Export Finance and Insurance Corporation **Annual Report 2010**

EFIC

Export Finance & Insurance Corporation

Overcoming financial barriers for exporters

Contents

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.

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Support Australian exports and overseas investments

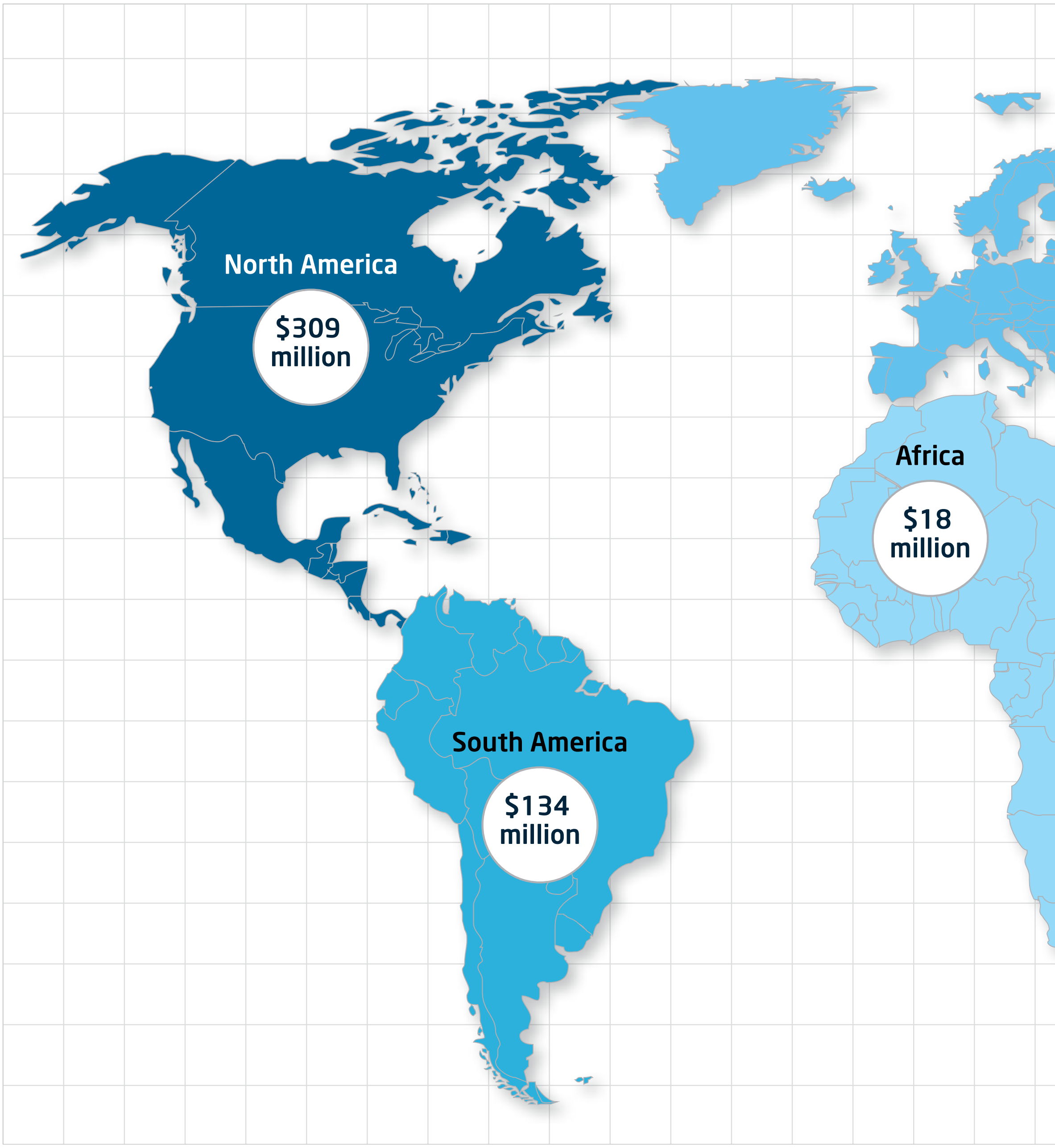
Objective	2009-10	
	Target	Outcome
Value of facilities signed	$620 million	$971.3 million
Value of exports and overseas investments supported	Over $2.4 billion	Over $5.9 billion
Number of facilities provided	60	54

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

Objective	2009-10	
	Target	Outcome
Profit on the Commercial Account	$23.3 million	$38.3 million
Capital adequacy ratio	Above 16 per cent of risk-weighted assets including callable capital, and 8 per cent on a cash capital basis	37.3 per cent of risk-weighted assets including callable capital, and 25.2 per cent on a cash capital basis
Manage EFIC's overall portfolio risk within the market gap	Weighted average risk grade 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 4.5 (3.7 at June 2010)

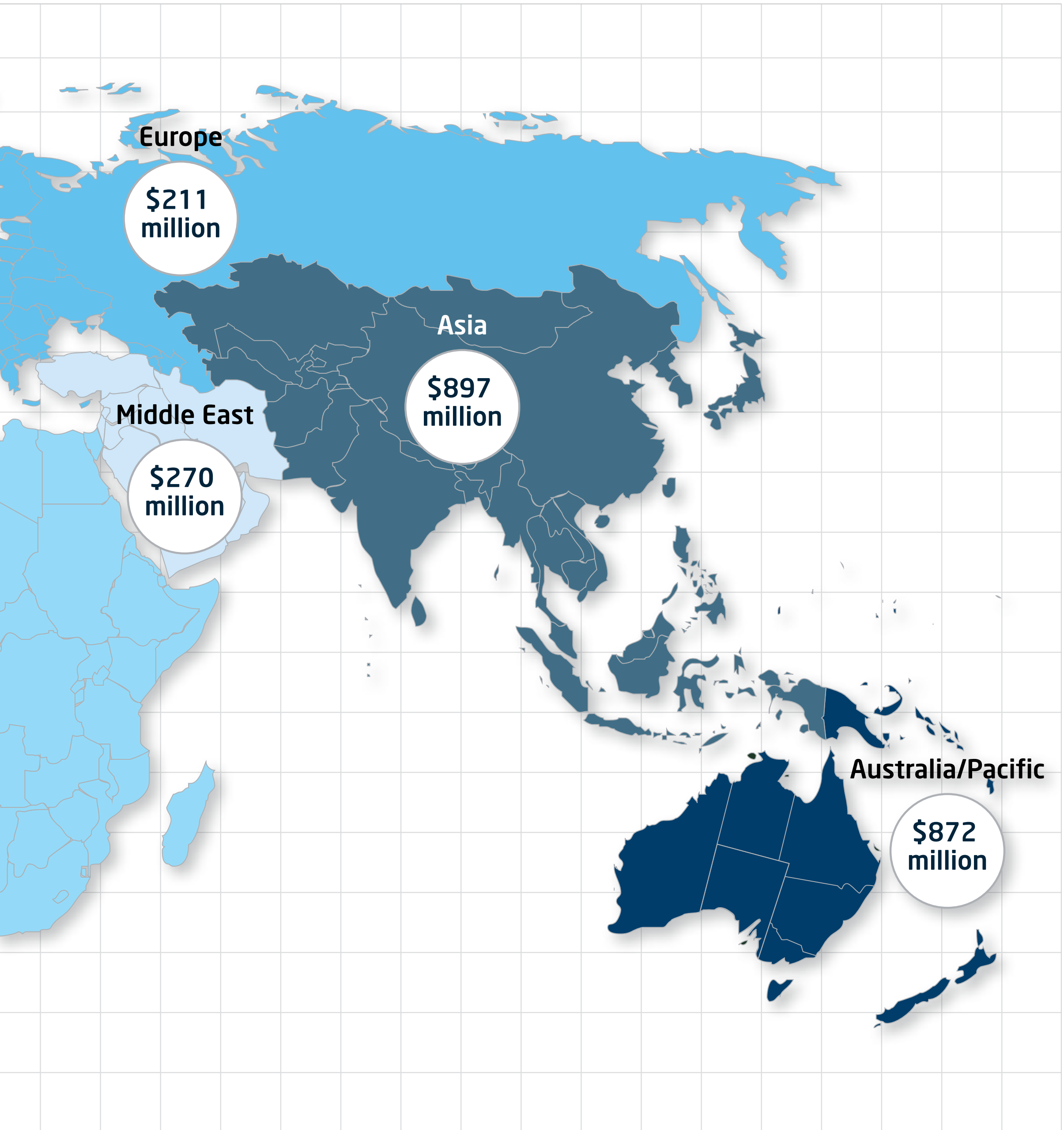
EXPOSURES BY REGION

At 30 June 2010, EFIC managed maximum exposures of $2.7 billion



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

across 24 countries.*



SUMMARY AND STATEMENT BY THE BOARD

In 2009-10 EFIC had a very strong year, with the highest level of signings and exports supported for over 10 years.

During the year, EFIC provided facilities totalling $971.3 million (2008-09: $576.5 million) and supported export contracts and overseas investments of over $5.9 billion (2008-09: over $1.3 billion).

Signings were dominated by EFIC's involvement in the Papua New Guinea liquefied natural gas (PNG LNG) project, to which we contributed US$100 million on the Commercial Account and US$250 million on the Commonwealth's National Interest Account. This transaction accounted for around 40 per cent of total signings and was the sole National Interest Account signing.

EFIC's profit on the Commercial Account was $38.3 million (2008-09: $33.6 million), reflecting the improved credit quality of our new transactions and repayment of some of our higher risk facilities.

With reduced capacity in most financial markets, many of EFIC's transactions in the 2009-10 financial year involved clients with better risk profiles than is usual for our business. As a result, the credit quality of our portfolio continued to improve. EFIC ended the financial year with a weighted average risk grade of 3.7, which is equivalent to between BBB/Baa and BB/Ba. 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, including $200 million of callable capital, of 37.3 per cent. By comparison, bank supervisors around the world, including the Australian Prudential Regulatory Authority (APRA), 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, there is currently greater demand for support for large, long-term transactions than we can prudently meet on the Commercial Account.

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EFIC's Board is confident that at a time of heightened credit risk, EFIC has appropriate controls in place and that we are able to 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, Bruce Brook was appointed to the EFIC Board. In addition, Dennis Richardson replaced Michael L'Estrange, who served on the Board as Government Member for four and a half years. Michael made a significant contribution to the Board during a challenging period.

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* (the CAC Act) 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

Angus Armour
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

20 AUGUST 2010

The EFIC Board at 30 June 2010 (left to right):
David Crombie, Michael Carapiet (Deputy Chairman), Andrew Mohl (Chairman), David Evans, Angus Armour, Sally Pitkin, Anthony Sherlock, Ric Wells and Bruce Brook (Dennis Richardson not shown).

THE YEAR IN REVIEW

In 2009-10, EFIC supported over $5.9 billion of Australian exports and overseas investments, through facilities worth $971.3 million.

In a year when Australian businesses faced continuing economic and financial uncertainty and constrained access to credit, this strong result reflects an increased effort to deliver on our mission: to help Australian exporters overcome financial barriers.

These results were underpinned by a profit on the Commercial Account of $38.3 million, demonstrating that we continue to manage our business prudently to ensure its long-term sustainability.

EFIC continued to support Australian exporters of all sizes and their exports to over 40 countries. This year we participated in the largest project finance transaction in history, while product development and new distribution agreements in the small and medium enterprise (SME) sector enabled us to assist exporters across their working capital cycle.

EFIC's largest deal of the year was our involvement in the PNG LNG project. This US$18 billion project has the potential to transform the PNG economy, with a likely doubling of PNG export revenues. EFIC's substantial experience with resource projects in PNG allowed us to work with an international team to ensure Australian exporters' involvement in this world-class project. EFIC provided a US$350 million loan to the project to support Australian exporters, who are currently preferred tenderers or suppliers for contracts worth more than US$1 billion. There are also considerable opportunities for Australian companies as sub-contractors to the project.

With an ongoing shortfall in private market capacity to finance major projects, our Structured Trade & Project Finance team provided substantial support to large Australian clients, particularly in the construction and mining sectors. We supported Orica Limited with finance for its new chemical plant in Indonesia and provided buyer finance for mining equipment manufactured by Caterpillar in Tasmania for an Australian joint venture in West Africa. We also continued our support for Outotec Pty Ltd in the third phase of construction of a water treatment and distribution system in Sri Lanka.

One consequence of the global financial crisis has been a contraction in the supply of bonding facilities from commercial banks. At the same time, governments have sought to stimulate their economies with more infrastructure spending, adding to the demand for bonds to support new business. Private sector demand has also increased, with a number of mega-projects, such as the PNG LNG and Gorgon gas projects, currently under development. EFIC has responded to this market gap by providing bonding facilities to McConnell Dowell Corporation Limited, Clough Limited, Lend Lease Corporation Limited and WorleyParsons Limited.

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Our SME business had an excellent year, completing transactions across a wide range of industry sectors as credit for small to medium-sized Australian exporters remained tight. Our focus this year has been on product innovation and development and exploring distribution channels to gain access to more SMEs. Initiatives included a Producer Offset loan facility to finance small film productions and a foreign exchange guarantee program with Travelex. We also re-launched the export working capital guarantee, aimed at helping medium-sized businesses to finance large export contracts. Due to the market gap for finance for SMEs, smaller exporters were quick to utilise the new products and we expect growing demand in 2010–11.

In August 2009, EFIC launched a new corporate brand, including a new website and product information. We aimed to make it easier for Australian exporters to find EFIC and to understand how we can support their international business growth. In April 2010, we launched the Export Finance Navigator website (www.exportfinance.gov.au) to help exporters understand the financing options that may be available to them from commercial channels, as well as from government programs and EFIC. This initiative and our third annual *Global Readiness index* survey are examples of EFIC's commitment to help Australian exporters to appreciate and manage financial risks.

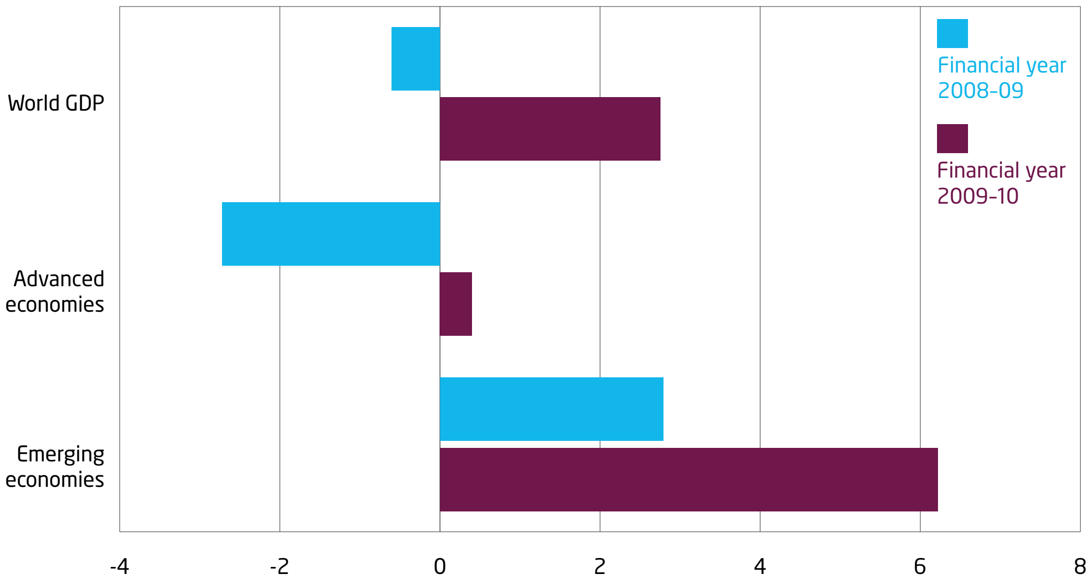
EFIC responded to the demands of the past financial year by developing new ways to address the challenges facing our clients. Global financial markets remain volatile and credit for exporters is still tight, so EFIC's enterprising approach will continue to be needed in the current financial year. Our commitment to providing solutions to the financial barriers confronting Australian exporters is matched by our awareness of EFIC's responsibility to uphold best practice environmental and social standards and to manage risk carefully to preserve our capacity to support exporters in future.

Angus Armour
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
20 AUGUST 2010

THE ECONOMIC AND BUSINESS ENVIRONMENT

After slumping by 0.5 per cent in the 2008-09 financial year in purchasing power parity terms, world gross domestic product (GDP) expanded by around 2.7 per cent in 2009-10 (Figure 1). The recovery was led by emerging markets, most notably Asia, where growth returned to pre-global financial crisis rates by the end of the financial year. The recovery in the advanced economies was much weaker, particularly in the eurozone.

Figure 1: World GDP growth - annual average percentage change*

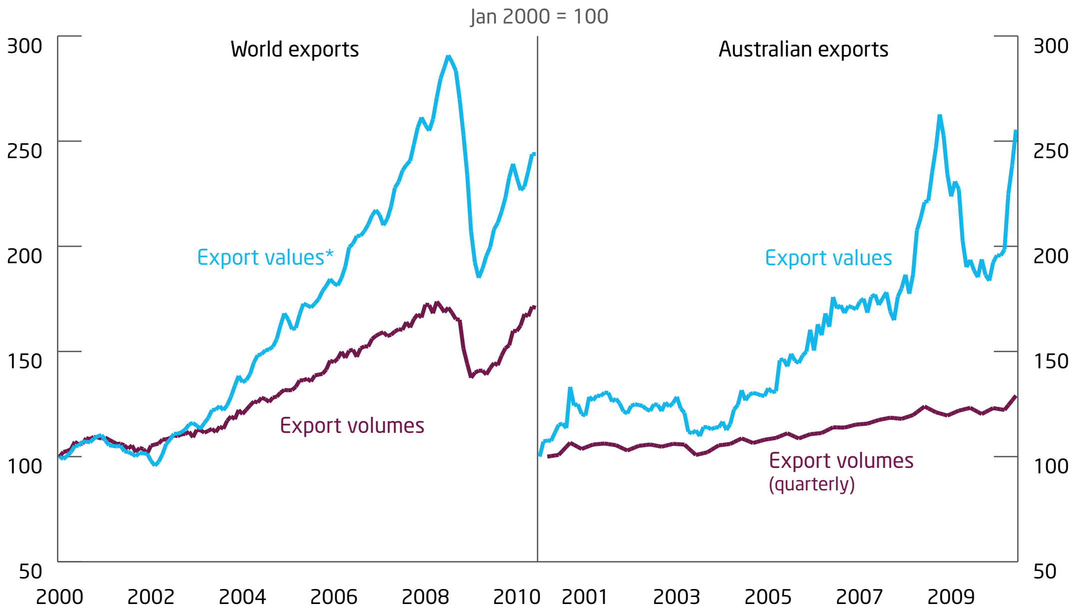


*Forecast for June quarter 2010
Sources: EFIC; International Monetary Fund

Compared to other advanced economies, activity in Australia was relatively healthy. Growth slowed to 1.2 per cent in 2008-09 before rising to 2.3 per cent in 2009-10.

In line with the recovery in world economic activity, world trade rebounded solidly in 2009-10 (Figure 2). By the end of the financial year, world export volumes were back to the pre-crisis peak they had reached in mid-2008. However, in value terms, goods exports at the end of the financial year remained well below their mid-2008 peak. This largely reflected lower commodity prices (notably oil). A particularly strong rebound in exports occurred in Asia, where volumes rose well above pre-crisis levels by June 2010.

Figure 2: World and Australian exports



Sources: Australian Bureau of Statistics; EFIC; Netherland Bureau of Policy Analysis
*Non-seasonally adjusted figures; three month moving average.

Australian export volumes continued to grow throughout 2009-10, though lower contract prices for coal and iron ore, in particular, dampened export values. Export volumes were 4.7 per cent higher in the June quarter 2010 than in the June quarter 2009.

Towards the end of the 2009-10 financial year, iron ore and coal prices were re-set significantly higher, reflecting strong demand from Asia, particularly China. Australian export values correspondingly jumped in the June quarter. Coal and iron ore account for around 60 per cent of Australia's resource exports, or a third of total exports.

The recovery in world activity in 2009-10 coincided with a significant improvement in international financial conditions. Overall, risk spreads were well down from 2008-09 averages and international capital flows rebounded noticeably. By 30 June 2010 global share markets were 10 to 20 per cent higher than at the end of 2008-09.

However, from May 2010, renewed turbulence in financial markets cast a cloud over the economic recovery. Concerns over fiscal sustainability and high levels of public debt in advanced economies – notably the eurozone – triggered an increase in global risk aversion. As a result, risk premiums on sovereign and corporate bonds and for interbank lending rose, and at 30 June share markets had dropped by 10 to 15 per cent from their April peak.

In Australia, bank lending to business slumped by around 5 per cent in 2009-10 compared with 2008-09, the first such decline since the early 1990s. But from January 2010, business credit stabilised and lending commitments to business increased. Corporate bond issuance and new equity raisings also muted the impact of the decline in bank credit on large businesses.

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Structured Trade & Project Finance team

In an environment of continuing economic uncertainty and constrained credit markets, the Structured Trade & Project Finance team supported large corporate borrowers with 10 facilities totalling nearly $883 million on the Commercial Account and National Interest Account in the year to 30 June 2010.

While the commercial banks' appetite for lending improved over the financial year, it focused mainly on lending of a higher credit quality and for a shorter term, leaving a clear market gap for EFIC to fill. There appeared to be a growing willingness among large clients to make investment decisions, and returning demand for finance in those areas traditionally serviced by EFIC and other export credit agencies (ECAs).

PNG LNG project finance

EFIC's US$350 million participation in the PNG LNG project financing – the largest project finance transaction in history – dominated our signings. EFIC worked with ECAs from China, Italy, Japan and the US to deliver a financing package. The project has the potential to add considerably to PNG's economic growth, with substantial royalties and dividends to flow to the Independent State of PNG and landholder groups. EFIC's participation supports exports of Australian supplies and services for the construction and operation of this world-scale development.

Buyer finance and loans

We also completed two substantial buyer finance transactions: for underground mining equipment manufactured by Caterpillar in Tasmania, to be employed by an Australian joint venture in West Africa; and for the continuation of Outotec Pty Ltd's water treatment and distribution project in Sri Lanka. Other key transactions this year included making a direct loan to Orica Limited for the construction of an industrial-grade ammonium nitrate plant in Indonesia, and providing a political risk insurance policy to Orica Limited for its investment in this project.

Bonding facilities

Demand for performance bond facilities remained strong this year. Clients for which EFIC established bonding lines included Clough Engineering, which required bonding capacity to support its contract for the Gorgon gas project in Western Australia. While clients tend not to use the bonding facilities heavily – we encourage companies to use bank bonding lines where possible – these 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.

We expect demand for bonding facilities to continue in 2010-11. We are encouraging multinational companies to source services and supplies from Australia rather than from their other operations by offering bonding facilities that parent companies are unable to obtain elsewhere.

Finance for domestic export-focused projects

As a result of the global financial crisis, we identified a market gap in the financing capacity for export-focused Australian projects and associated infrastructure. The high level of foreign ECA participation in financing these projects in Australia emphasises this market gap. We now have a pipeline of potential transactions in this area, some of which we expect to execute in 2010-11.

In EFIC's traditional business, we are pursuing a number of opportunities to support Australian exports of goods and services. They include providing political risk insurance and project finance for greenfield developments in Africa and Asia, buyer finance for fast ferries and patrol boats in several regions, and working capital and equipment finance to support expanded contract mining operations overseas.

Support for large corporate clients

ORICA

DIRECT LOAN
PROJECT LOCATION: INDONESIA
EFIC SUPPORT: $51.3 MILLION

Melbourne-based Orica Limited (Orica) is a leading supplier of explosives-related mining services around the world.

One of the company's main activities is the manufacture and sale of industrial-grade ammonium nitrate, a key ingredient in mining explosives. Demand for ammonium nitrate is driven by the mining industry and Indonesia's large and growing mining sector makes it a strategically important market for Orica.

To take advantage of opportunities in Indonesia, Orica is building an ammonium nitrate plant in Bontang, East Kalimantan at a cost of US$455 million. The plant is expected to produce 300,000 tonnes of ammonium nitrate each year.

To better match its investment in the plant, Orica sought longer term finance than the commercial bank market could provide. As a result, Orica turned to ECAs, including EFIC, for the long-term finance it needed.

EFIC provided a 10-year, $50 million direct loan to Orica to assist with construction of the plant.

The Bontang plant will be Orica's eighth industrial-grade ammonium processing plant worldwide.

OUTOTEC

EXPORT FINANCE GUARANTEE
PROJECT LOCATION: SRI LANKA
EFIC SUPPORT: US$105.2 MILLION

Outotec Oyj of Finland (Outotec), a global leader in sustainable solutions for utilising natural resources, was the turnkey contractor for the initial two stages of the development of a drinking water treatment plant, transmission mains and distribution systems in the Ampara district of eastern Sri Lanka.

Outotec's Australian subsidiary, Outotec Pty Ltd, was awarded a contract with Sri Lanka's National Water Supply and Drainage Board to undertake the third phase of the project.

EFIC's support was key to Outotec winning the new contract. EFIC has agreed to provide an export finance guarantee to support a US$105.2 million loan by ANZ to the Government of the Democratic Socialist Republic of Sri Lanka, to finance Phase 3 of the project.

This phase, officially called the Integrated Water Supply Scheme for the Unserved Areas of Ampara District, will establish a drinking water treatment plant, transmission mains, distribution systems and associated infrastructure to supply inland areas of the district. This builds on the infrastructure created under Phases 1 and 2 of the project, which established transmission mains and distribution systems mainly to the coastal areas of the Ampara district. The completed system will supply clean water to around 460,000 people.

EFIC and ANZ have worked with Outotec for more than a decade on this important development, emphasising the value that ECAs such as EFIC contribute to meeting those financing needs that are beyond the limits of private market capacity.

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PNG LNG PROJECT

PROJECT FINANCE

PROJECT LOCATION: PAPUA NEW GUINEA

EFIC SUPPORT: US$350 MILLION

The ExxonMobil-led liquefied natural gas project in the Southern Highlands of Papua New Guinea is the world's largest project finance transaction.

The PNG LNG project will develop and operate an integrated LNG facility, including gas gathering and a conditioning plant, overland and sub-sea pipeline, a two-train LNG plant and an export terminal near Port Moresby.

EFIC made a US$350 million loan to the PNG LNG project, joining a syndicate of ECAs and commercial lenders providing finance for the project.

EFIC's motivation for participating was to support Australian exporters pursuing contracts for the construction phase of the project. Australian companies have been awarded or are preferred tenderers for more than US$1 billion worth of work, with substantial sub-contracting opportunities also available.

Australian Securities Exchange (ASX)-listed companies Oil Search Limited and Santos Limited are major investors in the project (at 29 per cent and 13.5 per cent respectively).

The project has the potential to add considerably to PNG's economic growth, with substantial royalties and dividends to flow to the Independent State of PNG and landholder groups.

EFIC also provided performance bonds of over US$20 million to support participation by McConnell Dowell Corporation Limited in contracts worth more than US$500 million to build infrastructure for the PNG LNG project.

SME team

EFIC's SME team provides financial services to Australian exporters that are small and medium-sized businesses (those with annual turnover of less than $150 million). The team had a strong year in 2009–10, signing 44 facilities worth $88.5 million across a wide range of products and sectors, as SME exporters continued to experience difficulty in obtaining finance in the commercial market.

There was ongoing demand for EFIC's traditional SME products, especially bonding facilities and EFIC Headway working capital guarantees. We also began to see the first results from our strategy of increasing EFIC's access to SME exporters by introducing new products and improving existing products and distributing them through selected channels. While banks are our focus for distribution, other important channels include finance and insurance companies and certain government departments that have a wider reach than EFIC or engage in a specialised activity. In return for sharing an institution's risk, EFIC aims to leverage its distribution network and its expertise.

Product innovation

This financial year saw product innovation and development by the SME team across all stages of an exporter's working capital cycle. In May, we entered into an agreement with Travelex to introduce a foreign exchange facility guarantee for SME exporters. The guarantee will enable SMEs to extend their hedging programs to more of their export contracts and better protect their export profits. By 30 June, six SMEs had utilised the guarantee.

Working with Screen Australia, we developed a Producer Offset loan: a loan from EFIC to eligible Australian film, documentary and television productions that have international distribution agreements. The loan can assist small film productions that are eligible for the Australian Government's Producer Offset incentive but have difficulty attracting finance in the commercial market. The product was enthusiastically received by the film community. We are working on our first Producer Offset loan and anticipate considerable demand in the future.

Product development

Another focus this year was improving EFIC's existing SME products. In response to demand from exporters for working capital finance for large transactions, we reintroduced the export working capital guarantee (EWCG). The EWCG, designed for medium-sized exporters, is a flexible guarantee that can support a single export contract or multiple contracts with different buyers. The product will be delivered through banks, and we entered into distribution agreements with ANZ and Westpac during the financial year. We are working on a number of EWCG transactions with exporters and expect growing demand for this product.

In consultation with participating banks, we are revising the EFIC Headway working capital guarantee and aim to re-launch this product in 2010–11. EFIC Headway will continue to target the smallest businesses of the SME segment, supporting transactions of up to around $500,000.

Risk participation agreements

EFIC's EWCG and Headway products assist exporters mainly with pre-shipment financing and general working capital. There is limited appetite among commercial banks and insurers to support SMEs with post-shipment finance, such as trade receivables financing and letters of credit. To help exporters obtain these facilities, we entered into risk participation agreements with Westpac and ANZ. The agreements have facilitated a number of transactions with SMEs, enabling them to export to Indonesia and Europe.

Access to export finance remains a barrier for many SMES. With our wider SME product range and new distribution and risk-sharing agreements, we anticipate continued strong demand for EFIC's assistance in 2010–11.

Support for SMEs

AIRCRAFT SUPPORT INDUSTRIES

PERFORMANCE BOND

EXPORT DESTINATION: UNITED ARAB EMIRATES

EFIC SUPPORT: US$6.8 MILLION

Building on its considerable experience in Asia of providing specialised aircraft hangars and maintenance equipment, Aircraft Support Industries Pty Ltd (ASI) is now forging ahead in the Middle East.

The Sydney-based exporter won a US$68.2 million contract for the design and construction of an aircraft maintenance hangar at Abu Dhabi International Airport in the United Arab Emirates.

The company is supplying the hangar complex, which can accommodate the Airbus A380, as well as associated workshops, offices and equipment, to Abu Dhabi Aircraft Technologies (ADAT), a provider of technical services for the commercial and military aviation industries.

EFIC supported ASI's contract by helping to provide a performance bond to ADAT. EFIC issued a guarantee to ASI's bank, National Australia Bank, to enable the bank to issue a standby letter of credit to the National Bank of Abu Dhabi, which in turn issued the performance bond to ADAT.

EFIC has assisted ASI with export finance since 2001. In addition to the Abu Dhabi contract, EFIC has provided bonds to support the company's projects in Vietnam, Jordan and Singapore in recent years.

Over the past 15 years, ASI has completed 10 major hangar projects and over 12 aircraft maintenance docking systems in Australia and in overseas markets such as Singapore, China, Taiwan, Malaysia and Brunei.

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PARK ASSIST

US BONDING LINE
EXPORT DESTINATION: UNITED STATES
EFIC SUPPORT: UP TO US$975,000

Sydney-based Park Assist Pty Ltd (Park Assist), a global leader in parking guidance, bay sensing and parking enforcement, secured a US$780,000 contract with the City of Seattle to provide an electronic parking guidance system for the city's downtown parking lots.

Under the contract, the company needed to lodge a performance bond worth 100 per cent of the contract value, with scope for the bond value to increase by 25 per cent in line with possible increases in the contract value.

EFIC underwrote the performance bond to help Park Assist fulfil its contract – the company's first with a US government authority.

The bond was issued by Liberty Mutual Insurance Company (Liberty Mutual), a leading surety bond provider in the United States, under an ongoing arrangement between EFIC and Liberty Mutual.

In the United States, contractors are typically required to provide performance bonds to guarantee 100 per cent of the contract value, compared with 10 to 15 per cent of the contract price required in other jurisdictions.

The relationship between EFIC and Liberty Mutual makes it easy for EFIC to provide eligible SME exporters with access to performance bonds in the US market.

Park Assist's parking management system in Seattle will include dynamic LED message signs that provide real-time information to motorists about parking space availability in the central business district.

VIOCORP

EXPORT WORKING CAPITAL GUARANTEE
EXPORT DESTINATION: MALAYSIA
EFIC SUPPORT: $1 MILLION

When Sydney-based Viocorp International Pty Ltd (Viocorp), a provider of digital media products and services for the internet, won a sub-contract in Malaysia – its largest deal and first overseas project – it needed additional working capital to deliver on the agreement.

EFIC provided a five-month, $1 million export working capital guarantee to Viocorp's bank, ANZ, enabling the bank to lend the same amount to Viocorp to assist in financing the sub-contract works.

Viocorp had secured a $5.4 million sub-contract with a global IT services company in Malaysia which was providing a customised internet broadcasting project to a client. Viocorp's sub-contract was to provide works integral to the main contract, including implementing a digital publishing platform and an integrated advertising solution, redesigning five client portals and implementing TV on demand so that end users can buy and watch content through any internet-connected device.

Most of the sub-contract works were to be completed within the first eight months and required product development and substantial cash investment by Viocorp. However, under the sub-contract, Viocorp received periodic payments from its customer. The mismatch between when Viocorp incurred costs and received payment under the sub-contract meant that the company faced a working capital shortage and needed additional funding to perform the sub-contract.

ANZ was willing to provide a loan for working capital to the company with EFIC's support. EFIC's export working capital guarantee gave the bank a guarantee for repayment of that loan.

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Facilities signed

Table 1: Facilities signed by EFIC in 2009-10

Exporter/Investor	Sector	Goods/Services	Country	Facility type	Amount (A$ million equivalent)	Environmental category
African Underground Mining Services Limited	Mining	Underground mining equipment	Ghana	Loan	16.2	B
Aircraft Support Industries Pty Ltd	Construction	Construct aircraft hangar	UAE	Bond	8.2	C
Aircraft Support Industries Pty Ltd	Construction	Construct aircraft hangar	Vietnam	Bond	1.5	C
Alfasi Group	Wholesale trade	Design and construct arts & science museum	Singapore	Bond	1.1	C
Anglo Coal Australia Pty Ltd	Manufacturing	Receivables purchase facility	Various	Receivables financing facility	29.3	N/A
Australian Rural Exports Pty Ltd	Agriculture, forestry & fishing	Cattle	China	EWCG x 3	15.2	C
Clough Limited	Construction	Construction - various	Various	Bond	33.4	B
Environmental Systems and Services Pty Ltd	Professional, scientific & technical services	Supply & install satellite tracking station	China	Bond x 2	0.4	C
Fitch Metals Engineering	Manufacturing	Colour-coating equipment	Brazil	Bond x 2	1.8	C
GRM International Pty Ltd	Professional, scientific & technical services	Abu Dhabi Food Authority services contract	UAE	Bond	4.1	C
GRM International Pty Ltd	Professional, scientific & technical services	Services for Philippines health project	Philippines	Bond	0.5	C
Lend Lease Corporation Limited	Construction	Construction - various	Various	Bonding line	100.0	Note 1
McConnell Dowell Corporation Limited	Construction	PNG LNG infrastructure	PNG	Bond	13.9	Note 2
McConnell Dowell Corporation Limited	Construction	PNG LNG infrastructure	PNG	Bond	13.8	Note 2
Orica Australia Pty Ltd	Manufacturing	Construct chemical plant	Indonesia	PRI - E	45.8	B
Orica Australia Pty Ltd	Manufacturing	Construct chemical plant	Indonesia	Loan	51.3	B
Outotec Pty Ltd	Construction	Water treatment & distribution system	Sri Lanka	EFG	125.0	B
Park Assist Pty Ltd	Manufacturing	Electronic parking guidance system	US	US bonding line	1.1	C
PNG LNG	Mining	PNG LNG project	PNG	Loan	383.4	A
Shark Bay Salt Pty Ltd	Manufacturing	Solar salt	Indonesia	DCG x 5	7.3	C
Sykes Group Pty Ltd	Manufacturing	Automatic pumps	Various	EWCG	4.5	C
Vigil Systems Pty Ltd	Transport, postal & warehousing	Training software for commercial vehicle drivers	US	Bond	0.3	C
Viocorp International Pty Ltd	Information media & technology	Media services	Malaysia	EWCG	1.0	C
WorleyParsons Limited	Construction	Construction - various	Various	Bonding line	100.0	Note 1
Total medium- to long-term financial facility signings on the Commercial Account (32 facilities*)					**685.3**	
Total medium- to long-term financial facility signings on the National Interest Account (one facility: PNG LNG*)					**273.8**	
Total medium- to long-term financial facility signings (32 facilities*)					**959.1**	
EFIC Headway clients	Various	Various	Various	EFIC Headway (16)**	11.2	N/A
Foreign exchange facility guarantee clients	Various	Various	Various	Foreign exchange facility guarantee (6)	1.0	N/A
Total facilities					**971.3**	

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

Note 2: Considered part of the PNG LNG project and not separately categorised.

*The PNG LNG facility was shared over the Commercial Account (US$100 million) and the National Interest Account (US$250 million).

**Includes renewals of existing facilities.

DCG: Documentary credit guarantee

EFG: Export finance guarantee

EWCG: Export working capital guarantee

PRI - E: Political risk insurance (equity)

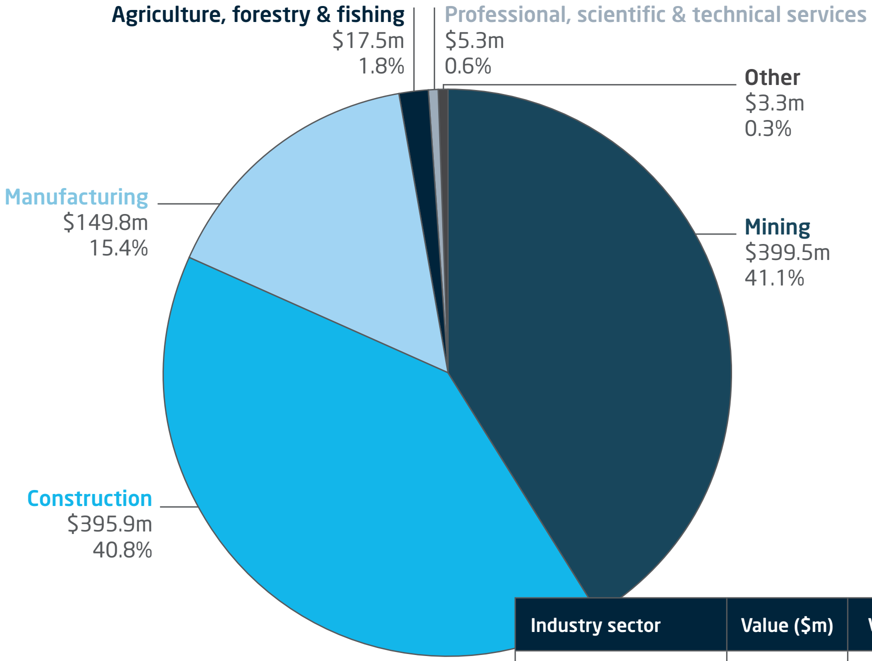
Signings and exports supported

During 2009-10, EFIC entered into 54 facilities on the Commercial Account and National Interest Account worth a total of $971.3 million. Those facilities underpinned exports and overseas contracts for Australian companies of over $5.9 billion.

As Figure 3 below shows, EFIC's involvement in the project finance for the PNG LNG project meant that mining was the main sector supported in terms of dollar value, accounting for over 41 per cent of total signings. This was closely followed by construction, at just under 41 per cent.

In terms of number of transactions, manufacturing was the main sector, accounting for 44 per cent of total signings. This reflected the number of SME transactions EFIC supported during the year.

Figure 3: Signings by industry sector supported*



Industry sector	Value ($m)	Value (%)	Number
Mining	399.5	41.1	2
Construction	395.9	40.8	9
Manufacturing	149.8	15.4	24
Agriculture, forestry & fishing	17.5	1.8	5
Professional, scientific & technical services	5.3	0.6	6
Other	3.3	0.3	8
Total	**971.3**	**100.0**	**54**

*Based on Australian and New Zealand Standard Industrial Classification.

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Loans represented 46 per cent of the total value of signings by facility type, again due to EFIC's participation in financing the PNG LNG project. Bonding lines and bonds together accounted for another 29 per cent (see Figure 4 below).

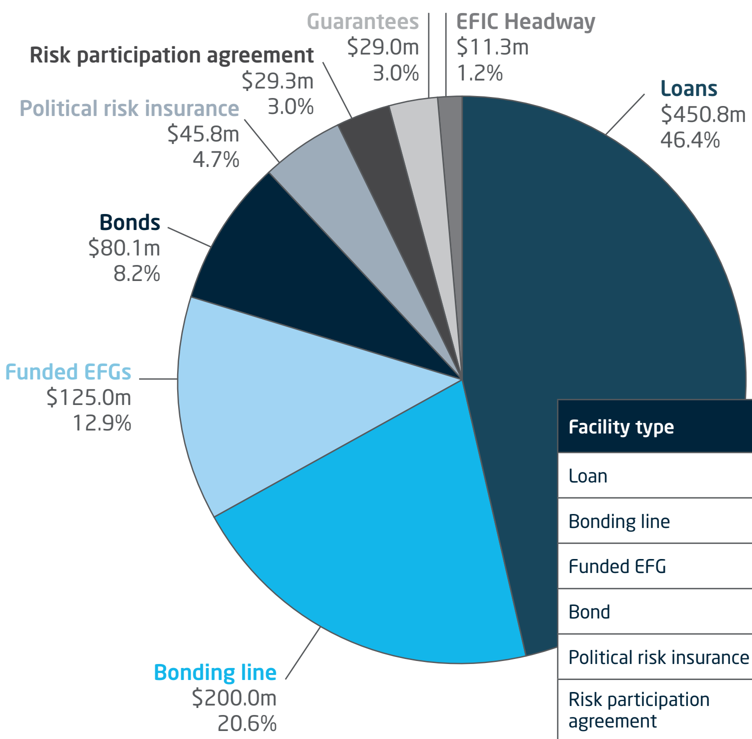
Of the total number of signings, EFIC Headway facilities and guarantees (including export working capital guarantees, foreign exchange facility guarantees and documentary credit guarantees) each accounted for 30 per cent, followed by bonds at 26 per cent.

The 2009-10 Commercial Account profit of $38.3 million was well above the target of $23.3 million, and above the 2008-09 profit of $33.6 million. Most of the increase against target was due to the improved quality of new transactions and repayment of existing facilities, which resulted in lower credit risk provisioning. Higher risk margins on corporate business and solid investment income also contributed to profits.

On the National Interest Account, there was a profit of $9.4 million in 2009-10, compared with a loss of $0.2 million in 2008-09. The result was due to premiums received for the PNG LNG and GM Holden Limited loan facilities, recovery from Iraq of a proportion of credit insurance claims paid in the 1980s and favourable movements in exchange rates. 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.

Figure 4: Signings by facility type



Facility type	Value ($m)	Value (%)	Number
Loan	450.8	46.4	3
Bonding line	200.0	20.6	2
Funded EFG	125.0	12.9	1
Bond	80.1	8.2	14
Political risk insurance	45.8	4.7	1
Risk participation agreement	29.3	3.0	1
Guarantees	29.0	3.0	16
EFIC Headway	11.3	1.2	16
Total	**971.3**	**100.0**	**54**

EFIC's exposures

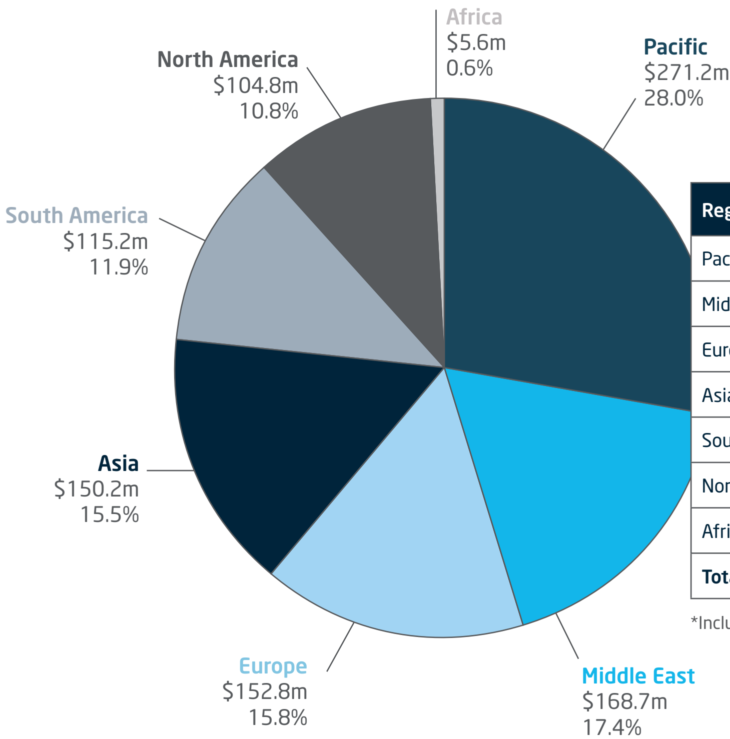
Commercial Account

EFIC's Commercial Account exposures of nearly $969 million comprise loans, export finance guarantees (EFGs), 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 16.5 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 2010 was 3.3 years, and 7.4 years on a weighted average basis.

The exposures are risks on the overseas purchasers of Australian goods and services exports, the majority of which are in the private sector. While exposures remain predominantly to private sector companies, both customers and reinsurers, we continue to accept risks on governments and public sector entities (classified as 'Public administration and safety' by the Australian Securities and Investments Commission) in developing countries. At 30 June 2010, EFIC's highest private sector exposures were to the manufacturing and the transport, postal and warehousing industries. However, as this year's signings translate to exposure in later years, our risk profile will continue to change.

The distribution of exposures by geographical region, industry sector and facility type at 30 June 2010 is shown in Figures 5 to 7.

Figure 5: Commercial Account at 30 June 2010 – exposures by region*



Region	Value ($m)	Value (%)
Pacific	271.2	28.0
Middle East	168.7	17.4
Europe	152.8	15.8
Asia	150.2	15.5
South America	115.2	11.9
North America	104.8	10.8
Africa	5.6	0.6
Total	**968.5**	**100.0**

*Includes exposures that have been reinsured.

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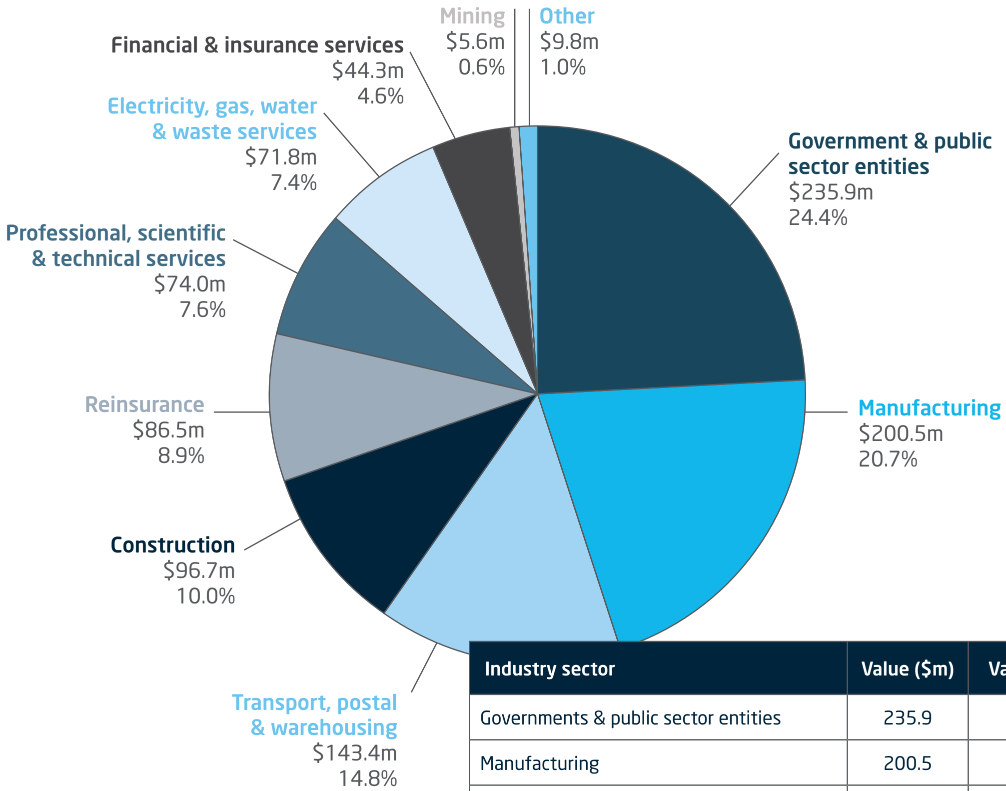
Figure 6: Commercial Account at 30 June 2010 – exposures by industry sector*



Industry sector	Value ($m)	Value (%)
Governments & public sector entities	235.9	24.4
Manufacturing	200.5	20.7
Transport, postal & warehousing	143.4	14.8
Construction	96.7	10.0
Reinsurance	86.5	8.9
Professional, scientific & technical services	74.0	7.6
Electricity, gas, water & waste services	71.8	7.4
Financial & insurance services	44.3	4.6
Mining	5.6	0.6
Other	9.8	1.0
Total	**968.5**	**100.0**

*Based on Australian and New Zealand Standard Industrial Classification.

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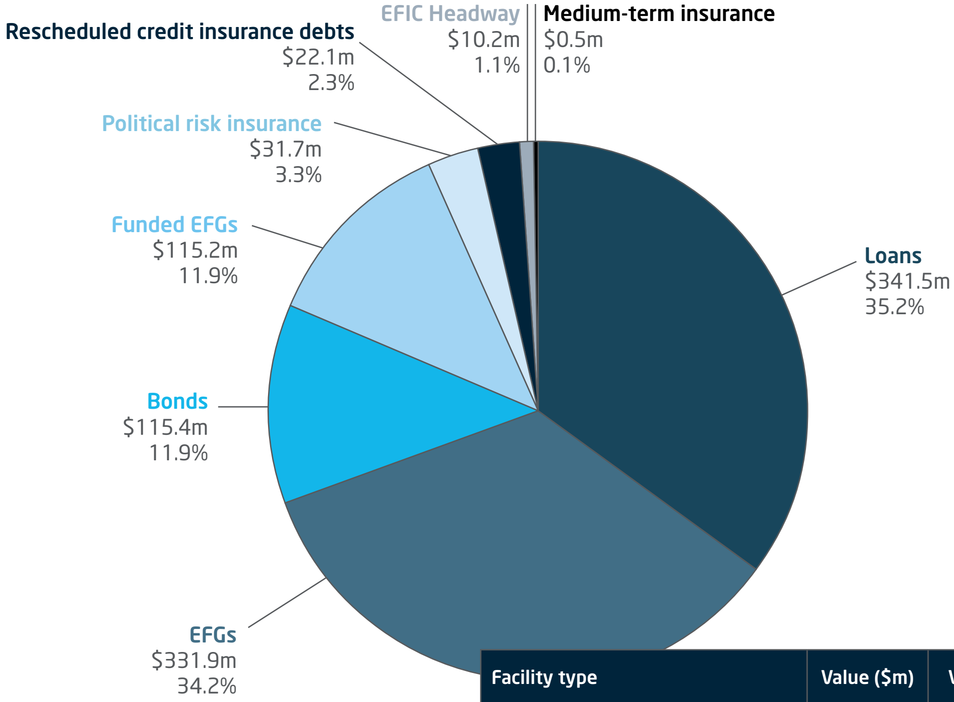
Figure 7: Commercial Account at 30 June 2010 – outstanding facilities by type



Facility type	Value ($m)	Value (%)
Loans	341.5	35.2
EFGs	331.9	34.2
Bonds	115.4	11.9
Funded EFGs	115.2	11.9
Political risk insurance	31.7	3.3
Rescheduled credit insurance debts	22.1	2.3
EFIC Headway	10.2	1.1
Medium-term insurance	0.5	0.1
Total	**968.5**	**100.0**

National Interest Account

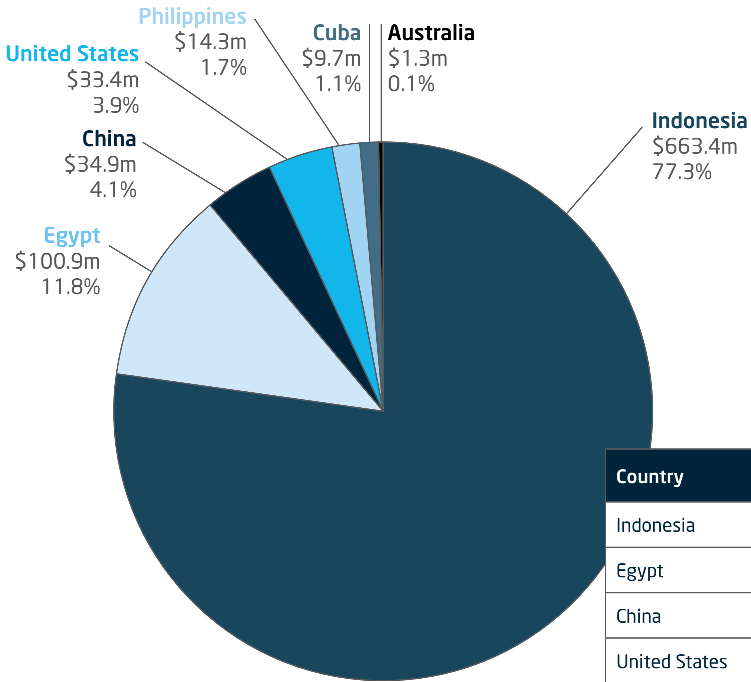
The National Interest Account exposures of $860 million are almost all loans to sovereign countries or their agencies. The largest exposure is to the Indonesian government. The change in distribution by country during the 2009-10 financial year mainly reflected repayments and movements in the Australian 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 (DIFF). Reflecting the priorities of Australia's overseas aid program at the time, these loans include exposures of $663 million to Indonesia, $35 million to China and $14 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 2010 is shown in Figure 8 below.

Figure 8: National Interest Account at 30 June 2010 – exposures by country*



Country	Value ($m)	Value (%)
Indonesia	663.4	77.3
Egypt	100.9	11.8
China	34.9	4.1
United States	33.4	3.9
Philippines	14.3	1.7
Cuba	9.7	1.1
Australia	1.3	0.1
Total	**857.9**	**100.0**

*Includes exposures that have been reinsured.

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An overview of EFIC's role

EFIC is Australia's 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 *Export Finance and Insurance Corporation Act 1991* (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 DIFF, 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 – the 'market gap'. Our role is to complement, not compete with, private financiers and insurers.

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 2009-10 financial year, The Hon Simon Crean MP was Minister for Trade until 28 June 2010, when The Hon Stephen Smith MP, previously Minister for Foreign Affairs, was appointed Minister for Foreign Affairs and Trade.

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 31). 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.

EFIC's Annual Report is tabled in Federal Parliament.

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.

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

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.

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 businesses 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 2009-10, EFIC launched two new products to help SMEs finance their export activities – the foreign exchange facility guarantee and the Producer Offset loan – and re-launched the export working capital guarantee (see pages 20 to 21 for more information).

EFIC's website, www.efic.gov.au, provides comprehensive information about our 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. We understand the issues exporters face in competing for overseas contracts:

- when buyer finance is key to winning a deal, we 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 a 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, we 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 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
- 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 country 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.

EFIC's role in the financial markets

The Australian Government has mandated EFIC to provide services on a self-sustaining basis. As an ECA, EFIC operates beyond the limits of the commercial market. We provide the support required when financial, country or industry risks exceed the appetite for risk 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 Arrangement on Officially Supported Export Credits agreed between members of the Organisation for Economic Co-operation and Development (the 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 EFIC support.

Other activities to support Australian exporters

During 2009–10, EFIC engaged in a wide range of activities to support and inform Australian businesses exporting and investing overseas.

Risk-sharing relationships

EFIC continued to pursue risk-sharing relationships, particularly with other members of the Berne Union, the leading international association for the export credit and investment insurance industry. The 49 members of the Berne Union, which include both ECAs and private insurers, provided US$1.4 trillion of credit and investment insurance support in the 2009 calendar year, representing around 10 per cent of total global export trade.

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

EFIC also led eight other members of the Asian Exim Banks Forum in negotiating a Reciprocal Risk Participation framework to facilitate and streamline risk-sharing between members. The aim is to support global trade and investment by mobilising financing capacity for large and/or multi-sourced contracts. The framework will benefit 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.

Export Finance Navigator: www.exportfinance.gov.au

Export Finance Navigator is a new online tool to help Australian SMEs understand their export finance options. Sponsored by EFIC, the website aims to assist current and potential exporters by sourcing a wide range of information about export finance alternatives in the commercial market and the forms of government assistance, such as grants and tax concessions, that may be available to them.

EFIC developed the website as an information source in response to the 2008 *Review of Export Policies and Program* ('the Mortimer Report'). The report identified the need for 'an independent source of advice and information on export financing, including referrals to commercial service providers as well as to other sources of government financial assistance'.

The Ministerial Council on International Trade noted on 30 June 2010 that Export Finance Navigator would be a valuable addition to the resources available to SMEs seeking export finance and would help provide businesses with a more solid financial foundation.

2010 EFIC *Global Readiness index*

In March 2010, over 930 Australian exporters participated in the third annual EFIC *Global Readiness index* (GRi). The GRi is a wide-ranging study of the current destinations for Australian exporters and offshore investors, their motivations and the barriers they face in an increasingly globalised world. Each year, this unique Australian survey provides Australian business with a comprehensive picture of the opportunities and challenges on the path to participating in today's global supply chains.

The 2010 GRi found that Australian companies are continuing to pursue overseas growth plans, but confirmed that access to finance remains the single most important obstacle encountered by SME exporters in expanding their businesses overseas. The full national results of the 2010 GRi are available on EFIC's website.

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EFIC website

Early in the financial year, EFIC re-launched its website at www.efic.gov.au. The online resources for exporters now include:

- case studies, which explain how EFIC has assisted Australian companies exporting and investing overseas
- country profiles written by EFIC's Economics team, which provide an in-depth analysis of the business and investment risks of particular countries
- *World Risk Developments*, a monthly newsletter written by EFIC's Economics team on developments in the world economy.

Commercial Account and National Interest Account

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

The EFIC Act also provides for us to enter into transactions on the Commonwealth's National Interest Account. The Minister for Trade makes the decisions regarding business on the National Interest Account. Transactions are usually referred to the Minister for consideration on the National Interest Account where the size or risk exceeds our commercial parameters. 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 operates on a commercial basis, charging our customers fees and premiums and earning interest on our loans and investments, including the investment of our capital, reserves and working capital.

At 30 June 2010, EFIC's equity, including retained profits, was $407.6 million. In addition, the EFIC Act provides that $200 million of callable capital is available to EFIC from the Commonwealth, which helps underpin our activities in supporting exports and overseas investments.

The Commonwealth also guarantees to EFIC's 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 we may enter into on our Commercial Account, and we operate within these limits.

GOVERNANCE AND CORPORATE MATTERS

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Corporate governance

The EFIC Board is responsible for the corporate governance of EFIC, managing our affairs and overseeing our operations. This includes establishing EFIC's strategies, defining our risk appetite, monitoring our performance, making decisions on capital usage (including large exposures) and making dividend recommendations to the Government. The Board met seven times in 2009-10.

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

The current Managing Director was originally appointed in 2003 and his appointment was renewed by the Board in 2006 and 2009.

The majority of the Board is from the private sector, with the Secretary of the Department of Foreign Affairs and Trade representing the Australian Government. Apart from the Managing Director, who is a full-time employee, all Board members are non-executives.

The membership of the Board is set out on pages 44 to 48.

EFIC has a Code of Conduct for its employees and there are various obligations on employees and Board members arising from the EFIC Act and the CAC Act. In addition, the Board is rigorous in ensuring that a Board member does not participate in discussions or decisions where there is, or may be, a conflict between that member's interests and the interests of EFIC or one of our customers. EFIC maintains a register of Board members' disclosed interests.

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

Principle 1

Lay solid foundations for management and oversight

1.1 Under the EFIC Act, the Minister for Trade appoints Board members, other than 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, which is available on EFIC's website. The Board has also 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 performing his or her duties may seek independent professional advice at EFIC's expense.

2.2 The Board regularly evaluates its own performance. 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. The Board's performance is reviewed, at a minimum, every two years.

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 Environment Policy) in relation to transactions, information disclosure and anti-corruption initiatives.

Further details about EFIC's CRP are on page 56. The CRP is also published 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 since inception. Details of Audit Committee members and their qualifications appear on pages 44 to 48. 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 2009-10. 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 2009-10.

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 and Deregulation 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 owed to the Australian Government as its sole owner and to its 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 (WTO) Agreement on Subsidies and Countervailing Measures
- the OECD Arrangement
- the OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits
- the OECD Recommendation to Deter Bribery in Officially Supported Export Credits
- the 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
- the Berne Union Guiding Principles.

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 63 and 64 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 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 for 2009-10.

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

Principle 8

Remunerate fairly and responsibly

8.1 In accordance with legislative requirements, the Government's Remuneration Tribunal determines the fees and other amounts payable to Board members. The Tribunal also determines the parameters within which the Managing Director's remuneration package is set by the Board. Therefore, key remuneration decisions are 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 staff. The remuneration of EFIC's employees is established with reference to market data from the Financial Institutions Remuneration Group Inc (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 9/12/2008 to 8/12/2011

Board attendance: 7 of 7

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 of 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 9/12/2008 to 8/12/2011

Board attendance: 7 of 7

Independent Board member

Non-executive member

Michael Carapiet is Executive Chairman of Macquarie Capital and Macquarie Securities at Macquarie Group Limited, which he joined in 1985. He is also a Director of Southern Cross Media Group Limited. He has led 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: 7 of 7

Board Audit Committee attendance: 1 of 1

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 Latin America, Europe 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 October 2009, Angus was appointed President of the Berne Union, the international association of export credit and investment insurance companies.

Bruce Brook

BCom, BAcc

Born 1955

Board member; Audit Committee member

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

Board attendance: 2 of 2

Board Audit Committee attendance: 1 of 1

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 a Director of Lihir Gold Limited, Snowy Hydro Limited and Boart Longyear Limited. He is also a member of the Financial Reporting Council.

David Crombie

BEc

Born 1944

Board member

Term of Board appointment: from 1/10/2007 to 30/09/2010

Board attendance: 7 of 7

Independent Board member

Non-executive member

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

David Evans

BEc

Born 1964

Board member

Term of Board appointment: from 9/12/2008 to 8/12/2011

Board attendance: 7 of 7

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, the National Stroke Foundation and the Open Family Foundation.

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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 1/08/2010 to 31/07/2013

Board attendance: 7 of 7

Board Audit Committee attendance: 3 of 4

Independent Board member

Non-executive member

Sally Pitkin is a professional company director whose directorships have spanned publicly listed and private companies across a diverse range of sectors. She was a partner with Clayton Utz specialising in banking and finance law, corporate governance and privatisation, with 23 years' experience. Currently a Director of Aristocrat Leisure Limited, ASC Pty Ltd, the Committee for Economic Development of Australia (CEDA) and Super Cheap Auto 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.

Dennis Richardson

BA (Hons)

Born 1947

Government Board member

Appointed: 15/03/2010

Board attendance (including alternate): 2 of 2

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.

Anthony Sherlock

BEc

Born 1941

Board member; Audit Committee Chairman

Term of Board appointment: from 28/11/2005 to 27/11/2008 and 9/12/2008 to 8/12/2011

Board attendance: 7 of 7

Board Audit Committee attendance: 4 of 4

Independent Board member

Non-executive member

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

Alternate Government member

Ric Wells

BA (Hons)

Born 1955

Appointed: 14/06/2009

Board attendance (as alternate): 6 of 7

Represents the Australian Government as alternate Government Board member

Non-executive member

Ric Wells is Deputy Secretary of DFAT. Prior to this, he was Head of the Japan, Korea and China Free Trade Agreement Task Forces. Mr Wells has also held the positions of First Assistant Secretary, South Pacific, Africa and Middle East Division at DFAT, and Assistant Secretary, Asia, Americas and Trade Branch, Department of the Prime Minister and Cabinet. His other roles at DFAT have included Assistant Secretary, Trade Policy and Industrials Branch, and Deputy Head of the Australian Mission to the WTO in Geneva.

Member whose term ended in 2009–10

Michael L'Estrange, AO

BA (Hons), MA

Born 1952

Government Board member

Term of Board appointment: 24/01/2005 to 21/08/2009

Board attendance (including alternate): 1 of 1

Represented the Australian Government

Non-executive member

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Audit Committee appointment

During the year, the Board temporarily waived the provisions of the Board Audit Committee Charter relating to the appointment of members. The Board also approved an extension to 5 November 2009 of the Audit Committee membership of Mr Howard Davies, former Deputy Chairman and Board member. Mr Davies attended two meetings in this capacity.

Further, the Board waived the Board Audit Committee Charter to approve the appointment of the Managing Director, Mr Angus Armour, to the Board Audit Committee from 19 February 2010 until the appointment of Mr Bruce Brook was confirmed on 1 March 2010. Mr Armour attended one meeting in this capacity.

Transactions with board members and Board member-related entities

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

Note 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 2010.

Mr Richardson and Mr Wells 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 conflicts of interest

The Board carefully manages conflicts of interest, or potential conflicts of interest, in relation to EFIC transactions. Other than as set out below, no Board member declared a conflict of interest or potential conflict of interest relating to an EFIC transaction considered during 2009-10.

Mr Brook declared a conflict of interest or potential conflict of interest in relation to a possible EFIC transaction with Lihir Gold Limited. Mr Brook did not participate in the discussion or the decision relating to the transaction.

Mr Crombie reminded the Board of his standing notice concerning his directorship of GRM International Pty Ltd when transactions involving this company were reported to the Board, having been approved under delegated authority by the Chief Credit Officer and the Executive Director, SME.

Our people

Organisational structure and staff numbers

EFIC's organisational structure is outlined in Figure 9 on pages 52 and 53. Summary figures relating to our number of employees (in full-time equivalents) are shown in Table 2.

Table 2: Number of employees

	30 June 2010	30 June 2009
Employees (excluding short-term)	**82**	79
Short-term contract employees	**4**	1
Total	**86**	80

Diversity and equal employment opportunity

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. We continue to have a diverse workforce, with 41 per cent of staff, or one of their parents, having a non-English speaking background.

Our EEO program ensures that employees are not discriminated against at any time in their employment. We provide equal opportunity in all aspects of employment, including conditions of employment, recruitment and selection, remuneration, training and development and promotion, 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.

The *Equal Employment Opportunity (Commonwealth Authorities) Act 1987* 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 at 30 June 2010

Employee diversity profile							
		Female	Male	NESB	ATSI	PWD	Total staff
Annual FTE salary*	Up to $75,000	21	2	15	0	0	23
		91%	9%	65%	nil	nil	26%
	$75,001 to $150,000	16	23	10	0	0	39
		41%	59%	26%	nil	nil	44%
	$150,001 and above	6	20	11	0	1	26
		23%	77%	42%	nil	4%	30%
	Totals	43	45	36	0	1	88
		49%	51%	41%	0%	1%	(86 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

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Training and development

EFIC is committed to staff development and our biannual performance review 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 and running programs to enhance skills such as credit analysis, deal documentation and compliance.

EFIC encourages postgraduate study through our 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 2010 six employees, or 7 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, three 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, and ceremonial leave is available 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 salary sacrifice the 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:

- access to EFIC via the internet and a toll-free telephone service that allows concerns or feedback to be provided on any issue
- our OHS 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.

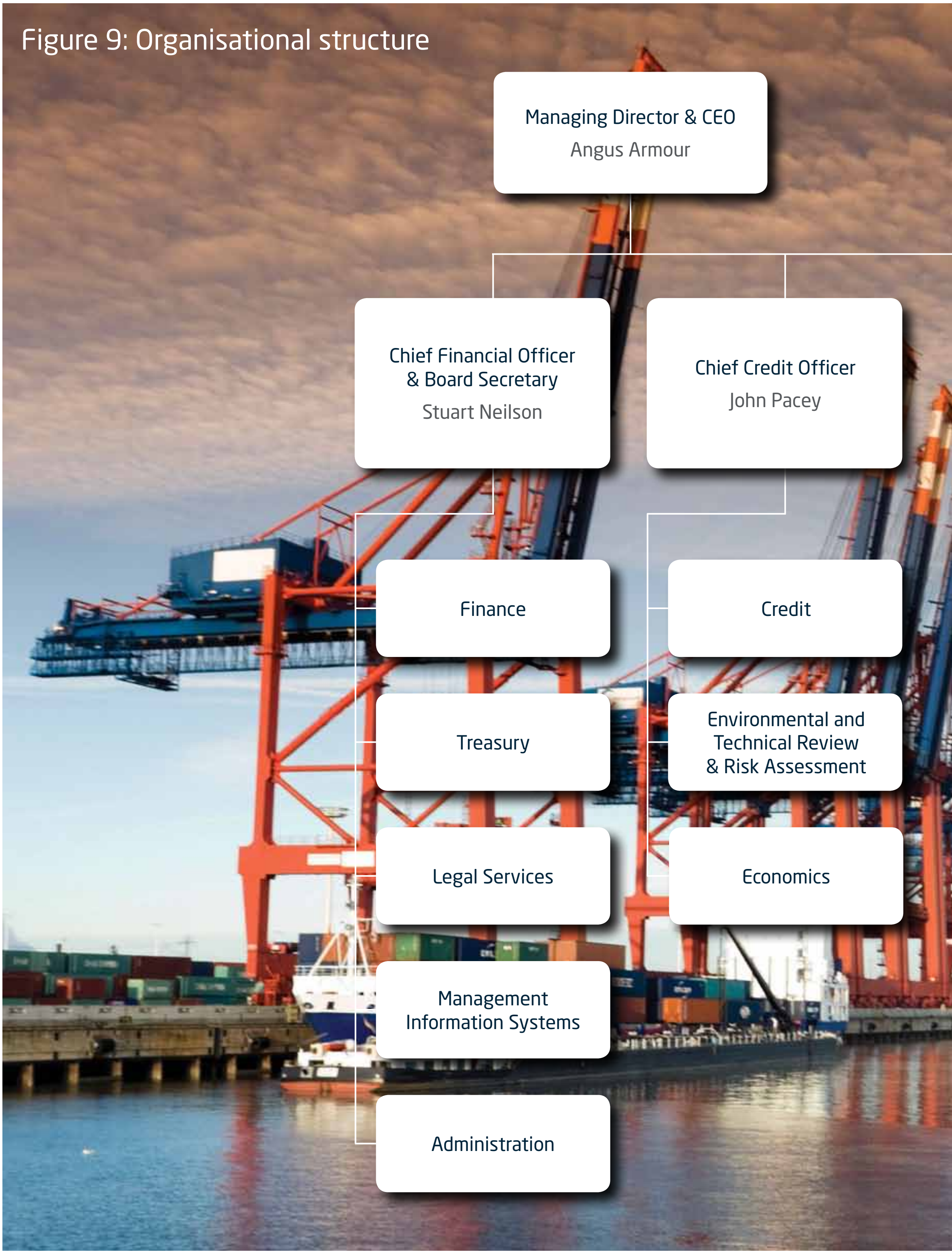

Figure 9: Organisational structure


Executive Director, Origination & Portfolio Management
Peter Field
Executive Director, SME
Andrea Govaert
Structured Trade & Project Finance
Transaction Management
Portfolio Management
SME Origination
SME Products & Business Development
Human Resources
Marketing
Product Management & Risk Transfer
Government & Industry Relations

Occupational Health and Safety

OHS 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 and one member is a Human Resources representative. The three staff representatives include a Health and Safety Representative (HSR). 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 HSR 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.

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.

Topics covered in the HSMA

EFIC's HSMA deal with the following topics:

- commitment to health and safety
- framework of OHS Arrangements
- consultation
- responsibilities
- reporting accidents/incidents or potential hazards
- designated work groups
- Health and Safety Representatives
- OHS Committee
- OHS training
- risk management
- first aid
- smoke-free environment
- review and variation
- dispute resolution.

Consultative arrangements for developing and reviewing HSMA and staff involvement

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

The HSMA was originally developed following a general invitation to staff to participate. The OHS Committee reviews the HSMA each September. 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 our workforce, such as frequent travellers. Important OHS information is also available on the staff intranet.

Dispute resolution mechanisms

Under section 14 of the HSMA, disputes are managed using the following process:

1. A meeting is held between the parties in dispute, mediated by a Human Resources representative.
2. If agreement is not reached, EFIC's Executive reviews the dispute and attempts to help the parties reach agreement.
3. If no solution is agreed, Human Resources can arrange an external mediator.

To date, there have been no disputes regarding the HSMA.

OHS initiatives

EFIC's initiatives to ensure the health, safety and welfare at work 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
- introducing and developing the 'myEFIC' intranet site to improve communication and access to information across the organisation
- performing an ongoing review of the employee assistance program by the Human Resources department, which has resulted in enhancements including access to an online wellbeing website and enhanced management support material
- 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 review of workstations by an accredited rehabilitation provider, as requested by staff, to address any ergonomic issues
- making available flexible work practices and paid maternity and paternity leave to reduce the pressures of balancing work and family life.

Health and safety outcomes

Table 4: Positive performance indicators

Initiative	Measure
Inspections	Quarterly workplace inspections by EFIC's HSR have identified problems to be addressed by the building management.
OHS training	All EFIC staff undergo annual OHS training as part of compliance training.

Accidents or dangerous occurrences

There were no serious injuries during 2009-10. EFIC conducts regular testing and preventative maintenance on our plant and equipment, including air conditioning, and undertakes all reasonable steps to eliminate or minimise risks to its staff and visitors to the building.

Investigations and notices

EFIC did not receive any notices under the *Occupational Health and Safety Act 1991* during 2009-10.

Comcare conducted a routine investigation in relation to health and safety management arrangements at EFIC. The investigation was to ensure that EFIC has an HSMA in place and that employees were consulted about and involved in the process of developing and reviewing the HSMA.

The investigation found that EFIC had shown commitment to consultation in developing our HSMA and that there were adequate processes for reviewing and varying the HSMA and resolving disputes in relation to OHS matters.

Corporate responsibility

Approach to corporate responsibility

EFIC's Corporate Responsibility Policy (CRP) sets out the guiding principles we use to balance our different responsibilities to our varied 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. It covers matters such as environmental and social issues, clean energy, nuclear-related exports, supporting Heavily Indebted Poor Countries, anti-corruption initiatives and climate change. Further information about the CRP and related reporting is available on our website. Website reporting and matters set out in this Annual Report represent our disclosure in relation to section 516A of the *Environment Protection and Biodiversity Conservation Act 1999*. We strive to achieve best practice in corporate responsibility and review our policies regularly.

Clean energy

Within our mandate, we seek to encourage the export of products and services that benefit the environment. We aim to enhance the economic and financial viability of such exports by considering extended terms of finance, in line with terms and conditions set out in the OECD Arrangement.

Environmental performance

EFIC's environmental performance in relation to its premises at Export House, 22 Pitt Street, Sydney is managed within principles that seek to promote energy efficiency, recycling and other measures to reduce the environmental footprint of the premises. EFIC's proposed major refurbishment works to the premises are designed with an objective of obtaining a 4.5 star rating under the National Australian Built Environment Rating System.

Environment Policy

One element of the CRP is EFIC's Environment Policy. This policy defines how we integrate environmental and social considerations in our due diligence and decision making. It also reflects how EFIC incorporates the principles of ecologically sustainable development into our consideration of transactions.

Our Environment Policy has as its basis the OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits (the Common Approaches). A review of the Common Approaches by the OECD is underway and is expected to be completed in early 2011. EFIC is participating in the review.

EFIC's Environment Policy also adopts the International Finance Corporation (IFC) Performance Standards as its general benchmark for environmental and social review of proposed transactions. A review of the Performance Standards is in progress and is expected to conclude in early 2011. EFIC is also involved in that review.

EFIC has voluntarily joined two other initiatives: the United Nations Environment Programme Finance Initiative and the Equator Principles. Both initiatives are consistent with our Environment Policy.

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We have commenced a review of our Environment Policy, examining issues such as:

- feedback from our clients and stakeholders
- the changing business climate in which EFIC operates
- external processes that influence the policy, including the reviews of the Common Approaches and the IFC Performance Standards
- the approaches of our peers.

Our stakeholders will continue to be involved in the Environment Policy review, which is scheduled for completion in 2010.

Environmental screening and disclosure

The screening process in EFIC's Environment Policy recognises:

- the broad range of potential social and environmental impacts arising from export transactions and overseas investments
- the differences between types of exports that we facilitate
- the different roles that EFIC plays in transactions.

Screening involves categorising a transaction based on the significance of its environmental or social impacts. Our Environment Policy requires us to categorise all transactions and our level of due diligence varies depending on the category. The categorisation process is explained in detail in our Environment Policy, which is available on our website. In summary, EFIC applies the following three categories:

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

Table 5 summarises the number of EFIC's medium- to long-term facilities in each environmental category for the 2009-10 year 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 and receivables financing (these transactions are automatically classified Category C).

Table 1 on page 25 shows more information about EFIC's transactions in 2009-10 and their environmental classifications.

Table 5: Environmental category of facilities supported*

Year	Environmental category		
	A	B	C
2009-10			
All facilities	1	4	13
Project finance	1	0	0
2008-09			
All facilities	0	2	15
Project finance	0	0	0
2007-08	2	2	16

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

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.

EFIC supported one project finance transaction in 2009-10: the PNG LNG project. This transaction was also the only project finance transaction screened, and was classified Category A.

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 2009-10, covering them for liabilities incurred as an officer of EFIC and related legal costs. The scope of the indemnity is consistent with the requirements of the CAC Act and the *Trade Practices Act 1974* in relation to such indemnities.

We 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 year ended 30 June 2010, there were no judicial decisions or decisions of administrative tribunals that have had, or are likely to have, a significant impact on EFIC's 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* (the FOI Act).

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 in Figure 9 on pages 52 and 53.

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.

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EFIC documents and publications

We 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 2009-10 included:

- *Annual Report 2009*
- *About EFIC* corporate brochure
- *Win* brochure – EFIC's solutions to help exporters win business
- *Finance* brochure – EFIC's solutions to help exporters finance their exports
- *Protect* brochure – EFIC's solutions to help exporters protect export contracts and overseas investments
- a product fact sheet for each of EFIC's products
- case studies for various EFIC transactions
- *World Risk Developments* – a regular analysis of worldwide economic and finance developments for Australian exporters and investors abroad
- *Country Profiles* – in-depth analyses of business and investment risks in various overseas countries
- *Your career at EFIC* – a recruitment brochure
- *2009 Global Readiness index Summary Report* for Queensland and South Australia – reports on the state results from the 2009 GRi survey
- *2010 Global Readiness index National Report* – a report on the results from the 2010 GRi survey
- *2010 Global Readiness index Summary Report* – highlights of the 2010 *Global Readiness index* National Report
- *Where to invest?* – a booklet distributed at the 2010 GRi launch.

In addition, our Corporate Responsibility Policy, Customer Service Charter, Privacy Policy, Environment Policy and Anti-Corruption Initiatives are key documents that are available to the public. They are also published on EFIC's website, 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 matters relating to Freedom of Information 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 9201 2111
Fax: +61 2 9251 3851

Particulars of directions and approvals 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 2009-10 financial year. It is not possible to assess the financial effect on EFIC of these directions.

During the year ended 30 June 2010, 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 4 July 2007 in relation to uranium was in effect until 31 May 2010. The direction stated that EFIC must not provide assistance for a transaction linked to uranium without specific written agreement from the Australian Government.

On 1 June 2010, the Minister revoked the direction and issued a new direction to EFIC under section 9. The new direction again 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. They 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 2010 in relation to trade with Iran.

The direction stated 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 2010 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.

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The Democratic People's Republic of Korea

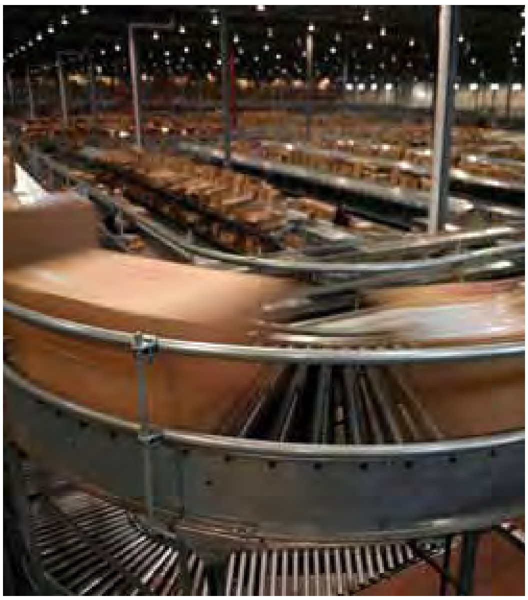
On 19 July 2009 the Minister issued a section 9 direction in relation to the Democratic People's Republic of Korea (the DPRK). The direction stated that EFIC must not:

- 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 27 EFIC Act approvals

Section 27(4) of the EFIC Act allows the Minister to approve a loan that is the subject of a referred application if the Minister is satisfied that it is in the national interest that EFIC make the loan.

On 4 December 2009, the Minister issued an approval in respect of a referred application by EFIC to provide a US$400 million loan on the National Interest Account to the Papua New Guinea Liquefied Natural Gas Global Company LDC. EFIC's loan, ultimately for US$350 million (US$250 million of which was on the National Interest Account), will finance the integrated upstream natural gas and LNG development in Papua New Guinea.



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 2010, 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 issued after the 2009-10 financial year

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 (the 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.

RISK MANAGEMENT AND FINANCIAL MATTERS

REPORT OF OPERATIONS

Risk Management Framework

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

A key element in 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. Operational risks are further broken down into a number of sub-categories: general processes, external regulation, internal policies, domestic and international laws, and events.

Various probability factors are allocated to the consequences of 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.

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

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

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

The Compliance and Risk 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 Board Audit Committee and the Executive and has full access to staff and information when conducting its reviews. The Australian National Audit Office and its appointed agent Ernst & Young perform an independent review of EFIC's Financial Statements.

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

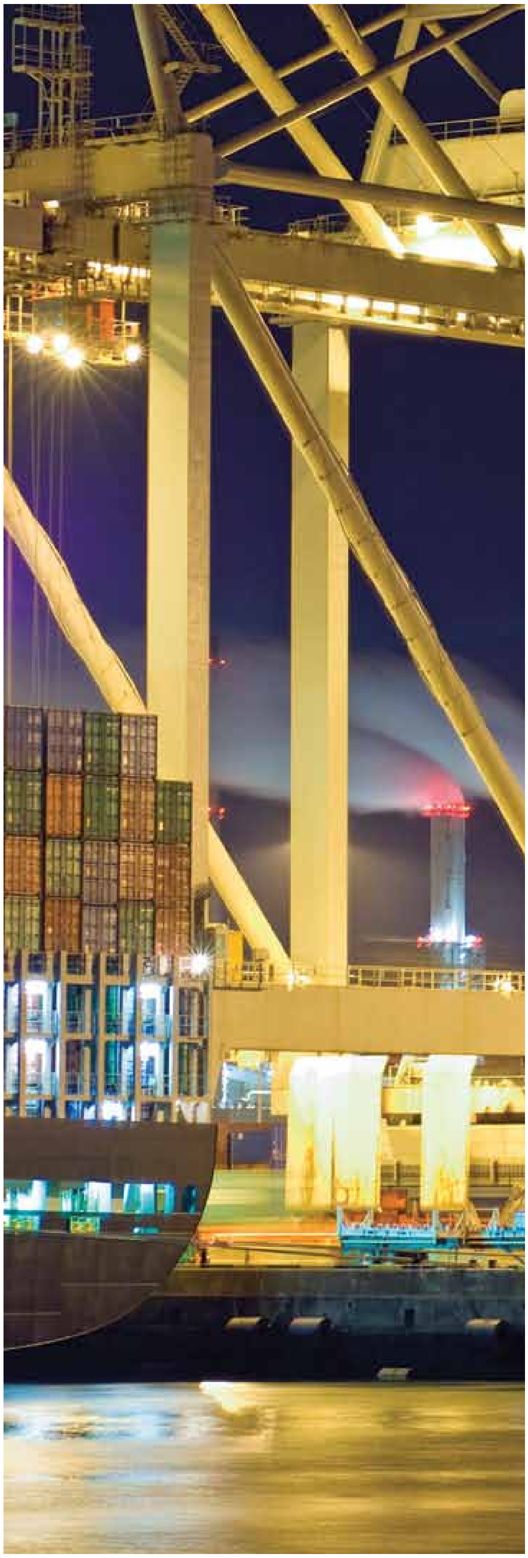
Risk appetite

The Board considers that risk appetite goes to the heart of how EFIC does business and is important in giving a clear indication to key stakeholders (such as the Government, employees, regulators and customers) of how EFIC operates from a risk-taking perspective and the type of risk culture that EFIC promotes.

To ensure effective monitoring and governance, EFIC's risk appetite has a balanced mix of quantitative and qualitative measures. These are monitored within well-established risk policies, risk tolerances and operational limits set by the Board, the CAC Act and the EFIC Act and regulations.

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 market gap.

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



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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 issued by the Basel Committee on Banking Supervision 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 the pricing of credit exposures and credit-related provisioning reflected as an allowance for credit risk.

The underlying profitability of EFIC in the longer term depends primarily upon actual credit losses in the business. However, a major influence in determining our past profits has been the allowance for credit risk in respect of our exposures.

The accounting standards used in preparing EFIC's Financial Statements require a credit risk component to be incorporated into fair value calculations. We assess credit risk in light of the expected losses over the life of facilities. We have developed a model that takes into account the magnitude and nature of the exposures, their risk grade, type and maturity. We estimate the magnitude of the losses using external data for losses of similarly graded risks. When it is likely that a loan or debt will not be recovered in full due to a specific event, the model is not used and instead 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 EFGs.

Our allowance for credit risk on our Commercial Account in 2009–10 fell from $61.1 million to $45.2 million. This reduction was mainly due to repayments, foreign exchange movements, term to maturity and changes in risk grades. We continue to assess individual exposures with a ratings modifier of 'improving', 'deteriorating' or 'stable'. As a result, exposures within a risk grade that are deteriorating, for example, are more evident.

We also wrote back $1.6 million for specific events in 2009–10, bringing the balance for specific events to $12.7 million.

On the National Interest Account, the movement in specific provisions resulted in a $0.1 million profit being written back. 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 3.7. 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, which in the case of many derivative transactions includes the creditworthiness of both parties to the instrument. This assessment of risk is called a 'credit valuation adjustment'. The global financial crisis resulted in a number of EFIC's counterparties being downgraded to below AA–. As a prudent measure we provided an additional $0.7 million against derivative counterparty risk, bringing the total provision at 30 June 2010 to $4.4 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.

When making the assessment under section 56, the Board is required to include as equity the $200 million of callable capital that is available from the Commonwealth in accordance with section 56 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 therefore base our assessment of capital adequacy upon the prudential standards and calculations used for regulating banks. APRA requires banks in Australia to have minimum capital requirements consistent with the Basel II framework. In line with best practice, the Board has adopted Basel II principles for measuring the capital adequacy of EFIC. 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.

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.

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

Large exposures

EFIC has adopted APRA guidelines in relation to large exposures. APRA has indicated a maximum exposure per non-bank counterparty (or related group of counterparties) of 25 per cent of capital. The Board has endorsed this limit of 25 per cent of 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 Australian interest in the particular transaction. In any event, under current delegations the Board must approve all transactions that involve commitments over $50 million.

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* 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 the loan assets of EFIC on both the Commercial Account and National Interest Account and to maximise the return on its investments, including funds representing EFIC's equity, reserves and working capital. Our treasury unit confines risk to highly-rated counterparties and does not trade speculatively.

The global financial crisis continued to impact our treasury operations in the 2009–10 financial year. The cost of funding EFIC was impacted by the Government's guarantee of Australian banks' wholesale funding. EFIC was previously one of only a few AAA-rated borrowers globally, but the increased supply of government-guaranteed debt issuance in the medium-term markets meant we were one of many AAA-rated issuers. For new bank issuance, this guarantee expired on 31 March 2010. An increase in the cost of funds of the top non-bank international AAA issuers, partly due to the knock-on effects of the European sovereign debt crisis, further affected our cost of funds.

Foreign exchange and interest rate management

The loans we have provided to customers and the rescheduled debts are mostly denominated in foreign currencies. As at 30 June 2010, taking both the National Interest Account and Commercial Account into consideration, 72 per cent were denominated in US dollars and 20 per cent in euro.

We fund our 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 the EFIC Act, the Commonwealth guarantees all of EFIC's liabilities. 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.

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These assets primarily comprise export finance loans, which are made to finance the export of Australian capital goods and services, and rescheduled credit insurance debts that exist from a business line EFIC divested in 2003.

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 lines 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 2009-10. Issues were mainly in US dollars.

New capital market issues under our medium-term note program in 2009-10 raised $613 million, compared with $85 million in 2008-09. We made eight issues in 2009-10, compared with three in 2008-09. All other funding activities for the year were confined to the short-dated commercial paper market and direct loans from banks. Due to market concerns about the European sovereign debt crisis, sub-LIBOR margins on our commercial paper issuance were varied.

The medium-term note issues were swapped into simple floating interest rate obligations, principally in US dollars, reflecting the currency of the majority of our assets. However, medium- to long-term funding for EFIC remains impacted by the existing Government's guarantee of Australian banks' wholesale funding in the secondary market. Previously, we could raise medium- to long-term funds at sub-LIBOR rates, but current pricing is above LIBOR and our treasury remains cautious about issuing in this market. During the year, we were able to borrow at sub-LIBOR margins using derivative markets.

The new capital market issues during the 2009-10 year are shown in Table 6.

Table 6: New capital market issues in 2009-10

Arranger	Term (years)	Currency	Amount (million)	US$ equivalent (million)
HSBC Bank Australia Ltd and JP Morgan Australia Ltd	3	AUD	200	164.4
HSBC Bank Australia Ltd and JP Morgan Australia Ltd	3	AUD	300	246.6
Shinkin International Limited	15*	JPY	1,000	10.9
Shinkin International Limited	15*	JPY	300	3.3
Mitsubishi UFJ Securities International PLC	18*	JPY	500	5.5
Daiwa Capital Markets Europe Limited	10**	AUD	80	39.0
Daiwa Capital Markets Europe Limited	10**	NZD	25	9.8
Daiwa Capital Markets Europe Limited	9.5**	NZD	100	42.7
Total				**$522.2**
Equivalent to				**A$613 million**

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

Investments and liquidity

At 30 June 2010, the face value of EFIC's investment and liquidity holdings on the Commercial Account was $989 million, comprising cash, bank deposits and investment securities. Of this amount, $401 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. However, as a result of the global financial crisis, a number of counterparties were downgraded to below AA- prior to the 2009-10 financial year. Through prudent management and holding investments to maturity, our treasury has not realised losses on its investment portfolio.

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 2009-10.

Indonesia

At 30 June 2010, our loans to the Indonesian Government were $663.4 million on the National Interest Account and $14 million on the Commercial Account. The National Interest Account loans were predominantly loans supported by aid grants and approved under the now discontinued DIFF. 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. In addition, in the aftermath of the December 2004 tsunami, Australia deferred payments of US$6 million and €5 million due in 2005, which were repaid in December 2009.

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 61 for more information).

Egypt

At 30 June 2010, EFIC was owed $68 million and US$30 million by the Egyptian Government ($22 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 2010, 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 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.

Dividends

The EFIC Act requires the Board to make a recommendation to the Minister for Trade on the payment of a dividend to the Commonwealth. During the year, the Minister for Trade confirmed that EFIC would pay a dividend of $16.8 million for the year ended 30 June 2009, representing 50 per cent of the Commercial Account profit for that year.

At the date of publication, the Minister for Trade had not yet made a determination in respect of the year ended 30 June 2010.

Effect of providing non-commercial services

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

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TEN-YEAR SUMMARY

REPORT OF OPERATIONS

Ten-year summary

Years ended 30 June	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Commercial Account										
Export contracts and overseas investments supported	3,561	817	2,219	1,367	605	176	502	1,967	889	508
Net interest income	38.3	44.5	32.2	23.4	19.3	18.5	17.7	15.3	13.7	15.2
Premiums and fees (accrual)	0.0	0.0	0.0	0.0	0.0	16.0	16.9	17.3	13.5	14.3
Fair value loans and guarantees	33.6	14.5	7.2	6.2	21.0	0.0	0.0	0.0	0.0	0.0
Total premiums and fees	33.6	14.5	7.2	6.2	21.0	16.0	16.9	17.3	13.5	14.3
Effect of reinsurance	(1.6)	(3.5)	(2.6)	2.8	(1.8)	(3.2)	(1.7)	(1.4)	(0.1)	(1.4)
Net premiums and fees	32.0	11.0	4.6	9.0	19.2	12.8	15.2	15.9	13.4	12.9
Fair value other financial instruments	(7.4)	(4.2)	(1.6)	21.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income	2.6	3.0	2.9	2.4	1.9	2.9	2.7	2.2	2.2	2.3
Total revenue	65.5	54.3	38.1	55.8	40.4	34.2	35.6	33.4	29.3	30.4
Operating expenses	(23.8)	(20.6)	(18.8)	(15.5)	(12.5)	(11.7)	(9.0)	(7.2)	(7.6)	(7.7)
Realised foreign exchange profit/(loss)	0.0	(0.1)	0.0	0.1	(0.2)	(0.1)	0.0	(0.4)	(0.2)	0.5
Profit before specific provisions	41.7	33.6	19.3	40.4	27.7	22.4	26.6	25.8	21.5	23.2
(Charge)/credit for sundry allowances	(3.4)	(0.2)	0.0	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	6.7	(3.2)	2.9	2.2	(14.7)
Profit/(loss) from the discontinued credit insurance business	0.0	0.2	0.4	0.3	1.0	0.3	4.3	(3.2)	(4.3)	1.7
Operating profit before tax	38.3	33.6	19.7	40.7	28.7	29.4	27.7	25.5	19.4	10.2
Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.8)
Operating profit of the Corporation	38.3	33.6	19.7	40.7	28.7	29.4	27.7	25.5	19.4	9.4
Dividend (paid the following year)	Not decided	16.8	9.8	20.4	14.3	14.7	12.6	12.7	9.7	4.7
Special dividend	0	0	0	0	0	0	2.5	0	0	0
Equity	407.6	376.7	331.2	359.8	321.7	287.5	266.2	253.7	237.9	210.6
Return on average equity (% pa)	10%	9%	6%	12%	9%	11%	11%	10%	9%	5%
Dividend payout ratio	Not decided	50%	50%	50%	50%	50%	55%	60%	50%	50%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	342	227	145	120	210	263	274	309	368	483
Funded EFGs	115	55	0	0	0	0	0	0	0	0
Guarantees and other off-balance sheet exposures	403	514	510	408	464	498	529	611	753	722
Exposures reinsured	87	206	212	103	142	97	82	48	15	0
Rescheduled debts	22	24	25	26	33	37	39	41	44	46
Export finance facilities	969	1,026	892	657	849	895	924	1,009	1,180	1,251
Retained credit insurance exposures	0	0	0	0	0	0	0	16	125	1,310
Reinsured credit insurance exposures	0	0	0	0	0	0	0	1,176	1,137	0
Credit insurance facilities	0	0	0	0	0	0	0	1,192	1,262	1,310
Total Commercial Account facilities	969	1,026	892	657	849	895	924	2,201	2,442	2,561

Note: the credit insurance business was divested on 30 September 2003.

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Years ended 30 June	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
National Interest Account										
Export contracts and overseas investments supported	2,411	530	18	85	33	39	21	134	26	15
Exports supported by Australian content by drawdown	0	0	21	46	21	30	20	108	31	54
Net interest income (including grant amortised)	2.9	3.0	0.3	9.5	17.7	18.7	24.4	22.9	22.9	27.2
Premiums and fees (accrual)	7.2	2.8	3.4	4.0	4.5	4.6	6.1	7.8	9.1	10.3
Total premiums and fees	7.2	2.8	3.4	4.0	4.5	4.6	6.1	7.8	9.1	10.3
Effect of reinsurance	(0.3)	(0.6)	(1.0)	(1.4)	(1.5)	(1.4)	(0.7)	(1.2)	(1.7)	(2.2)
Net premiums and fees	6.9	2.2	2.4	2.6	3.0	3.2	5.4	6.6	7.4	8.1
Fair value other financial instruments	0.0	0.0	0.0	60.6	88.0	0.0	0.0	0.0	0.0	0.0
Total revenue	9.8	5.2	2.7	72.7	108.7	21.9	29.8	29.5	30.3	35.3
Operating expenses	(2.5)	(2.7)	(1.8)	(3.8)	(4.3)	(4.7)	(4.7)	(5.2)	(5.0)	(4.9)
Realised foreign exchange profit/(loss)	0.7	(2.9)	2.1	0.1	2.1	(7.9)	(2.3)	(13.6)	(8.7)	9.7
Profit before specific provisons	8.0	(0.4)	3.0	69.0	106.5	9.3	22.8	10.7	16.6	40.1
(Charge)/credit for specific provisions	0.1	0.2	1.8	1.4	0.0	2.7	(0.2)	5.8	2.9	(3.9)
Profit/(loss) from the discontinued credit insurance business	1.3	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.6)	2.4
Operating profit attributable to the Commonwealth	9.4	(0.2)	4.8	70.4	106.5	12.0	22.6	16.4	18.9	38.6
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	722	898	893	1,066	1,326	1,398	1,715	1,977	2,378	2,700
Guarantees and other off-balance sheet exposures	1	4	8	11	8	7	6	35	1	5
Exposures reinsured	33	45	43	52	61	59	66	31	66	90
Rescheduled debts	101	111	111	121	360	532	607	648	772	860
Export finance facilities	858	1,058	1,055	1,250	1,755	1,996	2,394	2,691	3,217	3,655
Retained credit insurance exposures	0	0	0	0	0	0	0	0	5	0
Credit insurance facilities	0	0	0	0	0	0	0	0	5	0
Total National Interest Account facilities	858	1,058	1,055	1,250	1,755	1,996	2,394	2,691	3,222	3,655

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Notes to and forming part of the Financial Statements

Statement by Board Members

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

(a) the accompanying financial statement is drawn up so as to give a true and fair view of the performance of the Corporation for the year ended 30 June 2010 and the financial position of the Corporation at 30 June 2010;

(b) the financial statement gives a true and fair view of the matters required by Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2009) under subsection 48(1) of the *Commonwealth Authorities and Companies Act 1997* (the CAC Act);

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

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

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

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

Signed in accordance with a resolution of the Board.

Andrew Mohl
CHAIRMAN

Angus Armour
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Stuart Neilson
CHIEF FINANCIAL OFFICER

20 AUGUST 2010

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Independent Auditor's Report

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Trade

Scope

I have audited the accompanying financial statements of Export Finance and Insurance Corporation ('EFIC') for the year ended 30 June 2010, which comprise: a Statement by Board Members; 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 are responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards (which include the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 EFIC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

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circumstances, but not for the purpose of expressing an opinion on the effectiveness of the EFIC's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Auditor's Opinion

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

(a) have been prepared in accordance with 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 2010 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Ian Goodwin
Principal Advisor
Delegate of the Auditor-General
Canberra
20 August 2010

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2010 $ m**	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m

Statement of Comprehensive Income for the year ended 30 June 2010

	Note	**30 June 2010 $ m**	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
Interest income	*3(i)*	**98.6**	141.7	**50.1**	75.5
Interest expense	*3(ii)*	**(60.3)**	(97.2)	**(47.2)**	(72.5)
Net interest income		**38.3**	44.5	**2.9**	3.0
Fair value of third-party loans and guarantees	*3(iii)*	**32.0**	11.0	-	-
Fair value of other financial instruments	*3(iv)*	**(7.4)**	(4.2)	-	-
Other revenue	*3(v)*	**2.6**	3.2	**8.2**	2.2
Operating income		**65.5**	54.5	**11.1**	5.2
Operating expenses	*3(vi)*	**(23.8)**	(20.6)	**(2.5)**	(2.7)
Foreign exchange profit/(loss) on rescheduled debts		-	(0.1)	**0.7**	(2.9)
Profit/(loss) before specific provisions		**41.7**	33.8	**9.3**	(0.4)
Credit/(charge) to sundry provisions and allowances	*3(vii)*	**(3.4)**	(0.2)	-	-
Credit/(charge) to specific provisions	*3(viii)*	-	-	**0.1**	0.2
Profit/(loss) from ordinary activities		**38.3**	33.6	**9.4**	(0.2)
National Interest Account attributable directly to the Commonwealth		-	-	**(9.4)**	0.2
Net profit attributable to the Commonwealth		**38.3**	33.6	-	-
Other comprehensive income					
Revaluation of land and buildings		-	(3.9)	-	-
Net gain/(loss) taken to equity on cash flow hedge		**(0.8)**	4.6	-	-
Net fair value gain on available-for-sale investments		**10.2**	21.0	-	-
Total other comprehensive income for the period		**9.4**	21.7	-	-
Total comprehensive income for the period attributable to the Commonwealth		**47.7**	55.3	-	-

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

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Balance Sheet as at 30 June 2010

	Note	COMMERCIAL ACCOUNT 30 June 2010 $ m	COMMERCIAL ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m
Assets					
Cash and liquid assets	*1(i)*	**0.8**	0.6	**-**	-
Receivables from other financial institutions	*4, 1(j)*	**79.7**	122.8	**-**	-
Amounts receivable from the Commonwealth	*5*	**-**	-	**42.9**	46.7
Available-for-sale investment securities	*6, 1(k)*	**912.0**	940.7	**-**	-
Loans at amortised cost	*7, 1(l)*	**61.9**	55.1	**745.0**	916.2
Loans and receivables designated at fair value through profit and loss	*8, 1(m)*	**411.0**	243.4	**-**	-
Loans to National Interest Account designated at fair value through profit and loss	*1(n)*	**913.7**	1,101.0	**-**	-
Derivative financial instruments	*9, 1(o)*	**285.1**	172.9	**-**	-
Property, plant and equipment	*10, 1(p)*	**33.3**	35.6	**-**	-
Other assets	*11*	**2.6**	1.9	**12.1**	12.8
Total assets		**2,700.1**	2,674.0	**800.0**	975.7
Liabilities					
Payables to other financial institutions	*12, 1(q)*	**63.5**	55.2	**-**	-
Borrowings from Commercial Account	*1(r)*	**-**	-	**783.5**	957.0
Borrowings designated at fair value through profit and loss	*13, 1(s)*	**2,041.4**	1,929.8	**-**	-
Guarantees designated at fair value through profit and loss	*14, 1(t)*	**27.5**	39.0	**-**	-
Derivative financial instruments	*9, 1(o)*	**136.0**	259.8	**-**	-
Sundry provisions and allowances	*15*	**6.2**	2.6	**-**	0.1
Other liabilities	*16*	**17.9**	10.9	**16.5**	18.6
Total liabilities		**2,292.5**	2,297.3	**800.0**	975.7
Net assets		**407.6**	376.7	**-**	-
Equity					
Contributed equity		**6.0**	6.0	**-**	-
Reserves		**97.3**	87.9	**-**	-
Retained profits		**304.3**	282.8	**-**	-
Total equity		**407.6**	376.7	**-**	-

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

Statement of Changes in Equity for the year ended 30 June 2010

Commercial Account 30 June 2010	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
Opening balance	**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	**304.3**	**25.7**	**1.6**	**3.8**	**66.2**	**6.0**	**407.6**

Commercial Account 30 June 2009	$m	$m	$m	$m	$m	$m	$m
Opening balance	259.0	29.6	(29.6)	-	66.2	6.0	331.2
Comprehensive income							
Other comprehensive income	-	(3.9)	21.0	4.6	-	-	21.7
Profit/(loss) for the period	33.6	-	-	-	-	-	33.6
Total comprehensive income	33.6	(3.9)	21.0	4.6	-	-	55.3
Transactions with the Commonwealth							
Dividends paid	(9.8)	-	-	-	-	-	(9.8)
Closing balance attributable to the Commonwealth	282.8	25.7	(8.6)	4.6	66.2	6.0	376.7

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 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 to provide a recommendation to the Minister, and then the Minister approves any dividend to be paid to the Commonwealth. The dividend paid in the financial years 2010 and 2009 was based on 50% of the prior financial year profits.

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

Cash Flow Statement
for the year ended 30 June 2010

	Note	COMMERCIAL ACCOUNT 30 June 2010 $ m	COMMERCIAL ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m
Cash flows from operating activities					
Inflows:					
Premium and fees received*		**20.6**	25.5	**10.2**	0.1
Interest received		**99.3**	151.7	**23.5**	39.5
Insurance claim recoveries		**-**	0.2	**1.3**	-
Sundry income*		**2.9**	3.3	**-**	-
Net repayments/(disbursements) of loans		**(84.9)**	(23.4)	**104.3**	129.6
Rescheduled debt repayments		**2.5**	2.9	**14.4**	13.6
Net decrease/(increase) in other debtors and prepayments		**1.2**	(3.3)	**(0.5)**	0.1
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(1.9)**	(3.0)	**(0.2)**	(0.5)
Interest and other costs of finance paid		**(61.1)**	(96.7)	**(48.4)**	(73.9)
Loan administration management fee		**(0.9)**	(1.2)	**-**	-
Guarantees called and associated costs		**(0.8)**	(0.2)	**-**	(0.4)
Payments to creditors and employees*		**(22.8)**	(19.4)	**-**	-
* Grossed up for Goods and Services Tax					
Net cash from/(used by) operating activities	*23*	**(45.9)**	36.4	**104.6**	108.1
Cash flows from investing activities					
Inflows:					
Proceeds from available-for-sale investments		**1,178.8**	932.7	**-**	-
Proceeds from sale of property, plant and equipment		**0.2**	-	**-**	-
Outflows:					
Payments for available-for-sale investments		**(1,150.6)**	(1,100.6)	**-**	-
Payments for property, plant and equipment		**(0.6)**	(0.3)	**-**	-
Net cash from/(used by) investing activities		**27.8**	(168.2)	**-**	-

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

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Cash Flow Statement
for the year ended 30 June 2010 (continued)

	Note	COMMERCIAL ACCOUNT 30 June 2010 $ m	COMMERCIAL ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		-	-	7.0	11.8
Receipts from National Interest Account		3.0	2.2	-	-
Outflows:					
Dividend payments to the Commonwealth		(16.8)	(9.8)	-	-
Other payments to the Commonwealth		-	-	(12.7)	(4.8)
Payments to Commercial Account		-	-	(3.0)	(2.2)
Net repayments of borrowings		9.0	(55.4)	(95.9)	(112.9)
Net cash from/(used by) financing activities		(4.8)	(63.0)	(104.6)	(108.1)
Net increase/(decrease) in cash equivalents held		(22.9)	(194.8)	-	-
Cash equivalents at beginning of financial year		123.4	248.4	-	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		(20.0)	69.8	-	-
Cash equivalents at end of financial year	*23*	80.5	123.4	-	-

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

Notes to and forming part of the Financial Statements for the year ended 30 June 2010

Note 1: Summary of significant accounting policies

The Export Finance and Insurance Corporation (EFIC) was established in Australia in its current form as an independent entity wholly owned by the Commonwealth of Australia (the Commonwealth) effective on 1 November 1991 by the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act). The registered office of EFIC is at Export House, 22 Pitt Street, Sydney.

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

(a) Basis of preparation

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

The statements have been prepared in accordance with:

- the Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB)
- Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2009) under subsection 48(1) of the CAC Act.

The statements have been prepared having regard to:

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

(b) Basis of accounting

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

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

The Commercial Account financial statements have been prepared on the basis of fair value for all financial assets and liabilities except where transactions qualify for hedge accounting. Changes in fair value are either taken to profit and loss or to equity.

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

(i) Business undertaken on the Commercial Account

The Commercial Account is a departmental item for the Commonwealth and operates on a commercial for-profit basis.

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

(ii) Business undertaken on the National Interest Account

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, however, it has been determined that the National Interest Account is not to be treated as an administered item in EFIC's books.

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

The National Interest Account profit or loss is therefore directly attributable to the Commonwealth. There is also a provision in the EFIC Act which allows EFIC to share part of a National Interest Account transaction. In such cases income, expenses and therefore any profits or losses are apportioned between the two accounts in accordance with the risk participation.

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(c) Statement of compliance

The financial statements comply with Australian Accounting Standards.

No accounting standard has been adopted earlier than the application date as stated in the standard, which is in line with Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2009) under subsection 48(1) of the CAC Act, which does not permit early adoption. The accounting policies adopted this year are consistent with those of the previous financial year. The adoption of new standards and amendments that came into affect for this financial year did not have a significant dollar impact on the financial report. There have been disclosure changes that were required by changes to AASB 101 and AASB 7.

Listed below are the standards and amendments that will become effective in the future. The expected dollar 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 has been issued and does not come into effect until 2013, EFIC has not determined the impact of this as of yet. EFIC intends to adopt all the standards upon their application date.

TITLE	STANDARD AFFECTED	APPLICATION DATE*
AASB 2009-5	AASB 5,8,101,107,117,118,136,139	1 January 2010
AASB 2009-8	AASB 2	1 January 2010
AASB 2009-10	AASB 132	1 February 2010
AASB 124	AASB 124	1 January 2011
AASB 2009-12	AASB 5,8,108,110,112,119,133,137 AASB 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, AASB 121,127,128,131,132,136,139, AASB 1023,1038 AASB interpretation 10,12	1 January 2013
AASB 2009-14	AASB interpretation 14	1 January 2011
Interpretation 19	AASB 2,3,101,108,132,139	1 July 2010

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

(d) 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.

The fair value is determined 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.

On the National Interest Account income and expenses are measured on an accrual basis. Income and expenses are treated as earned or incurred from the date of attachment of risk and are taken to profit or loss using the effective interest rate.

(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 on an effective yield basis. The unamortised balance is included in the Balance Sheet of the National Interest Account as an offset to loan assets.

The 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:

	2010	2009
Average rates during year		
US$/A$	**0.8824**	0.7472
Euro/A$	**0.6358**	0.5415
Yen/A$	**80.7274**	74.1845

	2010	2009
Rates at 30 June		
US$/A$	**0.8524**	0.8128
Euro/A$	**0.6980**	0.5757
Yen/A$	**75.4800**	77.8817

(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 a hedging derivative is recognised in the profit or loss. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of 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 as this 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 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 on an 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. In that case the changes in fair value that are due to future interest cash flows 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 as this is part of a cash flow hedge and 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 taken up on an effective interest method. A loan or receivable is recognised as impaired when it is likely that the debt will not be recovered in full. In this instance a specific provision will be created for the impairment.

(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 their fair value with any movement transferred through the profit or loss. They are designated at fair value as this designation significantly reduces the inconsistent treatment that would otherwise arise from measuring the asset on a different basis from the derivative that has been entered into to hedge the transactions. Interest income in the profit or loss is recorded using an accruals basis, 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 the fair value with any movement transferred through profit or loss.

(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, financial futures 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 for the year.

(p) Property, plant and equipment

Property, plant and equipment are revalued periodically at their fair value, as required by Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2009) 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%
- computer equipment 33.3%
- other plant and equipment 10.0% - 22.5%

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 represent two types of transactions. Short-term borrowings with banks and other financial institutions are measured at amortised cost using the effective interest method as this would be equivalent to their fair value. There is also a floating rate borrowing which is recorded at amortised cost as this is part of a cash flow hedge and 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 on an effective yield basis.

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

Commercial paper, medium-term notes and bonds (which may have embedded derivatives) are designated at their fair value with any movement transferred through profit or loss. They are designated at fair value as this designation significantly reduces the inconsistent treatment that would otherwise arise from measuring the liability on a different basis from the derivative that has been entered into to hedge the transactions. Interest expense in the profit or loss is recorded using the amortised cost basis, 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 written are regarded as financial instruments and 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 the market yields at balance date.

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

(v) Sundry creditors

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

EFIC operates in only one segment.

(y) Comparative figures

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

(z) Events occurring after the balance sheet date

There have been no material events occurring after the balance sheet date that impact the financial statements for the year ending 30 June 2010.

Note 2: Significant accounting judgements, estimates and assumptions

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

Impairment of available-for-sale assets

- EFIC holds a number of available-for-sale financial assets. A review of these assets has been undertaken for the year ended 30 June 2010, 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.

Fair value of financial instruments

- Where the fair value of financial assets and financial liabilities recorded on the balance sheet cannot be derived 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. During the year, as more detail became available and due to additional experience and research, the following changes in accounting estimations were approved:

- Previously EFIC considered the servicing costs, prepayment risks and other risks (excluding credit risk) associated with our loans and guarantees as low when assessing their fair value. The circumstances – specifically market conditions and the size, credit quality and tenor of individual transactions – have changed, which warrants a change in the accounting estimations for new transactions. EFIC has accordingly refined the fair value calculation of loans and guarantees to include these additional risks (residual margin) as part of the fair value calculation.

Significant accounting events during the year

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

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	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2010 $ m	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m

Note 3: Revenue and expenses

(i) Interest income					
Receivable from other financial institutions		**1.5**	8.6	**-**	-
Available-for-sale investment securities		**41.5**	49.0	**-**	-
Loans at amortised cost		**0.4**	0.3	**50.1**	75.5
Loans and receivables designated at fair value through profit and loss		**7.7**	9.7	**-**	-
Loans to National Interest Account designated at fair value through profit and loss		**47.5**	74.1	**-**	-
Total interest income		**98.6**	141.7	**50.1**	75.5
(ii) Interest expense					
Payables to other financial institutions		**(0.1)**	(0.1)	**-**	-
Borrowings from Commercial Account		**-**	-	**(47.2)**	(72.5)
Borrowings at amortised cost		**(0.3)**	(0.1)	**-**	-
Borrowings designated at fair value through profit and loss		**(57.9)**	(61.8)	**-**	-
Derivative financial instruments		**(2.0)**	(35.2)	**-**	-
Total interest expense		**(60.3)**	(97.2)	**(47.2)**	(72.5)
(iii) Fair value of third-party loans and guarantees					
Fair value movement relating to premium and fees		**36.1**	31.8	**-**	-
Fair value movement relating to reinsurance		**(1.6)**	(3.5)	**-**	-
Fair value movement relating to residual margin		**(20.1)**	-	**-**	-
Fair value movement relating to interest income		**(0.1)**	2.6	**-**	-
Fair value movement relating to credit risk		**15.9**	(14.8)	**-**	-
Fair value movement relating to specific events		**1.9**	(2.7)	**-**	-
Foreign exchange profit/(loss) on premium		**(0.1)**	(2.4)	**-**	-
Total fair value of third-party loans and guarantees		**32.0**	11.0	**-**	-
(iv) Fair value of other financial instruments					
Available-for-sale investment securities at fair value through profit and loss		**1.0**	-	**-**	-
Loans to National Interest Account designated at fair value through profit and loss		**(12.2)**	39.6	**-**	-
Borrowings designated at fair value through profit and loss		**(4.9)**	(23.9)	**-**	-
Derivative financial instruments		**8.7**	(19.9)	**-**	-
Total fair value of other financial instruments		**(7.4)**	(4.2)	**-**	-

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Note 3: Revenue and expenses
(continued)

	Note	COMMERCIAL ACCOUNT 30 June 2010 $ m	30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	30 June 2009 $ m
(v) Other revenue					
Premium and fees		-	-	6.8	2.9
Ceded to reinsurers		-	-	(0.3)	(0.6)
Foreign exchange profit/(loss) on premium		-	-	0.4	(0.1)
Rental income		2.5	2.7	-	-
Sundry income		0.1	0.3	-	-
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		-	0.2	1.3	-
Total other revenue		2.6	3.2	8.2	2.2
(vi) Operating expenses					
Staff costs		(12.7)	(11.0)	-	-
Depreciation of property, plant and equipment		(2.8)	(2.8)	-	-
Property costs		(2.1)	(0.9)	-	-
Promotional costs		(1.7)	(1.7)	-	-
Superannuation costs		(1.3)	(1.2)	-	-
Travel costs		(1.3)	(1.0)	-	-
Professional fees		(1.1)	(1.6)	-	-
Computer costs		(0.7)	(0.7)	-	-
Corporate insurance		(0.3)	(0.5)	-	-
Provision for employee entitlements		(0.3)	(0.4)	-	-
Credit information		(0.3)	-	-	-
Other expenses		(1.7)	(1.5)	-	-
National Interest Account allocation		2.5	2.7	(2.5)	(2.7)
Total operating expenses		(23.8)	(20.6)	(2.5)	(2.7)
(vii) Credit/(charge) to sundry allowances					
Allowances for claims and litigation		(3.2)	-	-	-
Allowances for unrecoverable costs		(0.2)	(0.2)	-	-
Total credit/(charge) to sundry allowances		(3.4)	(0.2)	-	-
(viii) Credit/(charge) to specific provisions					
Specific provisions for losses		-	-	0.1	0.5
Associated costs		-	-	-	(0.3)
Total credit/(charge) to specific provisions		-	-	0.1	0.2

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	Note	COMMERCIAL ACCOUNT **30 June 2010 $ m**	30 June 2009 $ m	NATIONAL INTEREST ACCOUNT **30 June 2010 $ m**	30 June 2009 $ m

Note 4: Receivables from other financial institutions

	Note	**30 June 2010 $ m**	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
	1(j)				
Overnight deposits		**15.7**	20.7	-	-
Fixed cash deposits		**64.0**	102.1	-	-
Total receivables from other financial institutions		**79.7**	122.8	-	-
Maturity analysis of receivables from other financial institutions					
At call		**15.7**	20.7	-	-
Due in less than 3 months		**35.7**	76.6	-	-
Due after 3 months to 1 year		**28.3**	25.5	-	-
Total receivables from other financial institutions		**79.7**	122.8	-	-

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

Note 5: Amounts receivable from the Commonwealth

	Note	**30 June 2010 $ m**	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
Commonwealth opening balance receivable		-	-	**46.7**	53.5
Net (receipts from)/payments to the Commonwealth		-	-	**5.6**	(7.0)
		-	-	**52.3**	46.5
Less: Profit/(loss) for the year on National Interest Account		-	-	**9.4**	(0.2)
Total amounts receivable from the Commonwealth		-	-	**42.9**	46.7

Note 6: Available-for-sale investment securities

	Note	**30 June 2010 $ m**	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
	1(k)				
Discount securities		**288.8**	353.6	-	-
Floating rate notes		**420.1**	518.0	-	-
Fixed rate bonds		**203.1**	69.1	-	-
Total available-for-sale investment securities		**912.0**	940.7	-	-
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**266.6**	284.7	-	-
Due after 3 months to 1 year		**338.1**	320.4	-	-
Due after 1 year to 5 years		**307.3**	335.6	-	-
Total available-for-sale investment securities		**912.0**	940.7	-	-

Refer to Note 18 for further disclosures regarding AASB 7 Financial Instruments: Disclosures. This note provides further information regarding credit risk and market risk.

	Note	COMMERCIAL ACCOUNT 30 June 2010 $ m	30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	30 June 2009 $ m
Note 7: Loans and receivables at amortised cost	1(l)				
Gross export finance loans		-	-	755.7	943.7
Gross funded export finance guarantees		61.9	55.1	-	-
Gross rescheduled credit insurance debts		-	-	100.9	110.9
Loans and receivables gross		61.9	55.1	856.6	1,054.6
Unearned premiums		-	-	(15.1)	(10.7)
Specific provision for impairment		-	-	(9.7)	(9.7)
Unamortised grants	1(e)	-	-	(86.8)	(118.0)
Total loans and receivables at amortised cost		61.9	55.1	745.0	916.2
Maturity analysis loans and receivables gross					
Overdue - impaired		-	-	9.7	9.7
Due in 3 months or less		-	-	19.4	20.4
Due after 3 months to 1 year		7.2	-	90.3	101.2
Due after 1 year to 5 years		29.2	20.7	400.0	463.0
Due after 5 years		25.5	34.4	337.2	460.3
Total loans and receivables gross		61.9	55.1	856.6	1,054.6
Restructured exposures included above		-	-	320.1	380.7

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

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

There are no overdue amounts for non-impaired loans.

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	-	-	0.4	0.3

Loans are considered to be impaired if payments have not been made by the due date.

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

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

	Note	COMMERCIAL ACCOUNT 30 June 2010 $ m	COMMERCIAL ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m
	1(m)				
Gross export finance loans		**341.5**	226.8	-	-
Gross funded export finance guarantees		**53.3**	-	-	-
Gross rescheduled credit insurance debts		**22.1**	23.8	-	-
Loans and receivables gross		**416.9**	250.6	-	-
Fair value premium and fees		**35.2**	13.1	-	-
Fair value residual margin		**(20.1)**	-	-	-
Fair value interest		**3.6**	4.4	-	-
Fair value of credit risk		**(14.5)**	(16.5)	-	-
Fair value of specific events		**(10.1)**	(8.2)	-	-
Total loans and receivables at fair value		**411.0**	243.4	-	-
Maturity analysis loans and receivables gross					
Overdue - impaired		**13.0**	15.1	-	-
Due in 3 months or less		**5.2**	17.8	-	-
Due after 3 months to 1 year		**19.2**	24.3	-	-
Due after 1 year to 5 years		**143.8**	129.6	-	-
Due after 5 years		**235.7**	63.8	-	-
Total loans and receivables gross		**416.9**	250.6	-	-
Restructured exposures included above		**36.1**	41.9	-	-

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

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

	COMMERCIAL ACCOUNT 30 June 2010 $ m	COMMERCIAL ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m
Impaired loans				
Impaired loans	**13.0**	15.1	-	-
Fair value of specific events	**(10.1)**	(8.2)	-	-
Carrying fair value of impaired loans	**2.9**	6.9	-	-

Loans are considered to be impaired if payments of interest or repayments of principal have not been made by the due date or there is reason to believe that amounts due may not be able to be made in the future.

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

Refer to Note 18 for further disclosures regarding AASB 7 Financial Instruments: Disclosures. This note provides further information regarding credit risk including maximum exposures and market risk.

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2010 $ m	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m

Note 9: Derivative financial instruments

	Note	30 June 2010 $ m	30 June 2009 $ m	30 June 2010 $ m	30 June 2009 $ m
	1(o)				
Derivative financial assets					
Interest rate swaps		**29.2**	25.6	**-**	-
Cross-currency swaps		**246.4**	146.7	**-**	-
Forward foreign exchange contracts		**9.5**	0.6	**-**	-
Total derivative financial assets		**285.1**	172.9	**-**	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		**36.6**	35.2	**-**	-
Due after 3 months to 1 year		**69.3**	31.9	**-**	-
Due after 1 year to 5 years		**120.8**	58.8	**-**	-
Due after 5 years		**58.4**	47.0	**-**	-
Total derivative financial assets		**285.1**	172.9	**-**	-
Derivative financial liabilities					
Interest rate swaps		**117.9**	120.4	**-**	-
Cross-currency swaps		**17.2**	99.5	**-**	-
Forward foreign exchange contracts		**0.9**	39.9	**-**	-
Total derivative financial liabilities		**136.0**	259.8	**-**	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**8.4**	61.5	**-**	-
Due after 3 months to 1 year		**29.6**	91.4	**-**	-
Due after 1 year to 5 years		**79.4**	76.3	**-**	-
Due after 5 years		**18.6**	30.6	**-**	-
Total derivative financial liabilities		**136.0**	259.8	**-**	-

Refer to Note 18 for further disclosures regarding AASB 7 Financial Instruments: Disclosures. This note provides further information regarding credit risk, liquidity risk and market risk.

Note 10: Property, plant and equipment

	Note	30 June 2010 $ m	30 June 2009 $ m	30 June 2010 $ m	30 June 2009 $ m
	1(p)				
Freehold land and building, at valuation		**32.8**	32.8	**-**	-
Accumulated depreciation		**(1.6)**	-	**-**	-
Net book value - land and building		**31.2**	32.8	**-**	-
Plant and equipment, at valuation		**7.6**	7.3	**-**	-
Accumulated depreciation		**(5.5)**	(4.5)	**-**	-
Net book value - plant and equipment		**2.1**	2.8	**-**	**-**
Total property, plant and equipment		**33.3**	35.6	**-**	-

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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 2009	32.8	7.3	40.1
Additions	-	0.6	0.6
Disposals	-	(0.3)	(0.3)
Balance as at 30 June 2010	**32.8**	**7.6**	**40.4**
Accumulated depreciation			
Balance as at 30 June 2009	-	(4.5)	(4.5)
Depreciation charged for assets held at 1 July 2009	(1.6)	(1.1)	(2.7)
Depreciation charged for additions	-	(0.1)	(0.1)
Depreciation recovered on disposals	-	0.2	0.2
Balance as at 30 June 2010	**(1.6)**	**(5.5)**	**(7.1)**
Net book value as at 1 July 2009	32.8	2.8	35.6
Net book value as at 30 June 2010	**31.2**	**2.1**	**33.3**

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.

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 2010 $ m	30 June 2009 $ m
Freehold land and building, at valuation	**21.1**	23.4
Accumulated depreciation	**(1.0)**	-
Written-down value	**20.1**	23.4
Depreciation expense	**1.0**	1.5

	Note	COMMERCIAL ACCOUNT 30 June 2010 $ m	COMMERCIAL ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m

Note 11: Other assets

	Note	Commercial 2010 $ m	Commercial 2009 $ m	National Interest 2010 $ m	National Interest 2009 $ m
Accrued interest receivable		**0.1**	0.2	**10.4**	12.8
Sundry debtors and prepayments		**2.5**	1.7	**1.7**	-
Total other assets		**2.6**	1.9	**12.1**	12.8

Note 12: Payables to other financial institutions

	Note	Commercial 2010 $ m	Commercial 2009 $ m	National Interest 2010 $ m	National Interest 2009 $ m
	1(q)				
Overnight borrowings		**1.5**	-	-	-
Floating rate borrowing		**62.0**	55.2	-	-
Total payables to other financial institutions		**63.5**	55.2	-	-
Maturity analysis of payables to other financial institutions					
At call		**1.5**	-	-	-
Due in less than 3 months		-	-	-	-
Due after 3 months to 1 year		**4.3**	55.2	-	-
Due after 1 year to 5 years		**57.7**	-	-	-
Total payables to other financial institutions		**63.5**	55.2	-	-

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

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

	Note	Commercial 2010 $ m	Commercial 2009 $ m	National Interest 2010 $ m	National Interest 2009 $ m
	1(s)				
Borrowings		**2,041.4**	1,929.8	-	-
Total borrowings at fair value		**2,041.4**	1,929.8	-	-
Borrowings designated at fair value through profit and loss					
Structured borrowings					
Australian dollar		**68.0**	65.9	-	-
Japanese yen		**700.1**	720.2	-	-
US dollar		**25.3**	63.2	-	-
Total structured borrowings		**793.4**	849.3	-	-
Non-structured borrowings					
Australian dollar		**606.9**	108.1	-	-
Euro		**50.3**	73.2	-	-
Japanese yen		**82.9**	82.6	-	-
New Zealand dollar		**64.9**	53.8	-	-
US dollar		**113.1**	123.0	-	-
Total non-structured borrowings		**918.1**	440.7	-	-

	Note	COMMERCIAL ACCOUNT **30 June 2010 $ m**	30 June 2009 $ m	NATIONAL INTEREST ACCOUNT **30 June 2010 $ m**	30 June 2009 $ m

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

	Note	30 June 2010 $ m	30 June 2009 $ m	30 June 2010 $ m	30 June 2009 $ m
Euro commercial paper					
US dollar		**329.9**	639.8	-	-
Total euro commercial paper		**329.9**	639.8	-	-
Total borrowings at fair value		**2,041.4**	1,929.8	-	-
Maturity analysis of borrowings					
Due in 3 months or less		**446.2**	750.4	-	-
Due after 3 months to 1 year		**406.8**	523.4	-	-
Due after 1 year to 5 years		**927.7**	428.6	-	-
Due after 5 years		**260.7**	227.4	-	-
Total borrowings at fair value		**2,041.4**	1,929.8	-	-

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

Refer to Note 18 for further disclosures regarding AASB 7 Financial Instruments: Disclosures. This note provides further information regarding credit risk, liquidity risk, market risk and contractual amounts.

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

	Note	30 June 2010 $ m	30 June 2009 $ m	30 June 2010 $ m	30 June 2009 $ m
	1(t)				
Fair value of credit risk		**30.7**	44.6	-	-
Fair value of specific events		**2.0**	5.8	-	-
Fair value of net premium receivable		**(5.2)**	(11.4)	-	-
Total guarantees designated at fair value through profit and loss		**27.5**	39.0	-	-

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 disclosures regarding AASB 7 Financial Instruments: Disclosures. This note provides further information regarding credit risk, market risk and maximum exposures.

Note 15: Sundry provisions and allowances

	Note	30 June 2010 $ m	30 June 2009 $ m	30 June 2010 $ m	30 June 2009 $ m
Employee entitlements	*1(u)*	**2.5**	2.3	-	-
Allowances for litigation and claims		**3.2**	-	-	-
Allowances for unrecoverable costs		**0.5**	0.3	-	-
Specific provision for off-balance-sheet export finance facilities		**-**	-	-	0.1
Total sundry provisions and allowances		**6.2**	2.6	-	0.1

	Note	COMMERCIAL ACCOUNT **30 June 2010 $ m**	30 June 2009 $ m	NATIONAL INTEREST ACCOUNT **30 June 2010 $ m**	30 June 2009 $ m

Note 16: Other liabilities

	Note	**30 June 2010 $ m**	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
Unearned off-balance-sheet export finance premiums		**-**	-	**-**	0.1
Sundry creditors	*1(v)*	**17.9**	10.9	**6.3**	6.8
Interest payable		**-**	-	**10.2**	11.7
Total other liabilities		**17.9**	10.9	**16.5**	18.6

Note 17: Contingencies and commitments

	30 June 2010 $ m	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
Contingent liabilities				
Guarantees	**331.9**	467.6	**-**	-
Bonds	**115.4**	115.1	**1.3**	3.6
Political risk insurance	**31.7**	119.6	**-**	-
Medium-term insurance	**0.5**	0.6	**-**	-
EFIC Headway guarantees	**10.2**	17.4	**-**	-
Total contingent liabilities	**489.7**	720.3	**1.3**	3.6

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

	30 June 2010 $ m	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
Contingent assets				
Potential recoveries of claims paid	**0.9**	1.0	**246.9**	255.3
Total contingent assets	**0.9**	1.0	**246.9**	255.3

During the year cash recoveries of $1.3 million were made on the National Interest Account, with regards to this contingent asset and the amounts were taken to income through the profit and loss.

	30 June 2010 $ m	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
Commitments to provide financial facilities				
Loans	**199.6**	235.1	**393.3**	-
Funded guarantees	**9.4**	9.8	**-**	-
Guarantees*	**33.9**	14.4	**-**	-
Political risk insurance	**15.6**	186.3	**-**	-
Bonds	**233.6**	5.1	**-**	-
Total commitments to provide financial facilities	**492.1**	450.7	**393.3**	-

*Guarantees include facilities signed under risk participation agreements.

Commitments to provide financial facilities are contractually based.

	30 June 2010 $ m	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
Commitments payable				
Capital commitments				
Due in 1 year or less	**-**	0.1	**-**	-
Total commitments payable	**-**	0.1	**-**	-

	Note	COMMERCIAL ACCOUNT 30 June 2010 $ m	30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	30 June 2009 $ m

Note 17: Contingencies and commitments (continued)

Commitments receivable					
Operating lease receivable					
Due in 1 year or less		**2.1**	2.5	-	-
Due after 1 year to 2 years		**1.2**	0.8	-	-
Due after 2 years to 5 years		**1.6**	1.0	-	-
Total commitments receivable		**4.9**	4.3	-	-

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

Note 18: Financial risk management

(i) General

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

EFIC also enters into a number of financial derivative transactions on the Commercial Account to protect against interest rate, foreign exchange and funding risks associated with EFIC's normal operations. 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.

(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 2010 $ m	30 June 2009 $ m
Receivables from other financial institutions	*4, 1(j)*	**79.7**	122.8
Available-for-sale investment securities	*6, 1(k)*	**912.0**	940.7
Loans and receivables at amortised cost	*7, 1(l)*	**61.9**	55.1
Loans and receivables designated at fair value through profit and loss	*8, 1(m)*	**411.0**	243.4
Derivative financial instruments	*9, 1(o)*	**285.1**	172.9
Total*		**1,749.7**	1,534.9

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

	Note	30 June 2010 $ m	30 June 2009 $ m

Note 18: Financial risk management (continued)

	Note	30 June 2010 $ m	30 June 2009 $ m
Contingent liabilities	17	489.7	720.3
Commitments	17	492.1	450.7
Total		**981.8**	1,171.0
Total credit risk exposure		**2,731.5**	2,705.9

> Exposures to Treasury counterparties

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

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) rated BBB- or above

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

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

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.

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

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	Note	**30 June 2010 $ m**	30 June 2009 $ m

Note 18: Financial risk management (continued)

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

Available-for-sale investment securities			
Authorised Deposit-taking Institutions in Australia			
AAA		**10.2**	10.2
AA		**133.5**	252.8
AA-		**-**	12.5
A+		**76.1**	-
A		**124.1**	186.1
BBB+		**144.9**	177.6
BBB		**-**	5.0
Other financial institutions			
AAA		**91.0**	113.2
AA+		**123.9**	29.6
AA		**59.3**	-
AA-		**25.4**	19.4
A+		**35.3**	35.0
A		**88.3**	99.3
Exposure to credit risk of available-for-sale investments securities	*6, 1(k)*	**912.0**	940.7

Derivative financial instruments			
Authorised Deposit-taking Institutions in Australia			
AA		**76.3**	45.8
Other financial institutions			
AAA		**64.6**	50.5
AA+		**-**	-
AA		**26.1**	19.7
AA-		**38.1**	19.5
A+		**74.8**	35.7
A		**5.2**	1.7
Exposure to credit risk of derivative financial instruments	*9, 1(o)*	**285.1**	172.9

For Treasury exposures there are no overdue or restructured amounts.

	Note	**30 June 2010 $ m**	30 June 2009 $ m

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 were nil (2009: nil).

EFIC employs risk grading systems 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 seven broad categories of risk grade, with category 1 representing the lowest risk. Within each category a ratings modifier is used to indicate if the risk is stable, improving or deteriorating. The equivalent risk, based on Standard and Poor's risk rating, is stated in brackets. The exposure for the Commercial Account under each of the seven broad categories is as follows:

Loans and receivables designated at fair value through profit and loss	Note	**30 June 2010 $ m**	30 June 2009 $ m
Risk category 1 (AA- to AAA)		**80.5**	-
Risk category 2 (A- to A+)		**11.9**	13.9
Risk category 3 (BBB- to BBB+)		**231.0**	105.8
Risk category 4 (BB- to BB+)		**45.1**	37.1
Risk category 5 (B- to B+)		**34.1**	18.2
Risk category 6 (CCC+)		**5.5**	61.5
Risk category 7 (C to CCC)		**-**	-
Impaired		**2.9**	6.9
Total loans and receivables designated at fair value through profit and loss	*8, 1(m)*	**411.0**	243.4

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

Contingent liabilities	Note	**30 June 2010 $ m**	30 June 2009 $ m
Risk category 1 (AA- to AAA)		**3.0**	1.0
Risk category 2 (A- to A+)		**13.9**	16.9
Risk category 3 (BBB- to BBB+)		**50.4**	30.0
Risk category 4 (BB- to BB+)		**154.8**	158.3
Risk category 5 (B- to B+)		**145.9**	285.0
Risk category 6 (CCC+)		**103.7**	197.4
Risk category 7 (C to CCC)		**14.2**	25.9
Impaired		**3.8**	5.8
Total contingent liabilities	*17*	**489.7**	720.3

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 on the next page, EFIC has reinsured exposures with counterparties in risk categories 4, 5, 6, or 7 to reinsurers in risk categories 1 or 2.

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	Note	30 June 2010 $ m	30 June 2009 $ m

Note 18: Financial risk management (continued)

Reinsured exposures			
Risk category 1 (AA- to AAA)		**72.8**	127.9
Risk category 2 (A- to A+)		**13.7**	77.9
Risk category 3 (BBB- to BBB+)		**-**	-
Risk category 4 (BB- to BB+)		**(32.1)**	(41.2)
Risk category 5 (B- to B+)		**-**	-
Risk category 6 (CCC+)		**(47.3)**	(155.6)
Risk category 7 (C to CCC)		**(7.1)**	(9.0)
Net reinsured exposures		**-**	-

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

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

Commitments			
Risk category 1 (AA- to AAA)		**25.2**	138.2
Risk category 2 (A- to A+)		**87.8**	111.4
Risk category 3 (BBB- to BBB+)		**291.2**	142.0
Risk category 4 (BB- to BB+)		**15.8**	-
Risk category 5 (B- to B+)		**57.1**	14.6
Risk category 6 (CCC+)		**15.0**	44.5
Risk category 7 (C to CCC)		**-**	-
Total commitments	*17*	**492.1**	450.7

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

Gross exposures			
Export finance loans	*8, 1(m)*	**341.5**	226.8
Funded export finance guarantees	*8, 1(m)*	**53.3**	-
Rescheduled credit insurance debts	*8, 1(m)*	**22.1**	23.8
Funded export finance guarantees	*7*	**61.9**	55.1
Guarantees	*17*	**331.9**	467.6
Bonds	*17*	**115.4**	115.1
Political risk insurance	*17*	**31.7**	119.6
Medium-term insurance	*17*	**0.5**	0.6
EFIC Headway guarantees	*17*	**10.2**	17.4
Total gross exposures		**968.5**	1,026.0
Reinsured exposures included above		**86.5**	205.8

	Note	**30 June 2010 $ m**	30 June 2009 $ m

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		
Export finance loans	**(13.6)**	(15.0)
Funded export finance guarantees	**(0.9)**	(0.4)
Rescheduled credit insurance debts	**(0.9)**	(1.5)
Guarantees	**(28.7)**	(40.4)
Bonds	**(0.6)**	(1.7)
Political risk insurance	**(0.2)**	(0.7)
EFIC Headway guarantees	**(0.3)**	(1.4)
Allowance for credit risk closing balance	**(45.2)**	(61.1)

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

Allowance for credit risk for gross exposures	**30 June 2010 $ m**	From 1 July 2005 designation $ m
Allowance for credit risk opening balance	**(61.1)**	(60.0)
New exposures	**(14.7)**	(58.9)
Repayments	**19.0**	37.4
Change in risk grade	**4.0**	4.6
Change in term	**5.3**	18.5
Change in allowance rates	**(2.1)**	(0.9)
Exchange rate movements	**4.4**	(1.8)
Allowance for credit risk closing balance	**(45.2)**	(61.1)

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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 2010 $ m**	**30 June 2010 % of total**	30 June 2009 $ m	30 June 2009 % of total
Australia*	**209.8**	**21.7**	169.4	16.5
United Arab Emirates	**146.6**	**15.1**	80.4	7.8
Trinidad and Tobago	**115.2**	**11.9**	55.1	5.4
Turkey	**78.4**	**8.1**	91.6	8.9
Indonesia	**50.2**	**5.2**	20.5	2.0
Spain	**40.9**	**4.2**	79.5	7.7
Papua New Guinea	**34.8**	**3.6**	-	-
Philippines	**25.2**	**2.6**	43.5	4.2
Sri Lanka	**24.8**	**2.6**	30.4	3.0
United States of America	**23.8**	**2.5**	-	-
China	**23.7**	**2.4**	28.6	2.8
Egypt	**22.1**	**2.3**	23.8	2.3
Vietnam	**21.9**	**2.3**	17.8	1.7
Greece	**19.2**	**2.0**	26.7	2.6
French Polynesia	**13.0**	**1.3**	15.1	1.5
Canada	**8.2**	**0.8**	19.7	1.9
Ukraine	**7.1**	**0.7**	9.0	0.9
Russia	**7.1**	**0.7**	10.1	1.0
Ghana	**5.6**	**0.6**	-	-
Zambia	-	-	71.7	7.0
Singapore	-	-	13.1	1.3
Other	**4.4**	**0.5**	14.2	1.4
Retained exposures	**882.0**	**91.1**	820.2	79.9
Reinsured exposures	**86.5**	**8.9**	205.8	20.1
Total country exposures	**968.5**	**100.0**	1,026.0	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 public administration and safety; manufacturing; and transport, postal and warehousing sectors. At 30 June 2010, the exposure to the public administration and safety sector accounted for $236.0 million, representing 27% of EFIC's total retained exposure (2009: $253.2 million, representing 31% of the total),the exposure to the manufacturing sector accounted for $200.5 million, representing 23% of EFIC's total retained exposure (2009: $48.8 million, representing 6% of the total), and the exposure to the transport, postal and warehousing sector accounted for $143.4 million, representing 16% of EFIC's total retained exposure (2009: $145.4 million, representing 18% 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, loans written off during the year were nil (2009: 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 2010 $ m**	30 June 2009 $ m
Export finance loans	*8, 1(l)*	**755.7**	943.7
Rescheduled credit insurance debts	*8, 1(l)*	**100.9**	110.9
Bonds	*19*	**1.3**	3.6
Total gross exposures		**857.9**	1,058.2
Reinsured exposures included above		**33.4**	44.5

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

Country exposures*	**2010 $ m**	**2010 % of total**	2009 $ m	2009 % of total
Indonesia	**663.4**	**77.3**	825.5	78.0
Egypt	**100.9**	**11.8**	110.9	10.5
China	**34.9**	**4.1**	40.9	3.9
Philippines	**14.3**	**1.7**	23.1	2.2
Cuba	**9.7**	**1.1**	9.7	0.9
Other**	**1.3**	**0.1**	3.6	0.3
Retained exposures	**824.5**	**96.1**	1,013.7	95.8
Reinsured exposures	**33.4**	**3.9**	44.5	4.2
Total country exposures	**857.9**	**100.0**	1,058.2	100.0

* Excludes Iraq which is treated as a contingent asset.

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

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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 €108 million on the National Interest Account. The repayment schedule for the rescheduled debts requires six-monthly payments until June 2019, June 2016, and June 2021 depending on the rescheduling agreement. In the aftermath of the December 2004 tsunami, Australia deferred payments of US$6 million and €5 million due in 2005 from Indonesia. These deferred payments are interest free and were repaid in seven equal instalments from December 2006 to December 2009. As at 30 June 2010 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Egypt: EFIC is owed $22 million by Egypt on the Commercial Account and US$30 million and $66 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 2010 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 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.

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

	CONTRACTUAL UNDISCOUNTED AMOUNTS			
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
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

Note 18: Financial risk management (continued)

30 June 2010	CONTRACTUAL UNDISCOUNTED AMOUNTS 3 months or less $m	3 months to 1 year $m	1 year to 5 years $m	Greater than 5 years $m
Undiscounted financial liabilities				
Payables to other financial institutions	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**
30 June 2009				
Undiscounted financial assets				
Cash and liquid assets	0.6	-	-	-
Receivables from other financial institutions	93.8	29.3	-	-
Available-for-sale investment securities	291.2	336.6	364.8	-
Loans and receivables at amortised cost	-	-	28.0	38.5
Loans and receivables designated at fair value through profit and loss	36.2	32.0	172.3	106.6
Loans to National Interest Account designated at fair value through profit and loss	29.0	128.5	583.9	533.6
Derivative financial instruments				
- Contractual amounts receivable	641.1	763.9	446.1	186.6
Total undiscounted financial assets	1,091.9	1,290.3	1,595.1	865.3
Undiscounted financial liabilities				
Payables to other financial institutions	-	55.3	-	-
Borrowings designated at fair value through profit and loss				
- Euro commercial paper	479.8	160.2	-	-
- Non-structured borrowings	64.9	24.3	216.1	173.6
- Structured borrowings	228.2	398.6	245.6	70.8
Derivative financial instruments				
- Contractual amounts payable	643.1	755.5	485.2	204.4
Total undiscounted financial liabilities	1,416.0	1,393.9	946.9	448.8
Net undiscounted financial assets/(liabilities)	(324.1)	(103.6)	648.2	416.5

While the above tables show a liquidity shortfall in the next three months, approximately 26% (32% for 2009) 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 biannually). 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 three months $132.6 million may not have to be repaid. For the last 12 months EFIC had $630.3 million that could be called and only $103.2 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 till October 2018. The underlying hedged items are a loan classified as loans and receivables at amortised cost and a borrowing 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 2010 $ m**	30 June 2009 $ m
Opening balance cash flow hedge reserve	**4.6**	-
Transferred to interest expense	**(0.9)**	(0.2)
Transferred to interest income	**1.8**	0.5
Net unrealised change in cash flow hedges	**(1.7)**	4.3
Closing balance cash flow hedge reserve	3.8	4.6

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 two available-for-sale investments. Interest rate swaps are used to hedge the interest rate risk. For the year ended June 2010, $1.0 million loss was recognised on hedging instruments. The total gain on hedged items attributable to the hedged risks amounted to $1.0 million.

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

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)

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 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
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	-	-	-	-	-
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
Borrowings designated at fair value through profit and loss	1,062.5	-	120.1	745.0	181.6	1,046.7
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.

Note 18: Financial risk management (continued)

30 June 2009 **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	122.5	-	-	-	-	-
Available-for-sale investment securities	883.5	-	5.0	66.5	-	71.5
Loans and receivables designated at amortised cost	55.1	-	-	-	-	-
Loans and receivables designated at fair value through profit and loss	226.3	-	4.9	14.7	4.8	24.4
Loans to National Interest Account designated at fair value through profit and loss	372.3	-	73.1	283.9	227.8	584.8
Total financial assets	1,660.3	-	83.0	365.1	232.6	680.7
Financial liabilities						
Payables to other financial institutions	55.1	-	-	-	-	-
Borrowings designated at fair value through profit and loss	1,289.7	-	165.8	381.4	95.3	642.5
Derivative financial instruments						
- Cross-currency swaps	363.2	-	(125.6)	(305.7)	(7.7)	(439.0)
- Interest rate swaps*	(403.1)	-	33.9	223.7	145.5	403.1
Other monetary liabilities	-	47.5	-	-	-	-
Total financial liabilities	1,304.9	47.5	74.1	299.4	233.1	606.6
Net interest exposures	355.4	(47.5)	8.9	65.7	(0.5)	74.1

* 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 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 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					
150 basis points interest margin	**76.5**	**-**	**-**	**(0.9)**	**0.9**
Floating rate investments					
150 basis points interest margin	**325.8**	**4.3**	**(4.3)**	**(0.6)**	**0.6**

Note 18: Financial risk management (continued)

	Exposure at risk 2009 $m	Increase in basis points Effect on profit 2009 $m	Decrease in basis points Effect on profit 2009 $m	Increase in basis points Effect on equity 2009 $m	Decrease in basis points Effect on equity 2009 $m
Capital and reserve portfolio					
Fixed rate investments					
150 basis points interest margin	71.5	-	-	(1.8)	1.8
Floating rate investments					
150 basis points interest margin	309.4	4.4	(4.4)	(0.5)	0.5

> 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 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 other entities rated AA- or better. The counterparty rating may be downgraded after purchase and management will decide whether to sell or hold the investment.

Notwithstanding such a high level of credit quality required in EFIC's investments, the portfolio is exposed to movements in credit spreads. Over the past year, 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:

	Increase in basis points Effect on equity 2010 $m	**Decrease in basis points Effect on equity 2010 $m**	Increase in basis points Effect on equity 2009 $m	Decrease in basis points Effect on equity 2009 $m
Investment portfolio				
Fixed rate investments				
50 basis points credit margin	**(0.3)**	**0.3**	(0.6)	0.6
100 basis points credit margin	**(0.6)**	**0.6**	(1.2)	1.2
200 basis points credit margin	**(1.2)**	**1.3**	(2.3)	2.4
Floating rate investments				
50 basis points credit margin	**(4.0)**	**4.0**	(3.7)	3.7
100 basis points credit margin	**(8.1)**	**8.1**	(7.4)	7.4
200 basis points credit margin	**(16.1)**	**16.1**	(14.8)	14.8

(b) Foreign exchange risk

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

Note 18: Financial risk management (continued)

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

30 June 2010	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**
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)**

30 June 2009	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	65.8	19.7	-	1.3
Available-for-sale investment securities	67.5	67.7	-	10.3
Loans at amortised cost	55.3	-	-	-
Loans and receivables designated at fair value through profit and loss	213.5	6.9	-	-
Loans to National Interest Account designated at fair value through profit and loss	665.1	342.6	-	-
Derivative financial instruments	1,232.9	222.4	816.8	53.8
Total financial assets exposure in foreign currencies	2,300.2	659.4	816.8	65.5
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	55.2	-	-	-
Borrowings designated at fair value through profit and loss	826.0	73.2	802.8	53.8
Guarantees designated at fair value through profit and loss	23.7	8.6	2.7	1.8
Derivative financial instruments	1,391.3	592.2	14.0	10.3
Other liabilities	1.4	0.3	-	1.3
Total financial liabilities exposure in foreign currencies	2,297.6	674.3	819.5	67.2
Net foreign exchange exposures in foreign currencies	2.6	(14.9)	(2.7)	(1.7)

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 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 2010 is minimal in value for all currencies other than euro. This results in no material impact on profit for all currencies other than euro. The euro variance is largely due to the impaired loans where a specific event has been recognised and an allowance of $10.1 million has been taken up against the loan whereas the borrowing continues to be for the full $13.0 million of the loan as shown in Note 8.

To ensure consistency and a common approach to foreign exchange sensitivity, 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 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 2010 A$m**	**Increase in FX rate Effect on profit 2010 A$m**	**Decrease in FX rate Effect on profit 2010 A$m**	Exposure at risk 2009 A$m	Increase in FX rate Effect on profit 2009 A$m	Decrease in FX rate Effect on profit 2009 A$m
Exposure USD	**14**	**3.4**	**(0.4)**	**0.6**	2.6	(0.3)	0.4
Exposure EUR	**14**	**(16.1)**	**2.0**	**(2.6)**	(14.9)	1.8	(2.4)
Exposure JPY	**14**	**(2.3)**	**0.3**	**(0.4)**	(2.7)	0.3	(0.4)

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

	USD 30 June 2010 A$m	**EUR 30 June 2010 A$m**	USD 30 June 2009 A$m	EUR 30 June 2009 A$m
Financial assets exposure				
Loans and receivables	**475.2**	**219.0**	551.9	303.9
Total financial assets exposure	**475.2**	**219.0**	551.9	303.9
Financial liabilities exposure				
Borrowings from Commercial Account	**482.4**	**219.0**	561.5	303.9
Total financial liabilities exposure	**482.4**	**219.0**	561.5	303.9
Net foreign exchange exposures	**(7.2)**	**-**	(9.6)	-

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 2010 A$m	Increase in FX rate Effect on profit 2010 A$m	Decrease in FX rate Effect on profit 2010 A$m	Exposure at risk 2009 A$m	Increase in FX rate Effect on profit 2009 A$m	Decrease in FX rate Effect on profit 2009 A$m
Exposure USD	14	(7.2)	0.9	(1.2)	(9.6)	1.2	(1.6)

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.

This is the first year of the hierarchy disclosure requirement. As such, comparative information for the prior year is not required to be disclosed.

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

30 June 2010	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit and loss				
Loans and receivables	-	-	411.0	411.0
Loans to National Interest Account	-	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 at fair value through profit and loss				
Borrowings	-	(1,234.0)	(807.4)	(2,041.4)
Guarantees	-	-	(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)

There were no transfers between levels in the period.

Note 19: Fair value of financial instruments (continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities recorded at fair value:

	At 1 July 2009 $m	New deals $m	Repayments $m	Foreign exchange $m	Profit/(loss) deals mature $m	Profit/(loss) deals existing $m	At 30 June 2010 $m
Financial assets Level 3							
Loans and receivables	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
Financial liabilities Level 3							
Borrowings	(861.6)	(21.6)	102.3	(16.7)	(1.2)	(8.6)	(807.4)
Guarantees*	(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'.

	At 30 June 2010 $m	Effect of reasonable alternative assumptions $m
Financial assets Level 3		
Loans and receivables	411.0	(6.4)
Cross-currency swaps	144.2	0.9
Financial liabilities Level 3		
Borrowings	(807.4)	(3.7)
Guarantees*	(27.5)	(8.2)
Cross-currency swaps	(9.2)	-

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

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 of stable, improving or deteriorating down by one across the entire portfolio, which is considered a reasonably possible alternative.

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.

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Note 19: Fair value of financial instruments (continued)

(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 to calculate the price. 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 and rescheduled debt. A component covering prepayment risks, other risks and servicing costs is also included in the fair value of each loan and rescheduled debt. When it is likely that a loan or debt will not be recovered in full, a specific event is recognised and recorded using the discounted cash flow method. All individual facilities are reviewed regularly.

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 person would choose the date that has the lowest cost (or greatest profit) on a net present value basis. The time value of the embedded option, however, is not included as it has been considered immaterial by management and the current models are still the best estimate of fair value.

These models have been used by EFIC for a number of years for measuring both counterparty exposures and for the 'net fair value' figures disclosed in the notes in previous years' financial statements. The inputs to the models are from independent market sources. A credit risk component is included in the valuation for 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 person would choose the date that has the lowest cost (or greatest profit) on a net present value basis. The time value of the embedded option, however, is not included as it has been considered to be immaterial by management and the current models are still the best estimate of fair value. The inputs to the models are from independent market sources.

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 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	COMMERCIAL ACCOUNT 30 June 2010 $ m	COMMERCIAL ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m

Note 20: Capital

Capital available				
Equity at start of period	**376.7**	331.2	-	-
Profit year-to-date	**38.3**	33.6	-	-
Revaluation of land and buildings	**-**	(3.9)	-	-
Net gain on cash flow hedges	**(0.8)**	4.6	-	-
Net gain/(loss) on available-for-sale investments	**10.2**	21.0	-	-
Dividend paid	**(16.8)**	(9.8)	-	-
Equity at end of period	**407.6**	376.7	-	-
Eligible allowance for credit risk in capital	**9.8**	11.3	-	-
EFIC capital	**417.4**	388.0	-	-
Callable capital	**200.0**	200.0	-	-
Capital available (including callable capital)	**617.4**	588.0	-	-
Capital required				
Export finance	**79.0**	96.2	-	-
Treasury	**36.9**	36.5	-	-
Other assets	**2.7**	2.9	-	-
Operational capital	**6.8**	7.3	-	-
Capital before concentration capital	**125.4**	142.9	-	-
Concentration capital	**159.4**	146.6	-	-
Dividend payable (subject to Board approval)	**19.2**	16.8	-	-
Total capital required	**304.0**	306.3	-	-
Capital ratios				
Risk-weighted assets	**1,653.9**	1,885.3	-	-
Capital adequacy ratio (excluding callable capital)	**25.2%**	20.6%	-	-
Capital adequacy ratio (including callable capital)	**37.3%**	31.2%	-	-

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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'. The Australian Prudential Regulation Authority (APRA) requires banks in Australia to have minimum capital requirements consistent with the Basel II framework. Accordingly, and in line with best practice, the Board has adopted Basel II principles where appropriate to export credit agencies for measuring capital adequacy in EFIC. 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:

- EFIC adopts the Standardised Approach to measure credit risk for Treasury-related business and the Internal Ratings Based Approach (as allowed by APRA and Basel II) to measure credit risk for the core export finance business
- EFIC adopts the Standardised Approach to measure capital required for operational risk, which uses an asset indicator (as allowed by APRA) as the proxy for the scale of business risk, and thus the likely scale of operational risk rather than annual gross income outlined in Basel II. Under this alternate approach, gross loans and advances over the past six consecutive half-yearly observations are used
- EFIC has not allocated any capital for market risk such as interest rate and currency risk, as these risks are fully hedged and therefore EFIC has replaced market risk with counterparty risk. Counterparty risks are incorporated into EFIC's credit risk calculations. However, any mark-to-market gains and losses on Treasury's investment portfolio are treated as equity as the portfolio is deemed 'available-for-sale'
- EFIC allows for concentration risk on large exposures as other risks in our model and carries concentration capital 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 does not differentiate between Tier I and Tier II capital
- EFIC requires a minimum capital adequacy ratio of 16% including callable capital, and 8% excluding callable capital to EFIC's risk-weighted assets
- Where total expected losses are less than eligible provisions, EFIC recognises up to a maximum of 0.6% of credit risk-weighted assets.

Note 21: Remuneration of auditors

		COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
	Note	**30 June 2010 $ m**	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m
Audit services					
Paid		-	139,700	-	-
Payable		**259,244**	106,300	-	-
Other services		-	47,000	-	-
Total audit services		**259,244**	293,000	-	-

	Note	COMMERCIAL ACCOUNT		NATIONAL INTEREST ACCOUNT	
		30 June 2010 $ m	30 June 2009 $ m	**30 June 2010 $ m**	30 June 2009 $ m

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	**4,061,440**	3,292,598	-	-
Long-term employee benefits	**78,766**	-	-	-
Post-employment benefits	**440,466**	353,299	-	-
Termination payments	**43,439**	99,090	-	-
Total remuneration	**4,624,111**	3,744,987	-	-

Board members

Remuneration received or receivable by Board members of EFIC	**789,939**	764,846	-	-
Total remuneration of Board members	**789,939**	764,846	-	-

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 M L'Estrange, Ms S Pitkin, Mr D Richardson and Mr A Sherlock.

Changes in Board membership during the year:

15 March 2010	Mr M L'Estrange	Appointment ended
1 March 2010	Mr B Brook	Appointed
15 March 2010	Mr D Richardson	Appointed

Transactions with Board members and Board member related entities

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

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

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

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

	Note	COMMERCIAL ACCOUNT 30 June 2010 $ m	COMMERCIAL ACCOUNT 30 June 2009 $ m	NATIONAL INTEREST ACCOUNT 30 June 2010 $ m	NATIONAL INTEREST ACCOUNT 30 June 2009 $ m
Operating profit from ordinary activities		**38.3**	33.6	**9.4**	(0.2)
Reclassification on non-cash items					
Depreciation		**2.8**	2.8	-	-
Employee entitlements		**0.3**	0.4	-	-
Amortisation of deferred income		-	-	**(27.5)**	(36.4)
Credit risk movement		**(15.9)**	14.8	-	-
Specific provision		**(1.9)**	2.7	**(0.1)**	(0.5)
Foreign exchange (gains)/losses		**0.1**	2.5	**(1.1)**	3.0
Unearned premium		-	-	**4.5**	(2.2)
Fair value movement		**11.1**	(6.1)	-	-
Other		-	0.4	**(0.1)**	-
Reclassification on cash items					
Net movement in receivables/payables		**1.7**	5.8	**0.8**	1.2
Net repayments of loan balances		**(84.9)**	(23.4)	**104.3**	129.6
Rescheduled debt repayments		**2.5**	2.9	**14.4**	13.6
Net cash inflows/(outflows) from operating activities		**(45.9)**	36.4	**104.6**	108.1
Reconciliation of cash					
Cash at end of financial year is reconciled to the related items in the Statement of Financial Position as follows:					
Cash		**0.8**	0.6	-	-
Receivable from other financial institutions		**79.7**	122.8	-	-
Cash (including liquid funds) at end of financial year		**80.5**	123.4	-	-
Financing facilities					
Borrowing facilities available to EFIC at end of financial year					
Overdraft facilities		**0.3**	0.3	-	-
Amount of facilities used		-	-	-	-
Amount of facilities unused		**0.3**	0.3	-	-

GLOSSARY

TERM	DESCRIPTION
ADI	Authorised Deposit-taking Institution
APRA	Australian Prudential Regulation Authority
ASX	Australian Securities Exchange
AusAID	Australian Agency for International Development
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
DIFF	Development Import Finance Facility
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
GRi	*Global Readiness index*
GDP	Gross domestic product
Global Fund	The Global Fund To Fight AIDS, Tuberculosis and Malaria
HSMA	Health and Safety Management Agreement
HSR	Health and Safety Representative
IFC	International Finance Corporation
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rates

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TERM	DESCRIPTION
LNG	Liquified natural gas
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 enterprise

All figures are Australian dollars unless stated otherwise.

For information about EFIC's products, please refer to our website, www.efic.gov.au

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