30 June 2010	**304.3**	**25.7**	**1.6**	**3.8**	**66.2**	**6.0**	**407.6**
Comprehensive income							
Other comprehensive income	-	-	**0.5**	**(1.5)**	-	-	**(1.0)**
Profit/(loss) for the period	**30.2**	-	-	-	-	-	**30.2**
Total comprehensive income	**30.2**	-	**0.5**	**(1.5)**	-	-	**29.2**
Transactions with the Commonwealth							
Dividends paid	**(28.7)**	-	-	-	-	-	**(28.7)**
Closing balance attributable to the Commonwealth 30 June 2011	**305.8**	**25.7**	**2.1**	**2.3**	**66.2**	**6.0**	**408.1**

Commercial Account	$m	$m	$m	$m	$m	$m	$m
Opening balance 30 June 2009	282.8	25.7	(8.6)	4.6	66.2	6.0	376.7
Comprehensive income							
Other comprehensive income	-	-	10.2	(0.8)	-	-	9.4
Profit/(loss) for the period	38.3	-	-	-	-	-	38.3
Total comprehensive income	38.3	-	10.2	(0.8)	-	-	47.7
Transactions with the Commonwealth							
Dividends paid	(16.8)	-	-	-	-	-	(16.8)
Closing balance attributable to the Commonwealth 30 June 2010	304.3	25.7	1.6	3.8	66.2	6.0	407.6

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

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

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

Section 55 of the EFIC Act requires the EFIC Board by written notice to the Minister for Trade, make a recommendation that EFIC pay a specified dividend or not pay a dividend for that financial year. The Minister for Trade by written notice to EFIC either approves the recommendation or directs the payment of a different specified dividend. The dividend paid in December 2010 was based on a "direction" from the Minister for Trade that 75% of prior financial year profit be paid as a dividend. The dividend paid in December 2009 was based on an "approval" of the recommendation and was 50% of the prior financial year profits.

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

Cash Flow Statement

Cash Flow Statement for the year ended 30 June 2011

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m
Cash flows from operating activities					
Inflows:					
Premium and fees received*		**26.8**	20.6	**2.9**	10.2
Interest received		**113.7**	99.3	**16.5**	23.5
Insurance claim recoveries		**0.1**	-	**1.4**	1.3
Guarantees and associated costs recovered		**0.6**	-	**-**	-
Sundry income*		**2.6**	2.9	**-**	-
Rescheduled debt repayments		**3.4**	2.5	**15.1**	14.4
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(3.3)**	(1.9)	**-**	(0.2)
Interest and other costs of finance paid		**(76.4)**	(61.1)	**(39.7)**	(48.4)
Loan administration management fee		**(0.6)**	(0.9)	**-**	-
Guarantees called and associated costs		**(0.3)**	(0.8)	**-**	-
Net repayments/(disbursements) of loans		**(110.1)**	(84.9)	**48.9**	104.3
Net decrease/(increase) in other debtors and prepayments		**(1.9)**	1.2	**-**	(0.5)
Payments to creditors and employees*		**(23.2)**	(22.8)	**-**	-
* Grossed up for Goods and Services Tax					
Net cash from/(used by) operating activities	*23*	**(68.6)**	(45.9)	**45.1**	104.6
Cash flows from investing activities					
Inflows:					
Proceeds from available-for-sale investments		**1,532.6**	1,178.8	**-**	-
Proceeds from sale of property, plant and equipment		**-**	0.2	**-**	-
Outflows:					
Payments for available-for-sale investments		**(1,918.6)**	(1,150.6)	**-**	-
Payments for property, plant and equipment		**(2.4)**	(0.6)	**-**	-
Net cash from/(used by) investing activities		**(388.4)**	27.8	**-**	-

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

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Cash Flow Statement for the year ended 30 June 2011 (continued)

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		-	-	14.4	7.0
Receipts from National Interest Account		1.5	3.0	-	-
Net proceeds/(repayments) of borrowings		499.2	9.0	(52.8)	(95.9)
Outflows:					
Dividend payments to the Commonwealth		(28.7)	(16.8)	-	-
Other payments to the Commonwealth		-	-	(5.2)	(12.7)
Payments to Commercial Account		-	-	(1.5)	(3.0)
Net cash from/(used by) financing activities		**472.0**	(4.8)	**(45.1)**	(104.6)
Net increase/(decrease) in cash equivalents held		**15.0**	(22.9)	-	-
Cash equivalents at beginning of financial year		80.5	123.4	-	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		(15.2)	(20.0)	-	-
Cash equivalents at end of financial year	*23*	**80.3**	80.5	-	-

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

Notes to and forming part of the Financial Statements for the year ended 30 June 2011

Note 1: Summary of significant accounting policies

The Export Finance and Insurance Corporation (EFIC) is an Australian Government (Commonwealth) controlled entity, established by the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act).

EFIC's mission is overcoming financial barriers for exporters. By providing financial solutions, risk management options and professional advice when the private market lacks capacity or willingness, EFIC creates opportunities for Australian exporters and offshore investors to grow their international business. EFIC operates primarily in that part of the market that is not served by the private market, the "market gap". EFIC's business model is to take risks in this market gap that are appropriately and adequately priced for an Export Credit Agency, in order to achieve its mandate and generate a sustainable rate of return for its stakeholders. In doing this EFIC recognises that it may need to take proportionately larger potential downside risk in order to achieve its mandate of operating in the market gap.

(a) Basis of preparation of the Financial Report

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

The financial statements have been prepared in accordance with:

- the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that apply for the reporting period
- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2010.

The financial statements have been prepared on an accruals basis and in accordance with the historical cost convention, except for certain assets and liabilities that are designated at fair value.

The financial statements are presented in Australian dollars and amounts are rounded to the nearest $0.1 million unless otherwise stated.

EFIC operates two separate accounts; (i) the Commercial Account and (ii) the National Interest Account. The results of these accounts are reported separately in the financial statements.

(i) Business undertaken on the Commercial Account

All financial assets and liabilities of the Commercial Account are measured at fair value except where transactions qualify for hedge accounting. Changes in fair value are either taken to profit or loss or to equity.

The Commercial Account operates on a for-profit basis for those business activities undertaken under Part 4 of the EFIC Act.

All risks are borne by EFIC for those activities undertaken on the Commercial Account.

(ii) Business undertaken on the National Interest Account

All financial assets and liabilities of the National Interest Account are measured at amortised cost. EFIC does not enter into derivative financial instruments (e.g. swaps, foreign exchange contracts or borrowings with embedded derivatives) on the National Interest Account.

The National Interest Account operates on an approval or direction from the Minister for Trade for EFIC to undertake business activities under Part 5 of the EFIC Act which the Minister considers is in the 'national interest'. Such activities may relate to a class of business which EFIC is not authorised to undertake, or involve terms and conditions EFIC would not accept in the normal course of business. Where the Minister directs EFIC to undertake a business activity under Part 5 of the Act, the credit risk is borne by the Commonwealth. The funding risk, however, is borne by EFIC on the Commercial Account, although EFIC is compensated for this funding risk by being able to retain on the Commercial Account the difference between the actual borrowing rate and an agreed benchmark rate for funding loans on the National Interest Account. Premium or other income derived from the business activity is paid to the Commonwealth.

EFIC recovers from the Commonwealth the costs of administering business undertaken under Part 5 and recovers from the Commonwealth any losses incurred in respect of such business.

There is also a provision in the EFIC Act which allows EFIC to share part of a National Interest Account business activity. In such cases income and expenses are apportioned between the two accounts in accordance with the risk participation.

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(b) New Australian Accounting Standards

No accounting standard has been adopted earlier than the application date as stated in the standard.

The adoption of new standards and amendments that came into affect for this financial year did not have a significant impact on the financial statements.

Listed below are the standards and amendments that will become effective in the future. The expected impact on the financial statements of adoption of these standards is not significant, other than the requirements of AASB 9 'Financial Instruments' and is based on an initial assessment at this date, but may change. For AASB 9, only phase 1 (classification and measurements) has been issued which does not come into effect until at least 2013 and EFIC has not yet determined the impact of this. EFIC intends to adopt all the standards upon their application date.

TITLE	STANDARD AFFECTED	APPLICATION DATE*
AASB 124	AASB 124	1 January 2011
AASB 2009-12	AASB 5,8,108,110,112,119,133,137,139,1023,1031 AASB interpretation 2,4,16,1039,1052	1 January 2011
AASB 9	AASB 9	1 January 2013
AASB 2009-11	AASB 1,3,4,5,7,101,102,108,112,118,121,127,128,131,132,136,139,1023,1038 AASB interpretation 10,12	1 January 2013
AASB 2009-14	AASB interpretation 14	1 January 2011
AASB 1053	AASB 1053	1 July 2013
AASB 1054	AASB 1054	1 July 2011
AASB 2010-2	AASB 1,2,3,5,7,8,101,102,107,108,110,111,112,116,117,119,121,123,124,127,128,131,133,134,136,137,138,140,141,1050,1052 AASB interpretation 2,4,5,15,17,127,129,1052	1 July 2013
AASB 2010-4	AASB 1,7,101,134 AASB interpretation 13	1 January 2011
AASB 2010-5	AASB 1,3,4,5,101,107,112,118,119,121,132,133,134,137,139,140,1023,1038 AASB interpretation 112,115,127,132,1042	1 January 2011
AASB 2010-6	AASB 1,7	1 July 2011
AASB 2010-7	AASB 1,3,4,5,101,102,108,112,118,120,121,127,128,131,132,136,137,139,1023,1038 AASB interpretation 2,5,10,12,19,1027	1 January 2013
AASB 2010-8	AASB 112	1 January 2012
AASB 2011-1	AASB 1,5,101,107,108,121,128,132,134 AASB interpretation 2,112,113	1 July 2011
AASB 2011-2	AASB 101,1054	1 July 2013
AASB 2011-3	AASB 1049	1 July 2012

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

(c) Recognition of income and expenses

On the Commercial Account income and expenses are measured at the fair value of the consideration received/paid or receivable/payable.

Income and expenses are recognised in the financial statements by applying market rates and using the valuation technique of discounted cash flows. All future income and expense to be received or paid is estimated based on actual disbursements and receipts or EFIC's best estimate of future disbursements and receipts. The future cash flows are discounted to their present value.

On the National Interest Account income and expenses are measured at the fair value of the consideration received/paid or receivable/payable. Income and expenses are recognised in the financial statements as earned or incurred from the date of attachment of risk and are taken to profit or loss using the effective interest method.

(d) Operating segments

The Corporation operates its export facilitation activities through a single business segment - Export Finance, which incorporates loans, bonds, guarantees and insurance products.

(e) Unamortised grants

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

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

The Commonwealth discontinued the mixed credit scheme in 1996. The balances outstanding on these loans are shown in Note 7.

(f) Foreign currency

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

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

The principal exchange rates affecting the balance sheet are the US dollar, the Euro and the Japanese yen.

The relevant exchange rates used are:

	2011	2010
Average rates during year		
US$/A$	**0.9886**	0.8824
Euro/A$	**0.7249**	0.6358
Yen/A$	**82.0610**	80.7274

	2011	2010
Rates at 30 June		
US$/A$	**1.0737**	0.8524
Euro/A$	**0.7404**	0.6980
Yen/A$	**86.3201**	75.4800

(g) Hedge accounting

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

Cash flow hedges are intended to hedge the exposure to variability in interest rate movements that are attributable to future interest cash flows. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion of the hedge is recognised in profit or loss.

Fair value hedges are intended to hedge the exposure to variability in fair value movements that are attributable to future interest cash flows only. The change in the fair value of the hedging instrument is recognised in the profit or loss. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recognised as an adjustment to the carrying value of the hedged item and is also recognised in the profit or loss.

Hedges are formally assessed for effectiveness each reporting period both retrospectively and prospectively. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

(h) Taxation

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

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

(i) Cash and liquid assets

Cash and liquid assets include cash on hand and bank account balances. Cash is recognised at its nominal amount as this is considered fair value.

(j) Receivables from other financial institutions

Receivables from other financial institutions include overnight deposits and short-term fixed deposits with banks and other financial institutions and are measured at amortised cost using the effective interest method which is equivalent to fair value.

(k) Available-for-sale investment securities

Available-for-sale investment securities are those purchased with an intention of being held until maturity but can be sold if required. They are short-term, medium-term and long-term government, bank and other debt securities and include bonds, bills of exchange, commercial paper and certificates of deposit. Interest income is taken up using the effective interest method. They are carried at market value with changes in fair value recognised directly in equity unless they are part of a fair value hedge where, in that case, the changes in fair value that are due to future interest cash flows in an effective hedge are taken directly to the profit or loss.

(l) Loans and receivables at amortised cost

On the Commercial Account, this is a floating rate loan to a bank which is recorded at amortised cost and is part of a cash flow hedge which qualifies for hedge accounting.

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

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

Export finance loans and rescheduled credit insurance debts held on the Commercial Account are designated at fair value through the profit or loss. They are designated at fair value as this designation significantly reduces the accounting mismatch that would otherwise arise from measuring the asset on a different basis from derivatives that have been entered into to hedge the transactions. Interest income in the profit or loss is recorded using the effective interest method, which forms part of the fair value calculation and movement in fair value is recorded separately in the profit or loss.

(n) Loans to National Interest Account designated at fair value through profit and loss

The Commercial Account funds the loans on the National Interest Account and this funding is recorded in the Commercial Account at fair value through profit or loss.

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(o) Derivative financial instruments

EFIC uses derivative financial instruments on the Commercial Account to manage exposures to interest rate and foreign exchange risk. These include foreign exchange contracts, interest rate and cross-currency swaps, futures contracts and forward rate agreements. Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured to their fair value at each reporting date. Derivatives are carried as assets when their fair value is positive (in the money) and as liabilities when their fair value is negative (out of the money). Any gains and losses arising from changes in the fair value of derivatives, except those that qualify for hedge accounting, are taken directly to profit or loss.

(p) Property, plant and equipment

Property, plant and equipment are revalued periodically to fair value, as required by Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2010) under subsection 48(1) of the CAC Act.

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

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

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

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

Depreciation rates used are as follows:

- buildings 6.7% pa
- computer equipment 33.3% pa
- other plant and equipment 10.0% - 22.5% pa

The profit or loss on disposal of property, plant and equipment is taken into account in determining the result for the year.

(q) Payables to other financial institutions

Payables to other financial institutions are short-term borrowings with banks and other financial institutions and are measured using the effective interest method as this would be equivalent to their fair value. Included in payables to other financial institutions is a floating rate borrowing which qualifies for hedge accounting.

(r) Borrowings from Commercial Account

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

(s) Borrowings designated at fair value through profit and loss

Commercial paper, medium-term notes, bonds and callable bonds (which may have embedded derivatives) are designated at fair value through profit or loss. They are designated at fair value as this designation significantly reduces the accounting mismatch that would otherwise arise from measuring the liability on a different basis from derivatives that have been entered into to hedge the transactions. Interest expense in the profit or loss is recorded using the effective interest method, which forms part of the fair value calculation, and movement in fair value is recorded separately in the profit or loss.

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

Guarantees, medium term insurance, bonds and political risk insurance transactions are regarded as financial instruments under accounting standards. These are designated at fair value through the profit or loss at inception. Subsequently, they are carried at their fair value with any movements transferred through profit or loss.

(u) Employee entitlements

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

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

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

(v) Sundry creditors

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

(w) Cash flows

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

(x) Contingent assets and liabilities

Where, as a result of past events, there is a possible asset or liability whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of EFIC this will be disclosed as a contingent asset or contingent liability. When the inflow or outflow of economic benefits is virtually certain, EFIC will recognize the asset or liability.

(y) Comparative figures

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

(z) Events occurring after the balance sheet date

There have been no material events occurring after the balance sheet date that impact these financial statements for the year ending 30 June 2011.

Note 2: Significant accounting judgements, estimates and assumptions

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

Impairment of available-for-sale investment securities

- EFIC holds a number of available-for-sale financial assets. A review of these assets has been undertaken for the year ended 30 June 2011, and it has been determined that no investment is considered to be impaired. On a portfolio basis there has been an appreciation in the value of the available-for-sale investments since purchase.

Plant and equipment

- The valuation of plant and equipment is based on internal assessment by management to ensure that the carrying amounts do not differ materially from their fair value. It has been determined that the incremental change in the value of plant and equipment is not considered significant.
- EFIC is undertaking a project to refurbish the building that it owns and part occupies. On completion of the refurbishment, which is currently estimated to be completed by 2012, a new valuation of the property will be undertaken. As the valuation is based on rental returns, whether the valuation will change is undetermined at this point of time.

Fair value of financial instruments

- Where financial instruments have a price quoted in an active market, this is its fair value.
- Where the fair value of financial instruments cannot be determined from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 18.

Changes to accounting estimates during the year

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

Derivatives are recognised in the financial report at their fair value as required by the accounting standards. As part of this fair value calculation, the credit risk associated with derivatives must be taken into account. While the accounting standards require counterparty risk to be incorporated into fair value calculations, it is not prescriptive as to the methodology that should be used. Previously, EFIC calculated an allowance for derivative risk only on those derivative counterparties who owed money to EFIC and were rated below AA-. This year, due to current market convention, EFIC has refined its model to calculate an allowance for derivative risk on all derivative counterparties. EFIC, has calculated a CVA (credit valuation adjustment) on counterparties where EFIC is in-the-money and a DVA (debit valuation adjustment) where derivatives are out-of-the-money. The net effect of this change in estimation resulted in a $1.1 million expense to the profit and loss.

Significant accounting events during the year

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

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Note 3: Revenue and expenses

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2011 $ m	30 June 2010 $ m	**30 June 2011 $ m**	30 June 2010 $ m
(i) Interest income					
Receivables from other financial institutions		**1.8**	1.5	**-**	-
Available-for-sale investment securities		**61.5**	41.5	**-**	-
Loans at amortised cost		**0.2**	0.4	**38.4**	50.1
Loans and receivables designated at fair value through profit and loss		**8.2**	7.7	**-**	-
Loans to National Interest Account designated at fair value through profit and loss		**37.4**	47.5	**-**	-
Net derivative financial instruments		**14.6**	-	**-**	-
Total interest income		**123.7**	98.6	**38.4**	50.1
(ii) Interest expense					
Payables to other financial institutions		**(0.1)**	(0.1)	**-**	-
Borrowings from Commercial Account		**-**	-	**(37.4)**	(47.2)
Borrowings at amortised cost		**(0.2)**	(0.3)	**-**	-
Borrowings designated at fair value through profit and loss		**(83.8)**	(57.9)	**-**	-
Net derivative financial instruments		**-**	(2.0)	**-**	-
Total interest expense		**(84.1)**	(60.3)	**(37.4)**	(47.2)
(iii) Fair value movement of third-party loans and guarantees					
Premium and fees		**27.3**	36.1	**-**	-
Reinsurance		**(3.0)**	(1.6)	**-**	-
Residual margin		**(5.2)**	(20.1)	**-**	-
Interest		**(1.3)**	(0.1)	**-**	-
Credit risk		**(6.8)**	15.9	**-**	-
Specific events		**4.5**	1.9	**-**	-
Foreign exchange profit/(loss) on premium		**(1.0)**	(0.1)	**-**	-
Total fair value movement of third-party loans and guarantees		**14.5**	32.0	**-**	-
(iv) Fair value movement of other financial instruments					
Available-for-sale investment securities		**0.1**	1.0	**-**	-
Loans to National Interest Account designated at fair value through profit and loss		**(41.5)**	(12.2)	**-**	-
Borrowings designated at fair value through profit and loss		**(9.6)**	(4.9)	**-**	-
Derivative financial instruments		**44.9**	8.7	**-**	-
Total fair value movement of other financial instruments		**(6.1)**	(7.4)	**-**	-

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m

Note 3: Revenue and expenses (continued)

	Note	Commercial 2011 $ m	Commercial 2010 $ m	National Interest 2011 $ m	National Interest 2010 $ m
(v) Other revenue					
Premium and fees		-	-	**5.2**	6.8
Premium ceded to reinsurers		-	-	**(0.1)**	(0.3)
Foreign exchange profit/(loss) on premium		-	-	**(0.1)**	0.4
Rental income		**2.2**	2.5	-	-
Sundry income		**0.7**	0.1	-	-
Gains/(losses) from sales of available-for-sale investments		-	(0.1)	-	-
Gains/(losses) from sales of property, plant and equipment		-	0.1	-	-
Recoveries from credit insurance		**0.1**	-	**8.2**	1.3
Total other revenue		**3.0**	2.6	**13.2**	8.2
(vi) Operating expenses					
Staff costs		**(13.6)**	(12.7)	-	-
Depreciation		**(2.7)**	(2.8)	-	-
Advertising and promotional costs		**(1.5)**	(1.7)	-	-
Professional fees		**(1.4)**	(1.1)	-	-
Superannuation costs		**(1.3)**	(1.3)	-	-
Travel costs		**(1.3)**	(1.3)	-	-
Property costs		**(0.9)**	(2.1)	-	-
Computer and communication costs		**(0.9)**	(0.7)	-	-
Provision for employee entitlements		**(0.5)**	(0.3)	-	-
Corporate insurance		**(0.4)**	(0.3)	-	-
Credit information		**(0.4)**	(0.3)	-	-
Other expenses		**(1.1)**	(1.7)	-	-
National Interest Account allocation		**1.5**	2.5	**(1.5)**	(2.5)
Total operating expenses		**(24.5)**	(23.8)	**(1.5)**	(2.5)
(vii) Credit/(charge) to sundry allowances					
Allowances for claims and litigation		**3.1**	(3.2)	-	-
Allowances for unrecoverable costs		**0.5**	(0.2)	-	-
Total credit/(charge) to sundry allowances		**3.6**	(3.4)	-	-
(viii) Credit/(charge) to specific provisions					
Specific provisions for losses		-	-	-	0.1
Debt forgiveness		-	-	**(7.5)**	-
Total credit/(charge) to specific provisions		-	-	**(7.5)**	0.1

On 8 July 2010 the Minister for Trade issued a section 31 direction requiring EFIC to cancel up to $75 million in debt service owed to it by the Republic of Indonesia. In this financial year $7.5 million was cancelled and the remainder is available to be cancelled if the Republic of Indonesia continues to invest in approved tuberculosis programs.

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	30 June 2010 $ m

Note 4: Receivables from other financial institutions

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
	1(j)				
Overnight deposits		**8.8**	15.7	-	-
Fixed cash deposits		**70.9**	64.0	-	-
Total receivables from other financial institutions		**79.7**	79.7	-	-
Maturity analysis of receivables from other financial institutions					
At call		**8.8**	15.7	-	-
Due in less than 3 months		**47.6**	35.7	-	-
Due after 3 months to 1 year		**23.3**	28.3	-	-
Total receivables from other financial institutions		**79.7**	79.7	-	-

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

Note 5: Amounts receivable from the Commonwealth

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
Commonwealth opening balance receivable		-	-	**42.9**	46.7
Net (receipts from)/payments to the Commonwealth		-	-	**(14.1)**	5.6
		-	-	**28.8**	52.3
Less: Profit/(loss) for the year on National Interest Account		-	-	**7.7**	9.4
Total amounts receivable from the Commonwealth		-	-	**21.1**	42.9

Note 6: Available-for-sale investment securities

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
	1(k)				
Discount securities		**595.1**	288.8	-	-
Floating rate notes		**520.4**	420.1	-	-
Fixed rate bonds		**152.6**	203.1	-	-
Total available-for-sale investment securities		**1,268.1**	912.0	-	-
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**271.3**	266.6	-	-
Due after 3 months to 1 year		**631.8**	338.1	-	-
Due after 1 year to 5 years		**365.0**	307.3	-	-
Total available-for-sale investment securities		**1,268.1**	912.0	-	-

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

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m

Note 7: Loans and receivables at amortised cost

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m
	1(l)				
Gross export finance loans		-	-	**584.4**	755.7
Gross funded export finance guarantees		**43.4**	61.9	**-**	-
Gross rescheduled credit insurance debts		-	-	**101.2**	124.3
Loans and receivables gross		**43.4**	61.9	**685.6**	880.0
Unearned premiums		-	-	**(12.2)**	(15.1)
Specific provision for impairment		-	-	**(9.7)**	(9.7)
Deferred income		-	-	**(16.5)**	(23.4)
Unamortised grants	*1(e)*	-	-	**(54.9)**	(86.8)
Total loans and receivables at amortised cost		**43.4**	61.9	**592.3**	745.0
Maturity analysis loans and receivables gross					
Overdue - impaired		-	-	**9.7**	9.7
Due in 3 months or less		-	-	**19.5**	22.3
Due after 3 months to 1 year		**5.8**	7.2	**80.7**	93.1
Due after 1 year to 5 years		**23.1**	29.2	**327.5**	415.9
Due after 5 years		**14.5**	25.5	**248.2**	339.0
Total loans and receivables gross		**43.4**	61.9	**685.6**	880.0
Restructured exposures included above		-	-	**279.5**	343.5

Loans and receivables are considered restructured when the original contractual terms are modified. Restructured loans and receivables continue to accrue interest.

All payments due in the year in respect of restructured exposures have been paid on time in accordance with the restructured terms.

On the Commercial Account, this is a floating rate loan to a bank rated AA or better, which is part of a cash flow hedge and qualifies for hedge accounting.

There are no overdue amounts for non-impaired loans.

	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m
Specific provision				
Specific provision opening balance	-	-	**9.7**	9.7
Charge against profit	-	-	**-**	-
Specific provision closing balance	-	-	**9.7**	9.7
Impaired loans				
Impaired loans	-	-	**9.7**	9.7
Specific provision for impairment	-	-	**(9.7)**	(9.7)
Carrying value of impaired loans	-	-	**-**	-
Interest foregone on impaired loans	-	-	**0.6**	0.4

A loan or receivable is recognised as impaired when it is likely that the debt will not be recovered in full. In this instance a specific provision will be created for the impairment.

Amounts shown under National Interest Account represent loans made by EFIC under the National Interest provisions of the EFIC Act.

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	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	30 June 2010 $ m

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

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
	1(m)				
Gross export finance loans		**395.5**	341.5	-	-
Gross funded export finance guarantees		**73.9**	53.3	-	-
Gross rescheduled credit insurance debts		**24.1**	27.5	-	-
Loans and receivables gross		**493.5**	422.3	-	-
Fair value premium and fees		**44.9**	35.2	-	-
Fair value residual margin		**(25.3)**	(20.1)	-	-
Fair value interest		**(1.8)**	(1.8)	-	-
Fair value of credit risk		**(24.8)**	(14.5)	-	-
Fair value of specific events		**(5.7)**	(10.1)	-	-
Total loans and receivables at fair value		**480.8**	411.0	-	-
Maturity analysis loans and receivables gross					
Overdue - impaired		**5.7**	13.0	-	-
Due in 3 months or less		**6.0**	5.9	-	-
Due after 3 months to 1 year		**36.7**	19.8	-	-
Due after 1 year to 5 years		**161.5**	147.5	-	-
Due after 5 years		**283.6**	236.1	-	-
Total loans and receivables gross		**493.5**	422.3	-	-
Restructured exposures included above		**34.4**	41.5	-	-

Loans and receivables are considered restructured when the original contractual terms are modified. Restructured loans and receivables continue to accrue interest.

All payments due in the year in respect of restructured exposures have been paid on time in accordance with the restructured terms.

There are no overdue amounts for non-impaired loans.

Impaired loans				
Impaired loans	**5.7**	13.0	-	-
Fair value of specific events	**(5.7)**	(10.1)	-	-
Carrying fair value of impaired loans	**-**	2.9	-	-

A loan or receivable is recognised as impaired when it is likely that the debt will not be recovered in full. In this instance a specific event will be created for the impairment.

For the impaired loan there is a first-ranked mortgage held over a vessel.

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

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m

Note 9: Derivative financial instruments

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
	1(o)				
Derivative financial assets					
Interest rate swaps		**21.5**	29.2	-	-
Cross-currency swaps		**398.6**	246.4	-	-
Forward foreign exchange contracts		**1.5**	9.5	-	-
Total derivative financial assets		**421.6**	285.1	-	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		**40.9**	36.6	-	-
Due after 3 months to 1 year		**122.0**	69.3	-	-
Due after 1 year to 5 years		**237.4**	120.8	-	-
Due after 5 years		**21.3**	58.4	-	-
Total derivative financial assets		**421.6**	285.1	-	-
Derivative financial liabilities					
Interest rate swaps		**81.2**	117.9	-	-
Cross-currency swaps		**51.8**	17.2	-	-
Forward foreign exchange contracts		**17.8**	0.9	-	-
Total derivative financial liabilities		**150.8**	136.0	-	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**34.8**	8.4	-	-
Due after 3 months to 1 year		**27.5**	29.6	-	-
Due after 1 year to 5 years		**68.2**	79.4	-	-
Due after 5 years		**20.3**	18.6	-	-
Total derivative financial liabilities		**150.8**	136.0	-	-

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

Note 10: Property, plant and equipment

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
	1(p)				
Freehold land and building, at valuation		**32.8**	32.8	-	-
Accumulated depreciation		**(3.2)**	(1.6)	-	-
Net book value - land and building		**29.6**	31.2	-	-
Plant and equipment, at valuation		**4.7**	7.6	-	-
Accumulated depreciation		**(1.2)**	(5.5)	-	-
Net book value - plant and equipment		**3.5**	2.1	-	-
Total property, plant and equipment		**33.1**	33.3	-	-

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Note 10: Property, plant and equipment (continued)

	Land and buildings $ m	Plant and equipment $ m	Total $ m
Gross value			
Balance as at 30 June 2010	32.8	7.6	40.4
Additions	-	2.4	2.4
Disposals	-	(5.3)	(5.3)
Balance as at 30 June 2011	**32.8**	**4.7**	**37.5**
Accumulated depreciation			
Balance as at 30 June 2010	(1.6)	(5.5)	(7.1)
Depreciation charged for assets held at 1 July 2010	(1.6)	(0.3)	(1.9)
Depreciation charged for additions	-	(0.1)	(0.1)
Depreciation recovered on disposals	-	4.7	4.7
Balance as at 30 June 2011	**(3.2)**	**(1.2)**	**(4.4)**
Net book value as at 1 July 2010	31.2	2.1	33.3
Net book value as at 30 June 2011	**29.6**	**3.5**	**33.1**

An independent valuation of land and buildings was carried out in June 2009 by Mr Mark Smallhorn FAPI, Registered Valuer No. 1207 and Mr James Marks AAPI, Registered Valuer No.14499 of Jones Lang LaSalle. On a capital approach and discounted cash flow analysis, the land and buildings were valued at $32,800,000. The next valuation is due by June 2012.

Leased accommodation

Freehold land and buildings includes accommodation which has been leased to third parties. The valuation, accumulated depreciation and depreciation charge attributed to the leased space has been derived based on the floor area of the leased space.

The allocated valuation, accumulated depreciation, written-down value and depreciation expense of the leased space are as follows:

	30 June 2011 $ m	30 June 2010 $ m
Freehold land and building, at valuation	**18.4**	21.1
Accumulated depreciation	**(1.8)**	(1.0)
Written-down value	**16.6**	20.1
Depreciation expense	**0.9**	1.0

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m

Note 11: Other assets

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
Accrued interest receivable		**0.1**	0.1	**7.9**	10.4
Sundry debtors and prepayments		**1.2**	2.5	**12.7**	1.7
Total other assets		**1.3**	2.6	**20.6**	12.1

Note 12: Payables to other financial institutions

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
	1(q)				
Overnight borrowings		**0.6**	1.5	-	-
Floating rate borrowing		**43.4**	62.0	-	-
Total payables to other financial institutions		**44.0**	63.5	-	-
Maturity analysis of payables to other financial institutions					
At call		**0.6**	1.5	-	-
Due in less than 3 months		-	-	-	-
Due after 3 months to 1 year		**5.8**	4.3	-	-
Due after 1 year to 5 years		**23.1**	57.7	-	-
Due after 5 years		**14.5**	-	-	-
Total payables to other financial institutions		**44.0**	63.5	-	-

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

Note 13: Borrowings designated at fair value through profit and loss

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
	1(s)				
Borrowings		**2,385.0**	2,041.4	-	-
Total borrowings at fair value		**2,385.0**	2,041.4	-	-
Borrowings designated at fair value through profit and loss					
Structured borrowings					
Australian dollar		**55.0**	68.0	-	-
Japanese yen		**581.0**	700.1	-	-
US dollar		**94.6**	25.3	-	-
Total structured borrowings		**730.6**	793.4	-	-
Non-structured borrowings					
Australian dollar		**1,134.5**	606.9	-	-
Euro		**36.7**	50.3	-	-
Japanese yen		-	82.9	-	-
New Zealand dollar		**87.5**	64.9	-	-
US dollar		**83.8**	113.1	-	-
Total non-structured borrowings		**1,342.5**	918.1	-	-

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	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	30 June 2010 $ m

Note 13: Borrowings designated at fair value through profit and loss (continued)

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	30 June 2010 $ m
Euro commercial paper					
US dollar		**311.9**	329.9	-	-
Total euro commercial paper		**311.9**	329.9	-	-
Total borrowings at fair value		**2,385.0**	2,041.4	-	-
Maturity analysis of borrowings					
Due in 3 months or less		**405.2**	446.2	-	-
Due after 3 months to 1 year		**458.2**	406.8	-	-
Due after 1 year to 5 years		**895.9**	927.7	-	-
Due after 5 years		**625.7**	260.7	-	-
Total borrowings at fair value		**2,385.0**	2,041.4	-	-

Where borrowings are in a different currency from the assets being financed, cross-currency swaps or foreign exchange contracts are entered into for economic hedging purposes (see Note 18).

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

Note 14: Guarantees designated at fair value through profit and loss

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	30 June 2010 $ m
	1(t)				
Fair value of credit risk		**27.1**	30.7	-	-
Fair value of specific events		**1.7**	2.0	-	-
Fair value of net premium receivable		**(3.1)**	(5.2)	-	-
Total guarantees designated at fair value through profit and loss		**25.7**	27.5	-	-

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

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

Note 15: Sundry provisions and allowances

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	30 June 2010 $ m
Employee entitlements	*1(u)*	**3.0**	2.5	-	-
Allowances for litigation and claims		**0.1**	3.2	-	-
Allowances for unrecoverable costs		**-**	0.5	-	-
Total sundry provisions and allowances		**3.1**	6.2	-	-

Note 16: Other liabilities

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	30 June 2010 $ m
Sundry creditors	*1(v)*	**19.4**	17.9	**5.0**	6.3
Interest payable		**-**	-	**7.9**	10.2
Total other liabilities		**19.4**	17.9	**12.9**	16.5

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m

Note 17: Contingencies and commitments

Contingent liabilities				
Guarantees	**242.4**	331.9	**-**	-
Bonds	**137.3**	115.4	**0.1**	1.3
Political risk insurance	**36.3**	31.7	**-**	-
Medium-term insurance	**0.4**	0.5	**-**	-
EFIC Headway guarantees	**7.6**	10.2	**-**	-
Total contingent liabilities	**424.0**	489.7	**0.1**	1.3

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

Contingent assets				
Potential recoveries of claims paid	**0.7**	0.9	**191.3**	246.9
Total contingent assets	**0.7**	0.9	**191.3**	246.9

Between 1987 and 1992, EFIC paid credit insurance claims, in respect of non-payment by the Iraqi Government for exports from Australia. These credit insurance claims were expensed as paid. The contingent asset relates to potential recoveries from Iraq on these claim payments.

During the year cash recoveries of $1.4 million plus an accrual of $6.8 million for cash received on the 1st July 2011 were taken to income through profit and loss on the National Interest Account.

Commitments to provide financial facilities				
Loans	**36.0**	199.6	**200.2**	393.3
Funded guarantees	**67.9**	9.4	**-**	-
Guarantees*	**32.2**	33.9	**-**	-
Political risk insurance	**3.0**	15.6	**-**	-
Bonds	**384.0**	233.6	**-**	-
Total commitments to provide financial facilities	**523.1**	492.1	**200.2**	393.3

*Guarantees include facilities signed under risk participation agreements.

Commitments to provide financial facilities are contractually based.

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	Note	COMMERCIAL ACCOUNT **30 June 2011 $ m**	30 June 2010 $ m	NATIONAL INTEREST ACCOUNT **30 June 2011 $ m**	30 June 2010 $ m

Note 17: Contingencies and commitments (continued)

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
Commitments payable					
Capital commitments					
Due in 1 year or less		**3.7**	-	-	-
Operating lease payable					
Due in 1 year or less		**0.2**	0.2	-	-
Due after 1 year to 2 years		**0.1**	0.1	-	-
Due after 2 years to 5 years		**0.1**	-	-	-
Total commitments payable		**4.1**	0.3	-	-
Commitments receivable					
Operating lease receivable					
Due in 1 year or less		**2.1**	2.1	-	-
Due after 1 year to 2 years		**1.7**	1.2	-	-
Due after 2 years to 5 years		**1.7**	1.6	-	-
Total commitments receivable		**5.5**	4.9	-	-

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

Note 18: Financial risk management

(i) General

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

EFIC also enters into a number of financial derivative transactions on the Commercial Account to protect against interest rate, foreign exchange and funding risks associated with EFIC's normal operations, including funding the National Interest Account. EFIC does not enter into derivative instruments for speculative or trading purposes. These transactions include:

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

Note 18: Financial risk management (continued)

(ii) Credit risk

(a) Commercial Account exposures

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

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

Credit risk exposures	Note	**30 June 2011 $ m**	30 June 2010 $ m
Receivables from other financial institutions	*4, 1(j)*	**79.7**	79.7
Available-for-sale investment securities	*6, 1(k)*	**1,268.1**	912.0
Loans and receivables at amortised cost	*7, 1(l)*	**43.4**	61.9
Loans and receivables designated at fair value through profit and loss	*8, 1(m)*	**480.8**	411.0
Derivative financial instruments	*9, 1(o)*	**421.6**	285.1
Total*		**2,293.6**	1,749.7
Contingent liabilities	*17*	**424.0**	489.7
Commitments	*17*	**523.1**	492.1
Total		**947.1**	981.8
Total credit risk exposure		**3,240.7**	2,731.5

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

> Exposures to Treasury counterparties

Credit risk arising from EFIC's Treasury activities through its investment portfolios and from interest rate and foreign exchange management is limited to the Commonwealth, state governments, Authorised Deposit-taking Institutions rated BBB- or above and to financial institutions or entities with credit ratings the equivalent of AA- or better. However, if after purchase a counterparty subsequently falls below the minimum credit rating, management evaluates the risk and will decide on the applicable action, which may include selling the asset, novating the contract, holding the asset to maturity, or obtaining security through credit support annexures (CSA's).

Prudential controls set by the CAC Act for EFIC's Treasury operation consist of the following:

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

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

(iii) the investments are limited to deposits with, or securities issued or guaranteed, by the above ADIs or entities

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

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

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

In addition to the CAC Act prudential controls stated above, the EFIC Board have set further controls for EFIC's Treasury operation which consist of:

(i) a cap on foreign exchange open positions

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

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

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

(v) limits relating to individual counterparty exposures and terms.

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Note 18: Financial risk management (continued)

> Exposures to Treasury counterparties (continued)

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

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

Credit risk on treasury transactions is mitigated by the fact that most of the contracts have a mutual 5 year right to break clause. In addition some contracts include a clause that allow, the contract to be terminated if the counterparty rating falls below an agreed credit rating.

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

Available-for-sale investment securities	*Note*	**30 June 2011 $ m**	30 June 2010 $ m
Authorised Deposit-taking Institutions in Australia			
AAA		**10.1**	10.2
AA		**291.4**	133.5
A+		**155.7**	76.1
A		**50.6**	124.1
BBB+		**169.8**	144.9
BBB		**10.1**	-
Other financial institutions or foreign entities			
AAA		**122.9**	91.0
AA+		**122.0**	123.9
AA		**38.8**	59.3
AA-		**230.8**	25.4
A+		**25.2**	35.3
A		**40.7**	88.3
Exposure to credit risk of available-for-sale investments securities	*6, 1(k)*	**1,268.1**	912.0

Derivative financial instruments			
Authorised Deposit-taking Institutions in Australia			
AA		**127.6**	76.3
Other financial institutions or foreign entities			
AAA		**64.8**	64.6
AA		**85.8**	26.1
AA-		**74.6**	38.1
A+		**62.0**	74.8
A		**6.8**	5.2
Exposure to credit risk for derivative financial instruments	*9, 1(o)*	**421.6**	285.1

For Treasury exposures there are no overdue or restructured amounts.

Note 18: Financial risk management (continued)

> Exposures to clients

EFIC's principal exposure to credit risk arises from the financing and credit facilities extended to clients. On the Commercial Account, loans written off during the year or credit facilities called was $0.3 million (2010: nil).

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

EFIC uses nine broad categories of risk grade, with category 1 representing the lowest risk. Within categories 1 to 6 an outlook modifier is used of plus or minus if the counterparty is particularly strong or weak for that risk grade. The equivalent risk, based on Standards and Poor's risk rating, is stated in brackets. The exposure for the Commercial Account before reinsurance under each of the nine broad categories is as follows:

Loans and receivables designated at fair value through profit and loss	Note	30 June 2011 $ m	30 June 2010 $ m
Risk category 1 (AA- to AAA)		36.5	80.5
Risk category 2 (A- to A+)		51.9	11.9
Risk category 3 (BBB- to BBB+)		215.2	231.0
Risk category 4 (BB- to BB+)		75.0	45.1
Risk category 5 (B- to B+)		42.8	34.1
Risk category 6 (CCC+)		59.4	5.5
Risk category 7 (C to CCC)		-	-
Risk category 8 Doubtful		-	-
Risk category 9 Impaired		-	2.9
Loans and receivables designated at fair value through profit and loss	*8, 1(m)*	**480.8**	411.0

As part of its normal operations, EFIC enters into a variety of transactions in various currencies which give rise to contingent liabilities including guarantees, medium-term insurance, bonds, and political risk insurance. The maximum exposure to credit risk is the maximum amount EFIC would pay if called upon to do so. The exposure for the Commercial Account before reinsurance under each of the nine broad categories is as follows:

Contingent liabilities	Note	30 June 2011 $ m	30 June 2010 $ m
Risk category 1 (AA- to AAA)		3.0	3.0
Risk category 2 (A- to A+)		10.0	13.9
Risk category 3 (BBB- to BBB+)		65.1	50.4
Risk category 4 (BB- to BB+)		107.9	154.8
Risk category 5 (B- to B+)		142.7	145.9
Risk category 6 (CCC+)		85.1	103.7
Risk category 7 (C to CCC)		6.9	14.2
Risk category 8 Doubtful		-	-
Risk category 9 Impaired		3.3	3.8
Total contingent liabilities	*17*	**424.0**	489.7

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Note 18: Financial risk management (continued)

To reduce EFIC's exposure to counterparties in the higher risk categories or to reduce concentration risk, EFIC enters into reinsurance contracts with reinsurers. This will change the exposure from the counterparty in the higher risk categories to an exposure to the reinsurers who will be in lower risk categories. As can be seen from the table below, EFIC has reinsured exposures with counterparties in risk categories 3, 4, 5, 6, and 7 to reinsurers in risk categories 1 or 2.

Reinsurance	*Note*	**30 June 2011 $ m**	30 June 2010 $ m
Risk category 1 (AA- to AAA)		**83.0**	72.8
Risk category 2 (A- to A+)		**28.7**	13.7
Risk category 3 (BBB- to BBB+)		**(35.1)**	-
Risk category 4 (BB- to BB+)		**(25.8)**	(32.1)
Risk category 5 (B- to B+)		**-**	-
Risk category 6 (CCC+)		**(47.4)**	(47.3)
Risk category 7 (C to CCC)		**(3.4)**	(7.1)
Total reinsurance		**-**	-

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

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

Commitments	*Note*	**30 June 2011 $ m**	30 June 2010 $ m
Risk category 1 (AA- to AAA)		**17.7**	25.2
Risk category 2 (A- to A+)		**-**	87.8
Risk category 3 (BBB- to BBB+)		**341.1**	291.2
Risk category 4 (BB- to BB+)		**58.3**	15.8
Risk category 5 (B- to B+)		**20.3**	57.1
Risk category 6 (CCC+)		**85.7**	15.0
Total commitments	*17*	**523.1**	492.1

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

Gross exposures	*Note*	**30 June 2011 $ m**	30 June 2010 $ m
Export finance loans	*8, 1(m)*	**395.5**	341.5
Funded export finance guarantees	*8, 1(m)*	**73.9**	53.3
Rescheduled credit insurance debts	*8, 1(m)*	**24.1**	27.5
Funded export finance guarantees	*7*	**43.4**	61.9
Guarantees	*17*	**242.4**	331.9
Bonds	*17*	**137.3**	115.4
Political risk insurance	*17*	**36.3**	31.7
Medium-term insurance	*17*	**0.4**	0.5
EFIC Headway guarantees	*17*	**7.6**	10.2
Total gross exposures		**960.9**	973.9
Reinsured exposures included above		**111.7**	86.5

Note 18: Financial risk management (continued)

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

Allowance for credit risk by product	**30 June 2011 $ m**	30 June 2010 $ m
Export finance loans	**(21.2)**	(13.6)
Funded export finance guarantees	**(4.4)**	(0.9)
Rescheduled credit insurance debts	**(3.6)**	(0.9)
Guarantees	**(20.1)**	(28.7)
Bonds	**(2.2)**	(0.6)
Political risk insurance	**(0.2)**	(0.2)
EFIC Headway guarantees	**(0.2)**	(0.3)
Allowance for credit risk closing balance	**(51.9)**	(45.2)

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

Allowance for credit risk for gross exposures	**30 June 2011 $ m**	From 1 July 2005 designation $ m
Allowance for credit risk opening balance	**(45.2)**	(60.0)
New exposures	**(21.4)**	(73.6)
Repayments	**9.1**	56.4
Change in risk grade	**(6.8)**	8.6
Change in term	**3.5**	23.8
Change in allowance rates	**0.8**	(3.0)
Exchange rate movements	**8.1**	2.6
Allowance for credit risk closing balance	**(51.9)**	(45.2)

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Note 18: Financial risk management (continued)

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

Country exposures	30 June 2011 $ m	30 June 2011 % of total	30 June 2010 $ m	30 June 2010 % of total
Australia*	**221.3**	**23.0**	209.8	21.5
United Arab Emirates	**116.4**	**12.1**	146.6	15.1
Trinidad and Tobago	**87.3**	**9.1**	115.2	11.8
Denmark	**64.8**	**6.7**	-	-
Turkey	**55.3**	**5.8**	78.4	8.1
Indonesia	**50.0**	**5.2**	50.2	5.2
Papua New Guinea	**45.3**	**4.7**	34.8	3.6
Sri Lanka	**33.2**	**3.5**	24.8	2.6
United States of America	**30.9**	**3.2**	23.8	2.4
Spain	**27.3**	**2.8**	40.9	4.2
Egypt	**24.1**	**2.5**	27.5	2.8
Vietnam	**19.9**	**2.1**	21.9	2.2
China	**16.8**	**1.8**	23.7	2.4
Greece	**15.6**	**1.6**	19.2	2.0
Philippines	**12.5**	**1.3**	25.2	2.6
Ghana	**7.5**	**0.8**	5.6	0.6
French Polynesia	**5.7**	**0.6**	13.0	1.3
Canada	**-**	**-**	8.2	0.8
Other	**15.3**	**1.6**	18.6	1.9
Retained exposures	**849.2**	**88.4**	887.4	91.1
Reinsured exposures	**111.7**	**11.6**	86.5	8.9
Total country exposures	**960.9**	**100.0**	973.9	100.0

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

Note 18: Financial risk management (continued)

> Retained sector exposure

The sectors that represent more than 15% of EFIC's Commercial Account retained exposure are the sovereign, manufacturing, and construction sectors. At 30 June 2011, the exposure to the sovereign sector accounted for $240.6 million, representing 28% of EFIC's total retained exposure (2010: $236.0 million, representing 27% of the total), the exposure to the manufacturing sector accounted for $174.2 million, representing 21% of EFIC's total retained exposure (2010: $200.5 million, representing 23% of the total), and the exposure to the construction sector accounted for $129.1 million, representing 15% of EFIC's total retained exposure (2010: $96.7 million, representing 11% of the total).

(b) National Interest Account exposures

Under the National Interest Account, the exposures for loans and rescheduled credit insurance debts are all to overseas governments, or entities owned or guaranteed by overseas governments. On the National Interest Account, there was debt forgiveness of $7.5 million during the year (2010: nil).

Gross exposures (before unearned premiums, specific provision for impairment and unamortised grants) on each of the products offered on the National Interest Account are as follows:

Gross exposures	Note	30 June 2011 $ m	30 June 2010 $ m
Export finance loans	7, 1(l)	584.4	755.7
Rescheduled credit insurance debts	7, 1(l)	101.2	124.3
Bonds	17	0.1	1.3
Total gross exposures		685.7	881.3
Reinsured exposures included above		17.7	33.4

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

Country exposures*	2011 $ m	2011 % of total	2010 $ m	2010 % of total
Indonesia	492.3	71.8	663.4	75.3
Egypt	101.2	14.8	124.3	14.1
China	24.6	3.6	34.9	3.9
Papua New Guinea	15.8	2.3	-	-
Cuba	9.7	1.4	9.7	1.1
Philippines	7.6	1.1	14.3	1.6
United States of America	10.8	1.6	-	-
Australia	4.4	0.6	-	-
Japan	1.5	0.2	-	-
Other**	0.1	-	1.3	0.2
Retained exposures	668.0	97.4	847.9	96.2
Reinsured exposures	17.7	2.6	33.4	3.8
Total country exposures	685.7	100.0	881.3	100.0

* Excludes Iraq which is treated as a contingent asset.

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

Note 18: Financial risk management (continued)

(c) Rescheduled debt exposures

Indonesia: Scheduled payments from Indonesia for December 1998 to December 2003 have been rescheduled on three occasions in the Paris Club. The rescheduled payments totalled US$21 million on EFIC's Commercial Account and US$93 million and Euro 108 million on the National Interest Account. The repayment schedule for the rescheduled debts requires six-monthly payments until June 2019, June 2016, and June 2021 respectively depending on the rescheduling agreement. As at 30 June 2011 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Egypt: EFIC is owed $24 million by Egypt on the Commercial Account and US$31 million and $72 million on the National Interest Account. These debts arose from credit insurance claims in respect of wheat exports in the mid-1980s. These debts were subject to rescheduling (with partial forgiveness) at the Paris Club meetings of Egypt's Government creditors in 1987 and 1991. The repayment schedule for the rescheduled debts calls for six-monthly payments until July 2016. As at 30 June 2011 all rescheduled amounts have been paid on time as per the rescheduling agreements.

(iii) Liquidity risk

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

On the National Interest Account all the cash flows on loans are matched with funding from the Commercial Account.

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

	Contractual undiscounted principal and interest			
30 June 2011	3 months or less $m	3 months to 1 year $m	1 year to 5 years $m	Greater than 5 years $m
Undiscounted financial assets				
Cash and liquid assets	0.6	-	-	-
Receivables from other financial institutions	56.4	23.4	-	-
Available-for-sale investment securities	280.9	660.1	384.6	-
Loans and receivables at amortised cost	-	6.0	25.3	15.4
Loans and receivables designated at fair value through profit and loss	6.8	49.4	249.6	358.5
Loans to National Interest Account designated at fair value through profit and loss	23.9	96.2	386.9	284.3
Derivative financial instruments				
- Contractual amounts receivable	346.5	920.3	1,155.3	1,124.1
Total undiscounted financial assets	715.1	1,755.4	2,201.7	1,782.3
Undiscounted financial liabilities				
Payables to other financial institutions	0.6	6.0	25.3	15.4
Borrowings designated at fair value through profit and loss				
- Euro commercial paper	270.1	41.9	-	-
- Non-structured borrowings	18.1	157.0	714.6	831.0
- Structured borrowings	127.9	302.4	233.6	122.6
Derivative financial instruments				
- Contractual amounts payable	332.1	794.9	959.3	988.9
Total undiscounted financial liabilities	748.8	1,302.2	1,932.8	1,957.9
Net undiscounted financial assets/(liabilities)	(33.7)	453.2	268.9	(175.6)

Note 18: Financial risk management (continued)

30 June 2010	3 months or less $m	3 months to 1 year $m	1 year to 5 years $m	Greater than 5 years $m
	Contractual undiscounted principal and interest			
Undiscounted financial assets				
Cash and liquid assets	0.8	-	-	-
Receivables from other financial institutions	51.5	28.4	-	-
Available-for-sale investment securities	273.8	358.1	323.4	-
Loans and receivables at amortised cost	-	7.8	32.6	27.5
Loans and receivables designated at fair value through profit and loss	6.2	31.8	203.6	336.1
Loans to National Interest Account designated at fair value through profit and loss	27.6	111.9	487.0	374.4
Derivative financial instruments				
- Contractual amounts receivable	331.2	635.2	1,186.1	515.8
Total undiscounted financial assets	691.1	1,173.2	2,232.7	1,253.8
Undiscounted financial liabilities				
Payables to other financial institutions	1.5	4.3	57.7	-
Borrowings designated at fair value through profit and loss				
- Euro commercial paper	281.6	48.5	-	-
- Non-structured borrowings	19.7	37.4	738.7	273.7
- Structured borrowings	176.4	399.5	229.2	67.3
Derivative financial instruments				
- Contractual amounts payable	280.0	524.1	1,123.6	469.3
Total undiscounted financial liabilities	759.2	1,013.8	2,149.2	810.3
Net undiscounted financial assets/(liabilities)	(68.1)	159.4	83.5	443.5

While the above tables show a liquidity shortfall in the next 3 months, approximately 18% (26% for 2010) of the borrowings are in a form which allows there to be a call for a full repayment of the debt at predetermined intervals (usually annually or bi-annually). The maturity profile is based on the next call date. If the borrowing is not called then the maturity will roll to the next callable interval. This would mean in the next 3 months $68.5 million ($132.6 million for 2010) may not have to be repaid. For the last 12 months EFIC had $567.3 million of debt that could have been called and only $142.2 million was in fact called.

Note 18: Financial risk management (continued)

(iv) Market risk

(a) Interest rate risk

As EFIC is involved in lending and borrowing activities, interest rate risks arise. EFIC uses interest rate swaps, forward rate agreements, cross-currency swaps and futures on the Commercial Account as the primary methods of reducing exposure to interest rate movements.

EFIC's policy is to minimise interest rate risk. If loans are not at floating rates, a fixed to floating rate swap is generally entered into from the time terms and conditions are agreed.

In certain circumstances cash flow hedges may be entered into to hedge the exposure to variability in interest rate movements that are attributable to future interest cash flows. At year end EFIC has entered two cash flow hedge relationships using interest rate swaps as the hedging instrument, which require settlement of net interest receivable or payable every 180 days until October 2018. The underlying hedged items are loans classified as loans and receivables at amortised cost and borrowings classified as a payable to other financial institutions where the settlement date of interest coincides with the corresponding interest rate swap.

Movement in cash flow hedge reserve:

Cash flow hedge reserve	30 June 2011 $ m	30 June 2010 $ m
Opening balance cash flow hedge reserve	3.8	4.6
Transferred to interest expense	(1.0)	(0.9)
Transferred to interest income	1.6	1.8
Net unrealised change in cash flow hedges	(2.1)	(1.7)
Closing balance cash flow hedge reserve	2.3	3.8

Fair value hedges are intended to hedge the exposure to variability in fair value movements that are attributable to future interest cash flows only. The financial instruments hedged for interest rate risk are available-for-sale investments. Interest rate swaps are used to hedge the interest rate risk. For the year ended June 2011, $0.1 million ($1.0 million for 2010) loss was recognised on hedging instruments. The total gain on hedged items attributable to the hedged risks for June 2011 $0.1 million ($1.0 million for 2010).

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

National Interest Account loans are funded from the Commercial Account at a matched rate and therefore they are not exposed to interest rate risk.

Fixed interest loans and borrowing portfolios have an opportunity cost exposure to changes in market value. The change in market value can be caused by either a general shift in the level of interest rates or by a change in the credit margin of individual assets. Exposure to the general level of interest rates is a function of 'duration', whereas exposure to credit margin is a function of 'term to maturity'. The Board sets a benchmark for the 'duration' of the capital and reserves portfolio. Other fixed interest portfolios and EFIC's loan and investments and borrowing portfolios are not impacted by changes in the general level of interest rates due to duration hedging.

Note 18: Financial risk management (continued)

The table below is based on actual or notional principal balances and is not their fair value as is shown in the balance sheet. EFIC's exposure to interest rate risk is only on the Commercial Account and is shown below. The amounts shown are the undiscounted principal exposure and notional principal amounts outstanding.

30 June 2011			Contractual undiscounted principal exposure			
Undiscounted principal exposures	Floating interest rate $ m	Non-interest bearing $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed Total $ m
Financial assets						
Cash and liquid assets	0.6	-	-	-	-	-
Receivables from other financial institutions	79.6	-	-	-	-	-
Available-for-sale investment securities	1,123.7	-	101.2	48.0	-	149.2
Loans and receivables designated at amortised cost	43.4	-	-	-	-	-
Loans and receivables designated at fair value through profit and loss	486.7	-	1.0	4.2	1.6	6.8
Loans to National Interest Account designated at fair value through profit and loss	258.9	-	63.9	189.5	108.8	362.2
Total financial assets	1,992.9	-	166.1	241.7	110.4	518.2
Financial liabilities						
Payables to other financial institutions	44.0	-	-	-	-	-
Derivative financial instruments						
- Cross-currency swaps	19.9	-	(56.7)	(184.8)	(207.4)	(448.9)
- Interest rate swaps*	514.7	-	50.6	(176.5)	(388.8)	(514.7)
Borrowings designated at fair value through profit and loss	1,024.1	-	129.6	581.6	707.4	1,418.6
Other monetary liabilities	-	19.0	-	-	-	-
Total financial liabilities	1,602.7	19.0	123.5	220.3	111.2	455.0
Net interest exposures	390.2	(19.0)	42.6	21.4	(0.8)	63.2

* Notional principal amounts.

Note 18: Financial risk management (continued)

30 June 2010 Undiscounted principal exposures	Floating interest rate $ m	Non-interest bearing $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed Total $ m
	Contractual undiscounted principal exposure					
Financial assets						
Cash and liquid assets	0.8	-	-	-	-	-
Receivables from other financial institutions	79.6	-	-	-	-	-
Available-for-sale investment securities	715.4	-	105.2	94.0	-	199.2
Loans and receivables designated at amortised cost	62.0	-	-	-	-	-
Loans and receivables designated at fair value through profit and loss	398.2	-	3.5	11.8	3.3	18.6
Loans to National Interest Account designated at fair value through profit and loss	314.4	-	67.8	234.5	166.8	469.1
Total financial assets	1,570.4	-	176.5	340.3	170.1	686.9
Financial liabilities						
Payables to other financial institutions	63.5	-	-	-	-	-
Borrowings designated at fair value through profit and loss	1,062.5	-	120.1	745.0	181.6	1,046.7
Derivative financial instruments						
- Cross-currency swaps	241.6	-	(104.5)	(282.3)	(181.6)	(568.4)
- Interest rate swaps*	(133.5)	-	115.2	(153.0)	171.3	133.5
Other monetary liabilities	-	7.4	-	-	-	-
Total financial liabilities	1,234.1	7.4	130.8	309.7	171.3	611.8
Net interest exposures	336.3	(7.4)	45.7	30.6	(1.2)	75.1

* Notional principal amounts.

> *Interest margin (duration)*

To ensure consistency and a common approach to interest rate sensitivity analysis, EFIC has adopted the recommendations provided by the Commonwealth. The sensitivity analysis movement percentages are based on both statistical and non-statistical analysis. The statistical analysis is based on the cash rate for the past five years issued by the Reserve Bank of Australia (RBA) as the underlying data set. This information is then revised and adjusted for reasonableness under the current economic circumstances. The below percentage changes are the recommendations for interest rate sensitivity provided by the Commonwealth.

Sensitivity analysis of interest rate risk (which is the risk that the fair value will fluctuate because of changes in market interest rates and not credit factors) for the Commercial Account is only performed for capital and reserve investments as these are the only products of EFIC'S portfolio materially affected by interest rate movements.

	Exposure at risk 2011 $m	**Increase in basis points Effect on profit 2011 $m**	**Decrease in basis points Effect on profit 2011 $m**	**Increase in basis points Effect on equity 2011 $m**	**Decrease in basis points Effect on equity 2011 $m**
Capital and reserve portfolio					
Fixed rate investments	**63.6**				
Change of 175 basis points interest margin		**-**	**-**	**(0.7)**	**0.8**
Floating rate investments	**347.2**				
Change of 175 basis points interest margin		**5.3**	**(5.3)**	**(0.8)**	**0.8**

Note 18: Financial risk management (continued)

> Interest margin (duration) (continued)

	Exposure at risk 2010 $m	Increase in basis points Effect on profit 2010 $m	Decrease in basis points Effect on profit 2010 $m	Increase in basis points Effect on equity 2010 $m	Decrease in basis points Effect on equity 2010 $m
Capital and reserve portfolio					
Fixed rate investments	76.5				
Change of 175 basis points interest margin		-	-	(0.9)	0.9
Floating rate investments	325.8				
Change of 175 basis points interest margin		5.0	(5.0)	(0.7)	0.7

> Credit margin (term to maturity)

For EFIC's investment portfolio there is a credit revaluation risk as the fair value of the investments will fluctuate because of changes in the credit quality of the counterparty where the investment is placed. These amounts are reflected in EFIC's equity, as the portfolio is classified as available-for-sale.

EFIC's investment approval is from the CAC Act under section 18(3)(d). This approval requires EFIC to only invest in Australian Commonwealth and state governments, Authorised Deposit-taking Institutions rated at least BBB- and to financial institution or entities with credit ratings the equivalent of AA- or better. However, if after purchase a counterparty subsequently falls below the minimum credit rating, management evaluates the risk and will decide on the applicable action, which may include selling the asset, novating the contract, holding the asset to maturity, or obtaining security through credit support annexures (CSA's).

Not-withstanding such a high level of credit quality required in EFIC's investments, the portfolio is exposed to movements in credit spreads. Over the past years, given disruptions in world financial markets, all credit classes have been impacted.

Unrealised mark to market losses were minimised by having a short average life to maturity. As investments are classified as available-for-sale, mark to market losses are reflected in equity, and assuming no credit defaults, losses would not be realised in the profit and loss; on maturity, unrealised losses will be reversed out of equity.

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

	Exposure at risk 2011 $m	**Increase in basis points Effect on equity 2011 $m**	**Decrease in basis points Effect on equity 2011 $m**	Increase in basis points Effect on equity 2010 $m	Decrease in basis points Effect on equity 2010 $m
Investment portfolio					
Fixed rate investments	**149.2**				
Change of 50 basis points credit margin		**(0.7)**	**0.7**	(0.3)	0.3
Change of 100 basis points credit margin		**(1.4)**	**1.4**	(0.6)	0.6
Change of 200 basis points credit margin		**(2.8)**	**2.9**	(1.2)	1.3
Floating rate investments	**1,203.3**				
Change of 50 basis points credit margin		**(4.5)**	**4.5**	(4.0)	4.0
Change of 100 basis points credit margin		**(9.1)**	**9.1**	(8.1)	8.1
Change of 200 basis points credit margin		**(18.2)**	**18.2**	(16.1)	16.1

(b) Foreign exchange risk

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

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Note 18: Financial risk management (continued)

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

	Foreign currency fair value exposures			
30 June 2011	**USD A$m**	**EUR A$m**	**JPY A$m**	**Other A$m**
Financial assets exposure in foreign currencies				
Cash and liquid assets	**0.1**	**0.1**	-	**0.1**
Receivables from other financial institutions	**71.9**	-	-	-
Available-for-sale investment securities	**46.9**	**47.3**	-	**29.1**
Loans at amortised cost	**43.4**	-	-	-
Loans and receivables designated at fair value through profit and loss	**396.7**	**65.1**	-	-
Loans to National Interest Account designated at fair value through profit and loss	**439.9**	**193.9**	-	-
Derivative financial instruments	**1,144.2**	**1.2**	**593.0**	**87.5**
Total financial assets exposure in foreign currencies	**2,143.1**	**307.6**	**593.0**	**116.7**
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	**43.4**	**0.6**	-	-
Borrowings designated at fair value through profit and loss	**447.0**	**36.7**	**581.0**	**87.5**
Guarantees designated at fair value through profit and loss	**12.2**	**8.3**	**1.5**	**0.5**
Derivative financial instruments	**1,637.6**	**273.6**	**12.0**	**29.1**
Other liabilities	**3.5**	-	-	-
Total financial liabilities exposure in foreign currencies	**2,143.7**	**319.2**	**594.5**	**117.1**
Net foreign exchange exposures in foreign currencies	**(0.6)**	**(11.6)**	**(1.5)**	**(0.4)**
30 June 2010				
Financial assets exposure in foreign currencies				
Cash and liquid assets	0.1	-	-	0.1
Receivables from other financial institutions	63.1	0.9	-	-
Available-for-sale investment securities	153.0	37.0	-	-
Loans at amortised cost	61.9	-	-	-
Loans and receivables designated at fair value through profit and loss	386.3	2.9	-	-
Loans to National Interest Account designated at fair value through profit and loss	583.7	246.1	-	-
Derivative financial instruments	808.8	1.0	797.1	64.6
Total financial assets exposure in foreign currencies	2,056.9	287.9	797.1	64.7
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	63.5	-	-	-
Borrowings designated at fair value through profit and loss	410.5	50.3	783.0	64.9
Guarantees designated at fair value through profit and loss	13.5	8.0	2.3	0.7
Derivative financial instruments	1,557.2	245.5	14.1	-
Other liabilities	8.8	0.2	-	-
Total financial liabilities exposure in foreign currencies	2,053.5	304.0	799.4	65.6
Net foreign exchange exposures in foreign currencies	3.4	(16.1)	(2.3)	(0.9)

Note 18: Financial risk management (continued)

EFIC's business creates foreign exchange exposures in relation to future income and expense. EFIC's current policy is only to hedge 'realised' income and expense, not to hedge 'unrealised' or future foreign currency income and expense.

The exposure to foreign exchange rate movement is kept to a minimum as borrowings are converted via cross currency swaps into the currency that is needed to lend to EFIC's clients. The three main components that are exposed to foreign exchange movements relate to:

(i) an asset for future fixed interest profit that has been taken to income in foreign currencies

(ii) an asset of future risk premiums and other residual components taken to income in foreign currencies

(iii) a liability for allowance for credit risk which is held in Australian dollars against loans predominantly in foreign currencies.

As shown by the above tables the net foreign exchange exposure as at 30 June 2011 is minimal in value for all currencies other than EUR and as such there is no material impact on profit for all currencies other than EUR. The EUR variance is largely due to the credit risk of guarantees where there has been an allowance for credit risk of $8.6 million.

To ensure consistency and a common approach to foreign exchange sensitivity, EFIC have adopted the recommendations provided by the Commonwealth. The sensitivity analysis movement percentages are based on both statistical and non-statistical analysis. The statistical analysis is based on main currency movements for the last five years. This information is then revised and adjusted for reasonableness under the current economic circumstances. Sensitivity has only been performed on the three currencies that are material to EFIC's accounts.

Sensitivity analysis for foreign exchange on the Commercial Account:

	Change in foreign exchange (FX) rate %	**Exposure at risk 2011 A$m**	**Increase in FX rate Effect on profit 2011 A$m**	**Decrease in FX rate Effect on profit 2011 A$m**	Exposure at risk 2010 A$m	Increase in FX rate Effect on profit 2010 A$m	Decrease in FX rate Effect on profit 2010 A$m
Exposure USD	**15**	**(0.6)**	**0.1**	**(0.1)**	3.4	(0.4)	0.6
Exposure EUR	**15**	**(11.6)**	**1.5**	**(2.0)**	(16.1)	2.1	(2.8)
Exposure JPY	**15**	**(1.5)**	**0.2**	**(0.3)**	(2.3)	0.3	(0.4)

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

	USD 30 June 2011 A$m	**EUR 30 June 2011 A$m**	USD 30 June 2010 A$m	EUR 30 June 2010 A$m
Financial assets exposure				
Loans and receivables	**368.6**	**176.3**	475.2	219.0
Total financial assets exposure	**368.6**	**176.3**	475.2	219.0
Financial liabilities exposure				
Borrowings from Commercial Account	**372.9**	**176.3**	482.4	219.0
Total financial liabilities exposure	**372.9**	**176.3**	482.4	219.0
Net foreign exchange exposures	**(4.3)**	**-**	(7.2)	-

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

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Note 18: Financial risk management (continued)

Sensitivity analysis for foreign exchange on the National Interest Account:

	Change in foreign exchange (FX) rate %	Exposure at risk 2011 A$m	Increase in FX rate Effect on profit 2011 A$m	Decrease in FX rate Effect on profit 2011 A$m	Exposure at risk 2010 A$m	Increase in FX rate Effect on profit 2010 A$m	Decrease in FX rate Effect on profit 2010 A$m
Exposure USD	15	(4.3)	0.6	(0.8)	(7.2)	0.9	(1.3)

Note 19: Fair value of financial instruments

(i) Determination of fair value hierarchy

EFIC uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs significantly affecting the recorded fair value are observable, either directly or indirectly.

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Fair value exposures by hierarchy			
30 June 2011	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial assets				
Loans and receivables designated at fair value through profit and loss	-	-	480.8	480.8
Loans to National Interest Account designated at fair value through profit and loss	-	707.5	-	707.5
Interest rate swaps	-	21.5	-	21.5
Cross-currency swaps	-	251.2	147.4	398.6
Forward foreign exchange contracts	-	1.5	-	1.5
Available-for-sale financial assets				
Discount securities	-	595.1	-	595.1
Floating rate notes	-	430.2	90.2	520.4
Fixed rate bonds	-	123.5	29.1	152.6
Total	-	2,130.5	747.5	2,878.0
Financial liabilities				
Borrowings designated at fair value through profit and loss	-	(1,720.6)	(664.4)	(2,385.0)
Guarantees designated at fair value through profit and loss	-	-	(25.7)	(25.7)
Interest rate swaps	-	(81.2)	-	(81.2)
Cross-currency swaps	-	(44.7)	(7.1)	(51.8)
Forward foreign exchange contracts	-	(17.8)	-	(17.8)
Total	-	(1,864.3)	(697.2)	(2,561.5)

Note 19: Fair value of financial instruments (continued)

30 June 2010	Fair value exposures by hierarchy Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Loans and receivables designated at fair value through profit and loss	-	-	411.0	411.0
Loans to National Interest Account designated at fair value through profit and loss	-	913.7	-	913.7
Interest rate swaps	-	29.2	-	29.2
Cross-currency swaps	-	102.2	144.2	246.4
Forward foreign exchange contracts	-	9.5	-	9.5
Available-for-sale financial assets				
Discount securities	-	288.8	-	288.8
Floating rate notes	-	420.1	-	420.1
Fixed rate bonds	-	203.1	-	203.1
Total	-	1,966.6	555.2	2,521.8
Financial liabilities				
Borrowings designated at fair value through profit and loss	-	(1,234.0)	(807.4)	(2,041.4)
Guarantees designated at fair value through profit and loss	-	-	(27.5)	(27.5)
Interest rate swaps	-	(117.9)	-	(117.9)
Cross-currency swaps	-	(8.0)	(9.2)	(17.2)
Forward foreign exchange contracts	-	(0.9)	-	(0.9)
Total	-	(1,360.8)	(844.1)	(2,204.9)

Movement in level 3 fair value exposures

	At 1 July 2010 $m	New deals $m	Repayments $m	Foreign exchange $m	Gain/(loss) through equity $m	Profit/(loss) deals matured $m	Profit/(loss) deals existing $m	At 30 June 2011 $m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit and loss	411.0	206.2	(42.5)	(92.8)	-	-	(1.1)	480.8
Cross-currency swaps	144.2	0.9	(29.3)	24.9	-	6.1	0.6	147.4
Available-for-sale financial assets								
Floating rate notes	-	93.1	-	(3.3)	0.1	-	0.3	90.2
Fixed rate bonds	-	27.7	-	0.9	-	-	0.5	29.1
	555.2	327.9	(71.8)	(70.3)	0.1	6.1	0.3	747.5
Level 3 Financial liabilities								
Borrowings designated at fair value through profit and loss	(807.4)	(98.9)	164.0	82.0	-	(4.7)	0.6	(664.4)
Guarantees designated at fair value through profit and loss*	(27.5)	-	-	-	-	-	1.8	(25.7)
Cross-currency swaps	(9.2)	-	0.7	0.1	-	-	1.3	(7.1)
	(844.1)	(98.9)	164.7	82.1	-	(4.7)	3.7	(697.2)
Total net level 3	(288.9)	229.0	92.9	11.8	0.1	1.4	4.0	50.3

* Guarantees are notional and so the face value is not held on the balance sheet.

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Note 19: Fair value of financial instruments (continued)

	Movement in level 3 fair value exposures							
	At 1 July 2009 $m	New deals $m	Repayments $m	Foreign exchange $m	Gain/(loss) through equity $m	Profit/(loss) deals matured $m	Profit/(loss) deals existing $m	At 30 June 2010 $m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit and loss	243.4	250.8	(79.5)	(1.3)	-	4.2	(6.6)	411.0
Cross-currency swaps	99.5	1.0	(11.9)	54.1	-	0.2	1.3	144.2
	342.9	251.8	(91.4)	52.8	-	4.4	(5.3)	555.2
Level 3 Financial liabilities								
Borrowings designated at fair value through profit and loss	(861.6)	(21.6)	102.3	(16.7)	-	(1.2)	(8.6)	(807.4)
Guarantees designated at fair value through profit and loss*	(39.0)	-	-	-	-	-	11.5	(27.5)
Cross-currency swaps	(9.6)	(0.1)	(0.8)	1.8	-	-	(0.5)	(9.2)
	(910.2)	(21.7)	101.5	(14.9)	-	(1.2)	2.4	(844.1)
Total net level 3	(567.3)	230.1	10.1	37.9	-	3.2	(2.9)	(288.9)

* Guarantees are notional and so the face value is not held on the balance sheet.

The profit and loss on the above level 3 financial assets and liabilities are recorded in the statement of comprehensive income in either the category fair value of third party loans and guarantees or the category fair value of other financial instruments. The fair value movement on available-for-sale investments is shown through equity.

	Sensitivity of level 3 Fair value exposures			
	At 30 June 2010 $m	Effect of reasonable alternative assumptions $m	**At 30 June 2011 $m**	**Effect of reasonable alternative assumptions $m**
Level 3 Financial assets				
Loans and receivables designated at fair value through profit and loss	411.0	(6.4)	480.8	(7.8)
Cross-currency swaps	144.2	0.9	147.4	0.9
Available-for-sale financial assets				
Floating rate notes	-	-	90.2	(0.1)
Fixed rate bonds	-	-	29.1	-
Level 3 Financial liabilities				
Borrowings designated at fair value through profit an d loss	(807.4)	(3.7)	(664.4)	(2.1)
Guarantees designated at fair value through profit and loss*	(27.5)	(8.2)	(25.7)	(6.0)
Cross-currency swaps	(9.2)	-	(7.1)	-

* Guarantees are notional and so the face value is not held on the balance sheet.

Note 19: Fair value of financial instruments (continued)

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

For both loans and receivables designated at fair value through profit and loss and guarantees designated at fair value through profit and loss, the credit risk assumptions were adjusted. This involved adjusting the ratings modifier down by one notch across the entire portfolio which is considered a reasonably possible alternative.

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

For borrowings designated at fair value through profit and loss and cross currency swaps, the discount rate assumption was adjusted by 5 basis points which is considered a reasonably possible alternative.

(ii) Determination of fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques.

Available-for-sale investment securities

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

Commercial Account loans and receivables designated at fair value through profit and loss

The fair value on day one is the transaction price, and subsequent fair value is determined by applying market rates and using the valuation technique of discounted cash flows. A credit risk component is included in the valuation to reflect the impact of expected loss on the fair value of each loan or receivable. A residual component covering prepayment risks, other risks and servicing costs is also included in the fair value of each loan or receivable. When it is likely that a loan or debt will not be recovered in full, a specific event is recognised and recorded using the discounted cash flow method. All individual facilities are reviewed regularly.

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

Fair value is determined by applying market rates and using the valuation techniques of discounted cash flows.

Derivative financial instruments

The fair value of derivative financial instruments is determined using market rates and valuation techniques which incorporate discounted cash flows for vanilla derivatives. For non-vanilla structured derivatives, EFIC has a valuation model which uses market interest rates to develop zero coupon curves. Forward interest rates, discount factors and long-term forward foreign exchange rates are then derived, which are in turn used as inputs to determine the value of future cash flows for each transaction. The same models are applied to the structured borrowings relating to these derivatives. For structured derivatives and borrowings this includes a calculation for the effect of the time value of when the transaction would be called based on the rationale that a reasonable counterparty would choose the date that has the lowest cost (or greatest profit) on a net present value basis.

These models have been used by EFIC for a number of years for measuring both counterparty exposures and for the 'net fair value' figures disclosed in the notes in previous years' financial statements. The inputs to the models are from independent market sources. A credit risk component is included in the valuation of derivatives.

Commercial Account borrowings designated at fair value through profit and loss

The fair value for non-structured borrowings is determined by applying market rates at which EFIC can issue debt in the public and private markets, and valuation techniques, which incorporate discounted cash flows. For the structured borrowings, EFIC has a valuation model which uses market interest rates at which EFIC could issue debt in the public markets, to develop zero coupon curves. Forward interest rates, discount factors and long-term forward foreign exchange rates are then derived, which are in turn used as inputs to determine the value of future cash flows for each transaction. This includes a calculation for the effect of the time value of when the transaction would be called based on the rationale that a reasonable counterparty would choose the date that has the lowest cost (or greatest profit) on a net present value basis. The inputs to the models are from independent market sources.

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Note 19: Fair value of financial instruments (continued)

Guarantees designated at fair value through profit and loss

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

Note 20: Capital

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2011 $ m	30 June 2010 $ m	**30 June 2011 $ m**	30 June 2010 $ m
Capital available					
Equity at start of period		**407.6**	376.7	-	-
Profit		**30.2**	38.3	-	-
Net gain on cash flow hedges		**(1.5)**	(0.8)	-	-
Net gain/(loss) on available-for-sale investments		**0.5**	10.2	-	-
Dividend paid		**(28.7)**	(16.8)	-	-
Equity at end of period		**408.1**	407.6	-	-
Eligible allowance for credit risk in capital		**10.7**	9.8	-	-
EFIC capital		**418.8**	417.4	-	-
Callable capital		**200.0**	200.0	-	-
Capital available (including callable capital)		**618.8**	617.4	-	-
Capital required					
Export finance		**81.8**	79.0	-	-
Treasury		**44.4**	36.9	-	-
Other assets		**2.7**	2.7	-	-
Operational capital		**6.5**	6.8	-	-
Capital before concentration capital		**135.4**	125.4	-	-
Concentration capital		**135.6**	159.4	-	-
Dividend payable (subject to Board and Minister approval)		**15.1**	19.2	-	-
Total capital required		**286.1**	304.0	-	-
Capital ratios					
Risk weighted assets		**1,787.5**	1,653.9	-	-
Capital adequacy ratio (excluding callable capital)		**23.4%**	25.2%	-	-
Capital adequacy ratio (including callable capital)		**34.6%**	37.3%	-	-

Note 20: Capital (continued)

Under section 56 of the EFIC Act the Board is required 'to ensure, according to sound commercial principals, that the capital and reserves of EFIC at any time are sufficient'. This requirement relates only to our Commercial Account activities. The Australian Prudential Regulation Authority (APRA) requires banks in Australia to have minimum capital requirements consistent with the Basel II framework. Although EFIC does not have to comply with APRA guidelines, the Board has adopted Basel II principles, in line with best practice, for measuring capital adequacy within EFIC until Basel III guidelines are released and finalised by APRA.

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

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

EFIC's management provides an annual update to the Audit Committee and the Board in relation to the capital adequacy policy. The capital adequacy ratio, capital available and capital required is reported as part of the management accounts at every Board meeting.

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

The Prudential Standards and Prudential Practice Guides from APRA are generally aligned to the Basel II guidelines but differ in some areas which may impact the methodology adopted by EFIC for calculating capital adequacy.

The model EFIC has adopted for Capital Adequacy may be summarised as follows:

- EFIC adopts the Foundation Internal Ratings Based (IRB) approach (as allowed by APRA and Basel II) to measure capital required for credit risk for Export Finance facilities. EFIC also uses the Supervisory Slotting approach for specialised lending
- EFIC adopts the Standardised approach to measure capital required for credit risk for Treasury facilities
- EFIC adopts the Standardised approach to measure capital required for operational risk which uses an asset indicator as the proxy for the scale of business risk, and thus the likely scale of operational risk
- EFIC has not allocated any capital for market risk such as interest rate and currency risk, as these risks are minimal or fully hedged. EFIC does not have a trading book, although small positions are allowed by the Board to manage liquidity within defined limits. Instead, EFIC has replaced market risk with counterparty risk which is incorporated into our credit risk calculations for treasury. Any mark-to-market gains and losses on Treasury's investment portfolio are treated as equity as the portfolio is deemed "available-for-sale"
- EFIC has defined concentration risk on large exposures as other risks in our model and carry concentration capital (less the capital allocated on a risk weighted basis to that risk) based on the highest of:
  - 100% of the largest individual maximum exposure; or
  - 50% of the largest maximum country exposure (excluding internal credit rating 1 and 2); or
  - 50% of the largest maximum industry exposure (except reinsurance and central or local governments).
- EFIC requires a minimum capital adequacy ratio of 16% as set by the Board, which includes the callable capital of $200 million, and a ratio of 8% excluding the callable capital.

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	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2011 $ m	30 June 2010 $ m	**30 June 2011 $ m**	30 June 2010 $ m

Note 21: Remuneration of external auditors

Audit and other assurance services					
Audit services paid		-	-	-	-
Audit services payable		**202,389**	259,244	-	-
Other assurance services paid		-	-	-	-
Other assurance services payable		**7,700**	-	-	-
Total audit and other assurance services		**210,089**	259,244	-	-

Note 22: Related party disclosures

Key management personnel

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

Short-term employee benefits		**4,596,016**	4,061,440	-	-
Long-term employee benefits		**5,230**	78,766	-	-
Post-employment benefits		**441,208**	440,466	-	-
Termination payments		-	43,439	-	-
Total remuneration		**5,042,454**	4,624,111	-	-

Board members

Remuneration received or receivable by Board members of EFIC		**890,096**	789,939	-	-
Total remuneration of Board members		**890,096**	789,939	-	-

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

Mr A Mohl, Mr M Carapiet, Mr A Armour, Mr B Brook, Mr D Crombie, Mr D Evans, Mr B Gosper, Ms S Pitkin, Mr D Richardson, Ms J Seabrook, Mr A Sherlock and Mr R Wells.

Changes in Board membership during the year:

1 August 2010	Ms S Pitkin	Reappointed
30 September 2010	Mr D Crombie	Appointment ended
3 March 2011	Mr R Wells	Appointment ended as Alternate Government Member
4 March 2011	Mr B Gosper	Appointed as Alternate Government Member
5 April 2011	Ms J Seabrook	Appointed

Transactions with Board members and Board member related entities

EFIC has not entered into any transactions with a Board member.

A number of transactions are entered into with Board member related entities in the normal course of business and are on an arm lengths basis. These include normal transactional banking facilities, loans and guarantees. These transactions generate interest and fees between EFIC and these Board member related entities.

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

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

	Note	COMMERCIAL ACCOUNT 30 June 2011 $ m	COMMERCIAL ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2011 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m

Note 23: Reconciliation of operating profit to net cash flows from operating activities

	Note	30 June 2011 $ m	30 June 2010 $ m	30 June 2011 $ m	30 June 2010 $ m
Operating profit from ordinary activities		**30.2**	38.3	**7.7**	9.4
Reclassification on non-cash items					
Depreciation		**2.7**	2.8	**-**	-
Employee entitlements		**0.4**	0.3	**-**	-
Amortisation of deferred income		**-**	-	**(21.3)**	(27.5)
Credit risk movement		**6.8**	(15.9)	**-**	-
Foreign exchange (gains)/losses		**0.9**	0.1	**(2.4)**	(1.1)
Unearned premium		**-**	-	**(2.3)**	4.5
Fair value movement		**2.0**	11.1	**-**	-
Specific provision		**(4.5)**	(1.9)	**7.5**	(0.1)
Other		**(0.4)**	-	**0.2**	(0.1)
Reclassification on cash items					
Net movement in receivables/payables		**-**	1.7	**(8.3)**	0.8
Net repayments of loan balances		**(110.1)**	(84.9)	**48.9**	104.3
Rescheduled debt repayments		**3.4**	2.5	**15.1**	14.4
Net cash inflows/(outflows) from operating activities		**(68.6)**	(45.9)	**45.1**	104.6
Reconciliation of cash					
Cash at end of financial year is reconciled to the related items in the Balance Sheet as follows:					
Cash		**0.6**	0.8	**-**	-
Receivables from other financial institutions		**79.7**	79.7	**-**	-
Cash (including liquid funds) at end of financial year		**80.3**	80.5	**-**	-
Financing facilities					
Borrowing facilities available to EFIC at end of financial year					
Overdraft facilities		**0.3**	0.3	**-**	-
Amount of facilities used		**-**	-	**-**	-
Amount of facilities unused		**0.3**	0.3	**-**	-

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Abbreviations and acronyms

Term	Description
ADI	Authorised Deposit-taking Institution
APRA	Australian Prudential Regulation Authority
ASX	Australian Securities Exchange
CAC Act	*Commonwealth Authorities and Companies Act 1997*
Commonwealth	Commonwealth of Australia
CRP	Corporate Responsibility Policy
DCG	Documentary credit guarantee
DFAT	Department of Foreign Affairs and Trade
ECA	Export credit agency
DPRK	Democratic People's Republic of Korea
EEO	Equal employment opportunity
EFG	Export finance guarantee
EFIC	Export Finance and Insurance Corporation
EFIC Act	*Export Finance and Insurance Corporation Act 1991*
ERS	EFIC risk score
EWCG	Export working capital guarantee
FIRG	Financial Institutions Remuneration Group Inc
FOI Act	*Freedom of Information Act 1982*
Government	Government of the Commonwealth of Australia
Global Fund	Global Fund to Fight AIDS, Tuberculosis and Malaria
HSMA	Health and Safety Management Agreement
IFC	International Finance Corporation
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rates
OECD	Organisation for Economic Co-operation and Development
OECD Arrangement	OECD Arrangement on Officially Supported Export Credits
OHS	Occupational health and safety
RCM	Risk Control Matrix
PNG	Papua New Guinea
SME	Small and medium-sized enterprises

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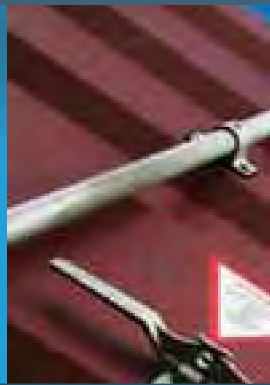

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