Efic

Finance for Australian Exporters

No one takes on the world alone.

Annual Report 2013 - 2014

Efic is a specialist financier that delivers simple and creative solutions to Australian companies - to enable them to win business, grow internationally and achieve export success.

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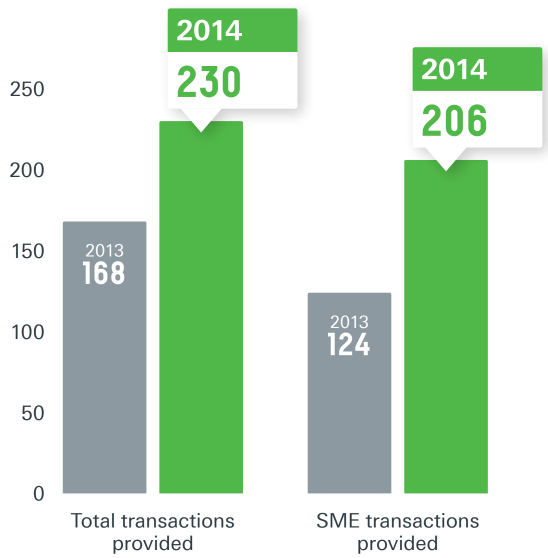
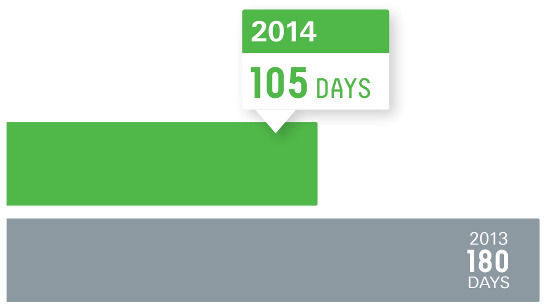
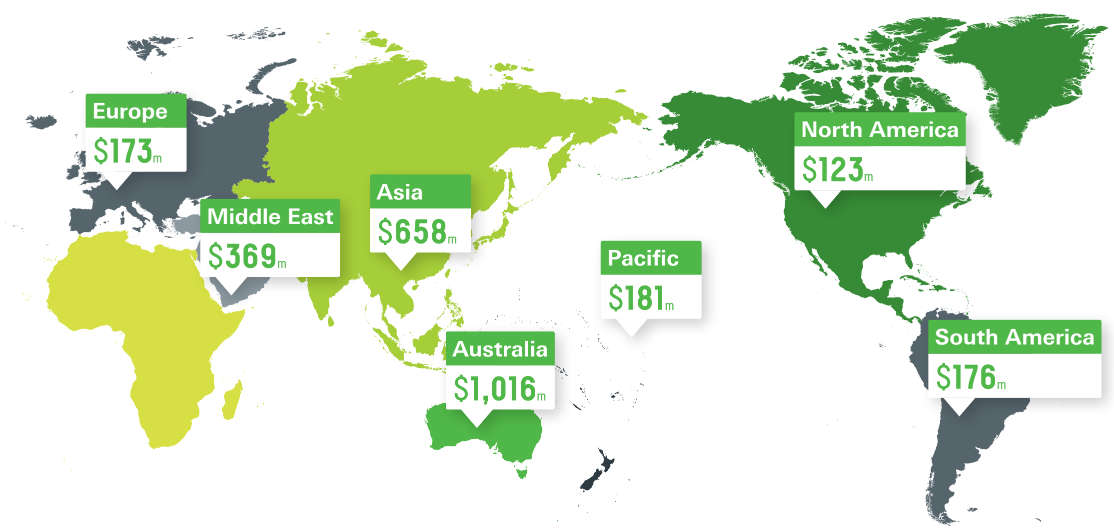
Transactions provided



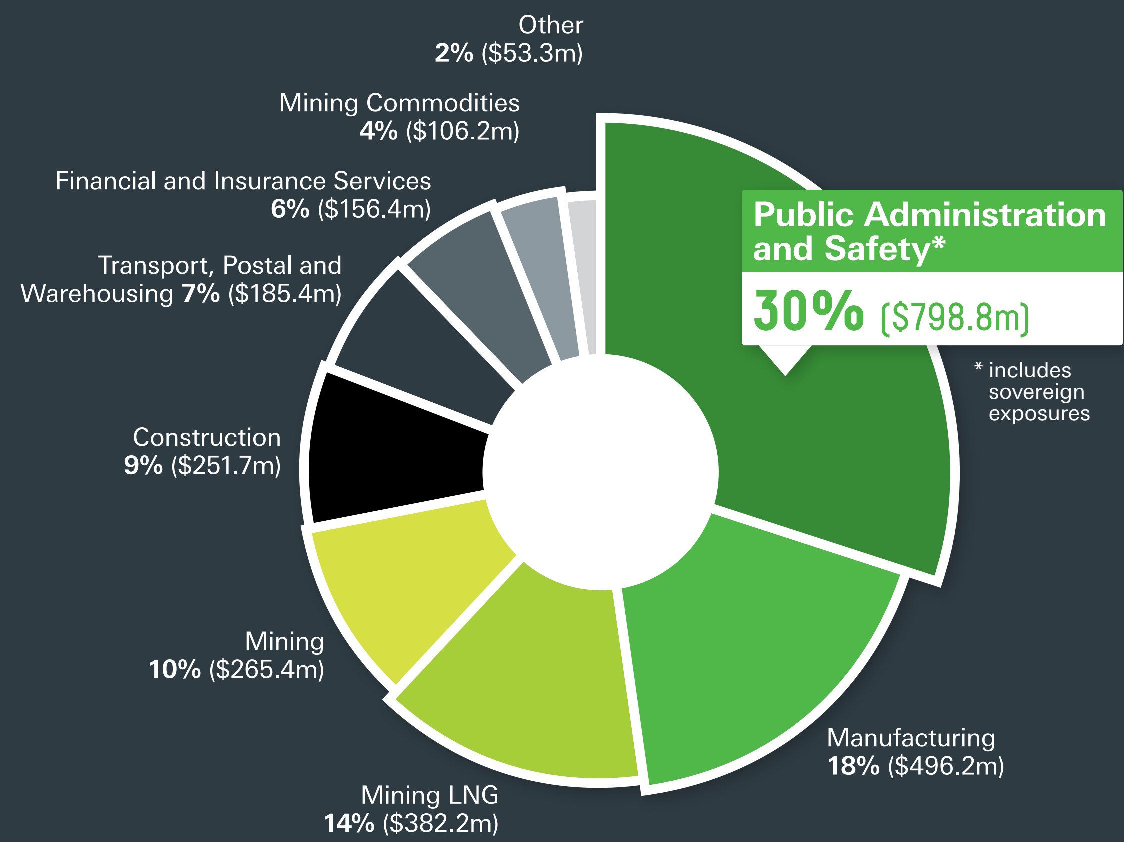
Average turnaround time for SME transactions



Maximum exposure (excluding reinsurance) by region



Maximum exposure (excluding reinsurance) by industry



Performance against principal objectives

Objective 1: Support Australian exports and overseas investments 2013-14

Table 1: Our support for small and medium enterprises (SMEs)

Performance measure	2013-14 Plan	2013-14 Outcome
Number of facilities provided	135	**206***
Value of facilities signed	$92 million	**$88.8 million**
Value of exports and overseas investments supported	$322 million	**$599.2 million**

*206 transactions supporting 184 export contracts, noting that we can support the same export contract with multiple products.

Table 2: Our support for larger exporters and overseas projects with Australian content

Performance measure	2013-14 Plan	2013-14 Outcome
Number of facilities provided	8	**17***
Value of facilities signed	$475 million	**$466.6 million**
Value of exports and overseas investments supported	$1,348 million	**$1,474.2 million**

*17 transactions supporting 6 export contracts.

Table 3: Risk sharing for significant commodity exports

Performance measure	2013-14 Plan	2013-14 Outcome
Number of facilities provided	5	**7***
Value of facilities signed	$15 million	**$21.2 million**
Value of exports and overseas investments supported	$85.5 million	**$64.4 million**

*7 transactions supporting 7 export contracts. This facility is no longer offered.

The number of facilities that we provided during 2013-14 was well above plan, especially for SMEs. Here we provided 206 facilities valued at $88.8 million, supporting 184 export contracts worth $599.2 million. SMEs now account for around 90% of all facilities by number of transactions.

While the value of our support for larger exporters and overseas projects with Australian content was higher, they are typically dominated by one or two large transactions each year.

In total, we provided 230 facilities during the year, valued at $576.6 million, which supported over $2.1 billion of export contracts and overseas investments. Our support for larger projects is motivated by the supply of Australian products or services to those projects, often sourced from SMEs with specific product or technical capabilities, and those engaged in global supply chains.

There were no transactions entered into on the National Interest Account during the year.

Objective 2: Generate sustainable profit within the market gap mandate

Table 4: Our financial performance for 2013-14

Performance measure	2013-14 Plan	2013-14 Outcome
Profit on the Commercial Account	$17.6 million	**$24.2 million**
Capital adequacy ratio	Above 16 per cent of risk-weighted assets, including callable capital and 8 per cent on a cash capital basis.	**During the year between 19.0 - 22.5 per cent of risk weighted assets, including callable capital, and between 10.5 - 12.2 per cent on a cash capital basis (22.5 per cent and 12.2 per cent respectively at 30 June 2014).**
Manage our overall portfolio risk within the market gap	Weighted average risk grade over the business cycle of between 3.5 and 4.5, where 3 is equivalent to a rating of BBB/Baa, 4 is equivalent to a rating of BB/Ba and 5 is equivalent to B/B.	**Actual weighted average risk grade (excluding reinsurance) during the year between 3.5 and 3.6 (3.5 at 30 June 2014).**

Our annual profit was $24.2 million on the Commercial Account, up from $22.6 million in 2013, and well ahead of our budgeted profit of $17.6 million. Operating income increased over 5 per cent to $52.1 million, while operating costs rose by less than 4 per cent to $27.9 million.

These results were helped by a significant increase in the number of facilities provided, especially for SME exporters and those part of a global supply chain. A steady flow of income from previous long tenor structured trade and project finance transactions also helped to underpin our profit.

During the year we maintained a tight control on costs and focused on several efficiency initiatives to support our growing business. Active management of impaired assets resulted in a net write back of provisions taken in previous years, adding $3.1 million to revenue.

It’s important to note that our success is not always reflected by an increase in profitability or the number of facilities provided.

When we take part in a transaction, our involvement often encourages other financiers to participate, which is consistent with our mandate to ‘crowd in’ the private sector.

As we don’t compete with the private sector, if our early involvement means our clients’ needs may be met at a later stage by the private sector, then we’ve been successful, even though this is not reflected in our financial results.

Chairman's report

Efic had a good year in 2013-14, responding to the needs of a small business export community seeking access to finance. During the year we provided 230 facilities to Australian companies, 90% of them SMEs, worth almost $577 million, up from 168 facilities last year, worth $514 million.

The 230 facilities supported exports worth over $2.1 billion, ahead of our annual budget of $1.8 billion. A key component of the increase in the number of facilities provided was our ongoing emphasis on providing support to small and medium enterprise (SME) exporters and those participating in global supply chains. We provided 206 facilities to SMEs during the year, up from 124 last year.

Our profit on the Commercial Account was $24.2 million, up from $22.6 million last year and also ahead of the budgeted $17.6 million. The profit result was assisted by a focus on several important efficiency initiatives to support an increasing volume of relatively small transactions for the growing SME business. Loan impairment expense remained low, testimony to the quality of our credit review processes.

Our primary purpose is to facilitate and encourage Australian export trade; generating a sustainable profit allows us to remain viable over the long term and to provide ongoing support for the growth of Australian businesses internationally.

We aim to earn a commercial rate of return on all transactions and have benchmarked pricing of our products with the private sector to aid risk transfer and ensure transparency around our 'market gap' mandate.

Our ability to transfer risk to the private sector on the same terms and conditions, including price, confirms that we do not provide price subsidies to transactions.

There was no new business written on the National Interest Account during the year. However, existing exposures generated a profit of $16.0 million, up from $14.0 million last year.

Taking into account the Commercial Account profit, and a dividend payment of $11.3 million for the 2012-13 year, our capital base increased from $428.4 million to $437.6 million (including callable (non-cash) capital) during the year.

Our capital was further strengthened on 13 May 2014, when the Treasurer announced in the Federal Budget a capital injection of $200 million. The capital injection restores our capital base following a $200 million special dividend paid in June 2013.

The restoration of our capital base was contained in Appropriation Bill (No. 2) and received Royal Assent (Act No. 64) on 30 June 2014. The actual payment of the $200 million in cash capital occurred on 23 July 2014 and therefore does not form part of the capital base as at 30 June 2014.

The credit quality of our portfolio remains at the high end of conservative internal guidelines, equivalent to between BBB and BB.

New Managing Director

Andrew Hunter joined Efic in July 2013 and was officially appointed to the role of Managing Director and CEO in September 2013.

The Board endorsed the new emphasis developed by Andrew and the Executive team to support substantially more SME exporters. The headline strategic objective is to support 300 SME transactions in 3 years and 400 SME transactions in 4 years.

The progression of this strategy is evident in this year's results, with around 90% of all transactions now in support of SMEs, up from 80% last year.

Towards the end of 2013-14, there was an increase in our origination team in Brisbane, Melbourne and Perth, which will allow us to offer SMEs even more support, especially in regional areas where many Australian exporters are based.

A strong vote of confidence

Efic has an experienced and diverse Board, working effectively with a committed management team, and this has been reflected in our financial results and operational performance.

The Board is pleased that the Australian Government has endorsed our mandate and restored our capital base with a capital injection of $200 million.

The additional capital brings us back in compliance with our own internal capital-based limits for large exposures and country risk, and will enable us to support exporting SMEs, those in the global supply chain and exporters of all sizes conducting business in emerging and frontier markets.

Large companies may also confront funding capacity constraints, particularly when finance and bonding is required for major projects in emerging and frontier markets. Given these large companies often subcontract specialised and integral work to SMEs, our support for large projects will also benefit SMEs that participate in global supply chains.

During the year, Ms Deena Shiff was appointed as Deputy Chair, following Dr Sally Pitkin's retirement from the Board on 31 July 2013. Ms Annabelle Chaplain was appointed as a member of the Audit Committee, replacing Ms Jennifer Seabrook, whose Board appointment ended on 4 April 2014. The Board would like to thank Sally and Jennifer for their hard work and dedication, and both leave us with our very best wishes for the future.

Efic's Board is responsible for the preparation and content of this annual report, comprising the report of operations and the financial statements under section 9 of the Commonwealth Authorities and Companies Act 1997 (Cth), and has prepared this report in accordance with the relevant Finance Minister's Orders.

Like Australia's exporters, we are optimistic about the future

We share a common objective with our clients – to improve their financial standing over time as profits grow. While independent research shows that optimism among Australian exporters remains high, it is likely that access to finance will continue to remain difficult for Australian SMEs, particularly those that export.

Sustained improvements in SME profitability does not occur after just one transaction with us, as it takes time for SMEs to build equity from profits and develop a commercial relationship with private sector lenders. Once that relationship is established, the higher cost of having Efic involved in further transactions often motivates our clients to deal directly with commercial lenders to reduce transaction costs.

That is why it is important we continue to operate in a 'market gap' capacity, providing financial support to commercially-viable SME exporters and companies of all sizes conducting business in emerging and frontier markets.

We look forward to assisting even more Australian companies receive the financial support they need to achieve export success.

Thank you to the Efic Board and all Efic employees for all their hard work during the year.

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

Andrew Mohl
Chairman

28 August 2014

Managing Director's report

One year into my role as Managing Director, I continue to be impressed by the enthusiasm and dedication that Efic and its people have for Australia's exporters, and I am excited about the opportunities that lie ahead.

A clear purpose

One of the first tasks on my list when I joined Efic was to understand exactly what we do and, perhaps more importantly, work out what was our 'reason for being'.

So in my first few months I worked with the Executive team to replace our mission and values with a new Purpose and Principles. The Executive concluded on a simple purpose:

> ***Efic delivers simple and creative solutions for Australian companies to enable them to win business, grow internationally and achieve export success.***

Our role was obvious to me even before I joined. From my years of experience in finance, I understand that financial markets are not always efficient.

In our sphere, broadly this means that finance is not always available to commercially-viable Australian exporters, especially SMEs and those operating in emerging and frontier markets.

That's why we made a submission this year to the Financial System Inquiry. It provided us with an opportunity to highlight the challenges that Australian exporters face in accessing finance.

We believe that these challenges will continue, with the SME Exporter Sentiment research confirming that SMEs believe access to finance remains the number one obstacle for them achieving export success.

I would encourage anyone that is interested in learning more about the market need that Efic services to read our submission to the Financial System Inquiry on our website.

It has been a good year

We continued to deliver on our purpose of supporting Australian exporters, with 230 transactions worth almost $577 million being completed on the Commercial Account, up from 168 transactions worth $514 million last financial year.

When measuring our success in the SME space, the most relevant benchmark is the number of facilities provided to exporters, not the value of the transactions. Supporting a small business with a $500,000 export working capital guarantee is equally important to us as assisting a larger business with a $10 million performance bond.

We believe taking a more broad-based approach, particularly in supporting a large number of exporting SMEs, will generate more sustainable growth, jobs and economic prosperity for Australia over the long term.

This year we commenced national roadshows taking in 5 states and hosting over 500 attendees.

One of the most interesting parts of my role is being able to talk to successful Australian companies and I found many reiterating to me that access to finance continues to be difficult.

While in South Australia, it was great to hear how Astec Paints, a manufacturer of high-tech paints, has been able to access our export working capital guarantee of $600,000 to secure contracts worth over $11 million in Japan's construction industry.

A focus on efficiency

So that we meet the needs of Australian exporters in the best way possible, I believe it is important to keep things simple.

Consistent with the Australian Government's focus on deregulation, we have endeavoured to make it easier for Australian exporters to conduct business. We have introduced standard form documentation so that applications for finance, especially from SMEs, can be approved more readily. I have also placed a strong emphasis on reducing turnaround times through a new accelerated execution process.

The average turnaround time when I started was 180 days, and we have now reduced this to 105 days. Given we were able to complete one deal in just 21 days for FFF Engineering in Western Australia, this suggests the average turnaround target can be improved further.

There have also been several deals where we have led and worked with different government departments to cut red tape and reduce regulation. This helped one of our clients secure an export contract that would otherwise have been lost to another country.

And then in an effort to provide support to more growing SMEs, we have also reduced minimum support thresholds from $500,000 to $100,000, and will contemplate smaller transactions on a case by case basis.

A brand new look

An important part of our business is how we communicate and present ourselves to clients – whether they are SMEs, larger exporters, alliance partners, film producers or referral partners.

To make us more accessible and meet the needs of clients, changes have been introduced across everything we do – branding, the website, how we communicate.

It is all part of my original goal when joining to keep things simple and speak in a language that clients understand.

We have received some valuable feedback from clients on the new brand and increased marketing efforts, and I look forward to building on this in the year ahead.

Celebrating client success

We are also very proud to have many of our clients nominated for some major export awards during the year. The Australian Export Awards is one of the longest running business award programs in Australia, recognising those Australian companies that have grown through innovation and commitment.

Aspen Medical and Ecotech were winners in their category, while TTG, GP Graders, Incat Tasmania and Barclay Engineering were all finalists.

We were also delighted to learn that Marand Engineering, ANCA and Longwarry Food Park received awards at the Manufacturers' Monthly Endeavour Awards, Australia's premier national awards for manufacturing excellence.

Australia's exporters are among the best companies in this country as, by definition, you need to be the best in the world at what you do to export. To win an export contract, an exporter not only has to beat the local competition, but also the best companies in the world in their field.

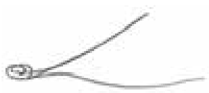
My experience is that Australia's exporters are the most courageous, most creative and most optimistic companies in the country and I'm very pleased that we have played a small part in their success.

An exciting time ahead

I have been delighted to have worked with so many innovative Australian exporters during the year.

Like them, we recognise the need to evolve and will continue to build on what we have done this year.

It has been a privilege to lead Efic and I would like to thank the Board, my Executive team and all our employees for their support during the year.



Andrew Hunter
Managing Director and CEO

28 August 2014

Case study Whittens

Whittens is a Perth-based group of companies that specialises in concrete construction on remote area civil, mining, and oil and gas projects.

It delivers construction services to major clients around Australia across every stage of the construction cycle.

Employing over 400 people, Whittens has experience in all areas of concrete construction, from heavy industrial foundations through to mining infrastructure and LNG tanks.

The cyclical nature of the mining services industry and the large contract sums involved requires financing facilities that are flexible enough to expand and contract based on each contract's particular terms.

In the lead up to the awarding of a major works subcontract on the Roy Hill Iron Ore Project in Western Australia's Pilbara region, Whittens approached Efic with a view to complementing its traditional sources of guarantee funding.

Efic provided Whittens with a bonding facility of $6.8 million, with working capital and equipment finance facilities supported by Whittens' commercial banks.

The combined funding package was instrumental in facilitating Whittens' participation in this project.

By being flexible in our approach and working in collaboration with Whittens' traditional funding partners, we were able to assist Whittens secure its involvement in one of the largest resources projects currently underway in Western Australia.

The package of work carried out by Whittens created around 165 new jobs at its peak.

Purpose and principles

Purpose

Efic provides financial support to Australian-based companies that are exporting, in a global supply chain or seeking to grow internationally.

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

We help clients such as:

- Small and medium enterprises (SMEs) that are exporters
- Australian companies in an export supply chain
- Australian companies operating in emerging and frontier markets.

We help these clients by providing financial services in circumstances where they have been unable to source adequate finance from the private sector. We do not compete with the private sector.

We encourage banks and other financial institutions in Australia to support Australian businesses internationally.

Efic also helps the Australian Government by providing financial services to Australian exporters considered by the Government to be in the national interest.

Principles

Provide products and services as efficiently and economically as possible

Efic operates on a commercial and transparent basis. We seek to support clients in an efficient and cost effective manner. Our Board and management seek to manage Efic prudently to ensure its long term viability.

Fulfilment of our people

Efic supports all employees to reach their full potential and to achieve an appropriate balance between personal and professional priorities as well as diversity in our workplace. We encourage accountability amongst our employees in their respective roles.

Operate within a risk framework consistent with our primary purpose

Efic's Board supervises the affairs of Efic, including determination of policy and a risk framework that is consistent with our purpose and resources. Our people conduct our business within this framework.

Uphold best-practice environmental, social and governance standards

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

Constructive and supportive relationship with the Government

Efic seeks to have an open, constructive and transparent relationship with the Australian Government and key Departments. Regular and effective communication enables Efic to understand the priorities of Government across the trade and investment, treasury, finance, small business and employment portfolios.

Our clients

We've helped a record number of small and medium enterprises (SMEs) this year, completing 206 transactions that support export contracts worth almost $577 million.

A broad mix of clients

The companies we supported were from all across Australia and were from a broad range of industries, from SMEs through to larger exporters and overseas projects with Australian content.

Our export working capital guarantees allow SMEs to receive the working capital they need to fulfil export contracts, and during the year we helped companies like:

- PCT Global in Seven Hills, Sydney, to meet increased manufacturing volumes as part of a new distribution agreement with Home Depot, the world's largest home improvement specialty retailer
- Birdon in Port Macquarie, New South Wales, to win a contract worth almost US$19 million to build 400 bridge erection boats for the United States Army
- Mack Valves in Bayswater, Melbourne, to supply India's Tata Steel with 292 Monel valves worth US$3 million.

Warranty and performance bonds continue to be important for many subcontractors in global supply chains, and during the year we helped companies like:

- Whittens secure a high-profile concrete construction contract with the Roy Hill mine project in Western Australia
- Miles Morgan to secure an export contract to develop a best practice Career Development System and training package for The Human Resource Development Fund in the Kingdom of Saudi Arabia.

We were also able to provide:

- a loan to Minera Escondida for support of supply contracts to around 80 Australian companies, both large corporate and SMEs, to increase the production capacity at the Escondida copper mine in Chile
- a foreign exchange guarantee that helps our clients manage their currency risk when exporting
- a Producer Offset loan that allowed Wild Bear Entertainment to produce a documentary celebrating the 60th anniversary of Queen Elizabeth's visit to Australia, with *When the Queen Came to Town* due for release in November. These loans can finance eligible Australian film, documentary and television productions with international distribution agreements.

You can read the 'Facilities signed' table on pages 20-22 to see the full list of clients that we supported during the year.

Ongoing product development

As part of keeping things simple for exporting SMEs, we have simplified our product and legal documentation.

We have introduced an accelerated execution process for small transactions, which has helped to significantly reduce the average execution time for these transactions.

Importantly, this process has also helped us to lower our minimum transaction guidelines to just $100,000, allowing us to support smaller, emerging exporters, which are Australia's future export leaders.

We have also begun providing guarantees to encourage Australian banks to approve funding for SMEs for overseas direct investment. This is in response to SMEs increasingly needing to be present in overseas markets to successfully grow their international operations.

These guarantees will help make funding available for those SMEs looking to expand their business and follow their clients by establishing a presence overseas, whether that's opening a sales and marketing office, building a warehouse or manufacturing facility, or buying an existing asset or business.

Australian SMEs often struggle to access finance from the private sector for such ventures, particularly in emerging and frontier markets, due to a lack of tangible security in Australia.

We also expanded our Producer Offset loan product to include the Post, Digital and Visual Effects Offset. This will make Australia a more attractive destination for film producers looking to complete post-production work like editing, special effects and sound engineering. Australian film companies can also take advantage of this offset for films that have international distribution rights.

More support for SMEs

Our point of difference is that we adopt a capability-focused approach to due diligence when assessing applications for finance from SMEs, which includes an assessment of the contract terms.

This approach is different to the banks, which take a more traditional view and base their risk assessment on the tangible security that the SME can provide, even if it has a track record and the technical capacity.

This results in the 'market gap' in financial markets, where banks prefer to lend to businesses with the best collateral, rather than those with the best businesses.

We will often rank behind the exporter's bank against tangible security, after being satisfied with the exporter's ability to perform the contract. However, this ensures SMEs that lack tangible security still have access to finance to secure export contracts.

Our involvement also signals to private financiers that these businesses may represent an acceptable risk.

To support our SME growth strategy, we increased our national origination team across Australia through eight new roles. This completes our national structure and will allow us to have better reach into the SME exporter community, especially in regional areas where many exporting SMEs and those in global supply chains are based.

In line with the Australian Government's economic diplomacy agenda, we are working alongside the Department of Foreign Affairs and Trade (DFAT), the Australian Trade Commission (Austrade), Tourism Australia and other Government departments and agencies to ensure greater referral generation and coordination.

We also used our relationships with industry groups like the NSW Business Chamber, the Australian Industry Group and the Export Council of Australia during the year to boost awareness of our services among their members.

To help engage and inform the Australian export community, we have started to publish a quarterly SME Exporter Sentiment Index, which researches the current trends and issues within the SME export market.

Along with Austrade, we supported the Australian International Business Survey, conducted by the Export Council of Australia and the University of Sydney. This survey provided a range of insights into Australia's international business community.

We also continued our sponsorship of the Australian Export Awards, and extended our sponsorship of the state-based awards.

More options for clients

We added Arab Bank to our working capital guarantee partnerships, which will allow them to accept our guarantees and approve the additional working capital that their clients may need to take advantage of new opportunities in the Middle East.

We also entered into a risk participation agreement with the State Bank of India, which will provide much-needed support to exporters operating in India. With Australian banks significantly cutting their lending to India over the last year, this agreement will allow more SMEs to take advantage of opportunities in this very important growth market.

We are in discussion with three other global banks, as a way of establishing relationships that will give SME exporters even more options and assistance in different overseas markets.

We signed a partnership agreement with AFEX, a leading global foreign exchange specialist, to help SME exporters manage currency fluctuations. This will allow them to protect more of their profit margins against currency fluctuations.

All employees also attended an intensive program to support business process engineering across the organisation, focusing on continuous improvement concepts and excellence principles.

The key objectives of this program were to support our workforce in our many efficiency projects, to inspire better ways of working and to increase productivity at all levels. This program also encouraged working across functional teams to foster the best results for our clients.

Case study

Astec Paints
Innovative protection




Industry:
Manufacturing

Country:
Japan

Product:
Export working capital guarantee

Efic support:
A$600,000

“ Efic’s assistance allowed us to accommodate extra demand, with the guarantee allowing our financier to provide us with the working capital we needed.”

Peter Galanis
Director, Astec Paints

Astec Paints is a South Australian paint manufacturer that produces a range of interior and exterior paint finishes, acrylic renders and heat reflective coatings.

An established exporter, it supplies markets in China, Korea, Japan and the Middle East, with around 75 per cent of its turnover derived from exports.

Astec Paints needed funding to meet increased demand from its Japanese clients for its elastomeric coatings, which meet Japan’s strict building codes.

While its bank was supportive of plans to increase production, it required additional security and so Astec approached us for help.

How we helped

We were able to provide Astec’s bank with an export working capital guarantee.

This allowed the bank to approve the funds Astec needed to increase production and meet this extra demand immediately, in what is a very important market.

Case study

PCT Global
Clean success

Industry:
Manufacturing

Country:
United States

Product:
Export working capital guarantee

Efic support:
US$650,000

PCT Global is the manufacturer and distributor of EnduroShield®, an easy clean treatment and cleaner for surfaces like glass, ceramic, porcelain, stainless steel, chrome and tiles.

PCT Global exports EnduroShield® Professional to glass manufacturers and applicators in 25 countries and distributes the consumer strength EnduroShield® Home-Do-It-Yourself in Australia at Bunnings Warehouse.

EnduroShield® is considered a market leader in Australia and has recently been featured in Time Magazine as one of the '10 most compelling smartest gadgets trying to save the world.'

A high-profile new contract

PCT Global needed additional working capital to support the launch of its Do-It-Yourself kits with Home Depot in the U.S, the world's largest home improvement specialty retailer.

This was PCT Global's first experience as a supplier to Home Depot, which selected the EnduroShield® range as an innovative new product across the country.

With the additional growth that Home Depot represented, PCT Global's bank, Westpac, recommended Efic to help with the finance needed to complete this new export contract.

How we helped

We provided an export working capital guarantee, which PCT Global used to buy raw materials and packaging for the increased manufacturing volumes required under this high-profile supply agreement.

> "We were extremely happy with Efic. They were able to provide the guarantee our bank needed, which enabled us to complete the project."

Craig Howard
International Managing Director, PCT Global

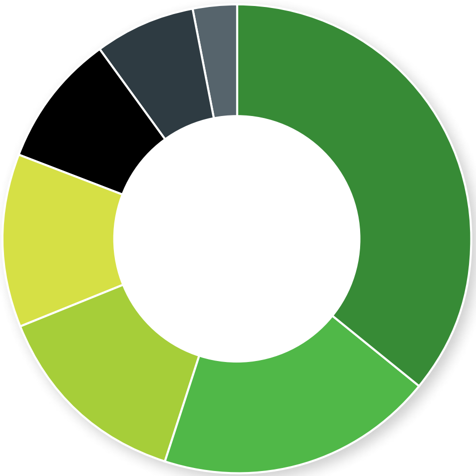
Our two accounts

Commercial Account

Our Commercial Account exposures of $1.87 billion comprises loans, export finance guarantees (EFGs) including funded EFGs, medium-term insurances, bonds, political risk insurances and rescheduled credit insurance debts.

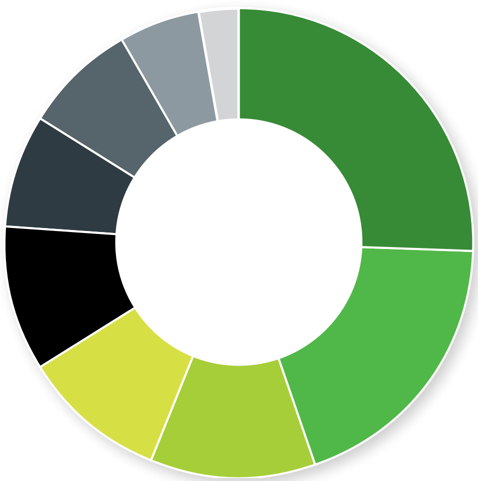
The facilities vary in maturity up to 14.5 years, but loan and guarantee facilities are typically up to 10 years. The average remaining maturity of facilities outstanding at 30 June 2014 was 2 years, and 7 years on a weighted average basis.

Figure 1: Commercial Account at 30 June 2014 – exposures by region



Sector	Value ($m)	Value (%)
Australia	669.6	36%
Asia	349.6	19%
Northern America	264.3	14%
Europe	232.6	12%
Middle East	165.9	9%
South America	137.0	7%
Pacific	51.5	3%

Figure 2: Commercial Account at 30 June 2014 – exposures by industry sector



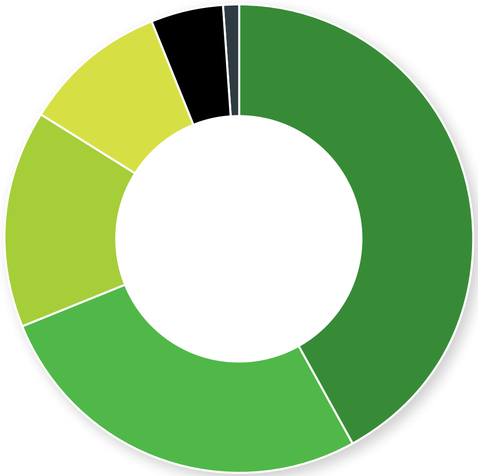
Sector	Value ($m)	Value (%)
Reinsurance	478.1	25%
Mining LNG	359.2	19%
Public Administration and Safety	216.6	11%
Manufacturing	186.4	10%
Construction	186.3	10%
Transport, Postal and Warehousing	143.0	8%
Financial and Insurance Services	146.8	8%
Mining Commodities	106.2	6%
Other	47.9	3%

National Interest Account

The National Interest Account exposure of $867 million is almost all loans to sovereign countries or their agencies.

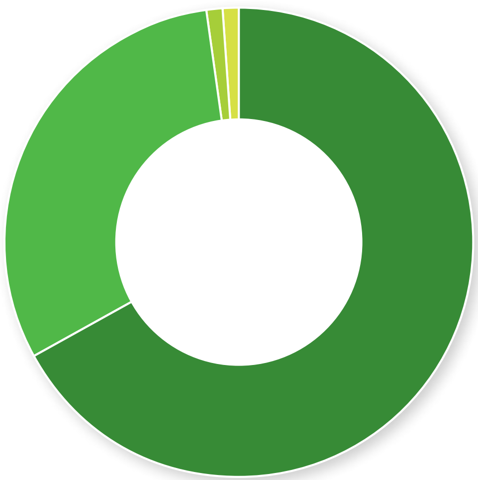
The largest exposure continues to be to the Indonesian government. In support of the PNG LNG project (which has exposure across a number of countries), we provided US$250 million in total on the National Interest Account, with loan disbursements having commenced in December 2010. As at 30 June 2014, this exposure remained at US$250 million.

Figure 3: National Interest Account at 30 June 2014 – exposures by region



Sector	Value ($m)	Value (%)
Asia	362.0	42%
Middle East	231.5	27%
Pacific	128.9	15%
Northern America	88.1	10%
Australia	47.0	5%
South America	9.7	1%

Figure 4: National Interest Account at 30 June 2014 – exposures by industry sector



Sector	Value ($m)	Value (%)
Public Administration and Safety	581.1	67%
Mining LNG	265.4	31%
Manufacturing	11.0	1%
Financial and Insurance Services	9.7	1%

Facilities signed

Table 5: Our transactions for 2013-14

Exporter/investor/ client	Industry of export	Goods/services	Country	Facility type	Amount	Environmental/ social impact category (a)
Astec Paints Australasia Pty Ltd	Wholesale Trade	Paint manufacture.	Japan	EWCG	0.60	Low Potential - Note 1
Birdon Holdings Pty Ltd	Manufacturing	Bridge Erection Boats	United States of America	EWCG	4.27	Category C
Broens Pty Ltd	Manufacturing	Precision engineered products for the aerospace and auto industries	Qatar	EWCG	0.45	Low Potential - Note 1
Ellton Conveyors Pty Ltd	Manufacturing	Conveyor equipment	Australia	Bond x 4	3.29	Low Potential - Note 1
Evolution Commercial Pty Ltd	Manufacturing	Aluminium Catamarans	Denmark	Bond x 4	3.86	Low Potential - Note 1
Ferra Engineering Pty Ltd	Manufacturing	Miscellaneous aircraft parts e.g. Weapons Bay Adaptors	United States of America	EWCG x 2	5.32	Low Potential - Note 1
Fibre King Pty Ltd	Manufacturing	Case packer machines	United Arab Emirates	Bond	0.30	Low Potential - Note 1
Firm Construction Pty Ltd	Mining	Mining related construction projects	Australia	Bond x 2	1.65	Low Potential - Note 1
General Trade Industries Pty Ltd	Mining	Construct various facilities at two gasfield sites	Australia	Bond x 2	1.20	Low Potential - Note 1
Gold Peg International Pty Limited	Manufacturing	Manufacture and supplier of cookers	New Zealand	Bond	0.16	Low Potential - Note 1
Gold Peg International Pty Limited	Manufacturing	Manufacturer and delivery of cookers	Saudi Arabia	Bond	0.79	Low Potential - Note 1
Innotech Site Services Pty Ltd	Mining	Dewatering services to mines	Australia	Bond x 8	0.91	Low Potential - Note 1
IPCQ Pty Ltd	Mining	Fireproof and corrosion coating	Australia	Bond	0.45	Part of Ichthys Project (assessed in 2012/13)
Killard Excavation Pty Ltd	Mining	Pipe laying	Australia	Bond x 2	0.66	Low Potential - Note 1
Kookaburra Pacific (Aust) Pty Ltd	Wholesale Trade	Licorice	United States of America	EWCG	0.15	Low Potential - Note 1
Lean Field Developments Pty Ltd	Mining	Underground high voltage cable	Australia	Bond	0.44	Low Potential - Note 1
Mack Valves Pty Ltd	Manufacturing	Valve manufacturer	India	EWCG	0.50	Category C
Macro Investments Pty Ltd	Manufacturing	Kangaroo and game meat	Russia	EWCG	0.75	Low Potential - Note 1
Marand Precision Engineering Pty Limited	Manufacturing	Turnkey installation	Australia	Bond x 3	10.62	Low Potential - Note 1

Exporter/investor/ client	Industry of export	Goods/services	Country	Facility type	Amount	Environmental/ social impact category (a)
Marathon Targets Pty Ltd	Professional, Scientific and Technical Services	T40 smart targets	United Arab Emirates	Bond	1.28	Low Potential - Note 1
MCA Engineering Group Pty Ltd	Mining	Metal fabrication and engineering	Australia	Bond	1.00	Low Potential - Note 1
Miles Morgan Australia Pty Ltd	Education and Training	Education services	Saudi Arabia	Bond	0.11	Low Potential - Note 1
Modular Building Systems Pty Ltd	Manufacturing	Prefabricated modular buildings	Australia	Bond x 6	0.70	Potential Impacts - Note 1
OM Engineering Pty Limited	Professional, Scientific and Technical Services	Supply of main span pylon formwork	United States of America	Bond	0.54	Low Potential - Note 1
Overflow Industrial Pty Ltd	Construction	Electrical engineering, design and construction services	Various	EWCG	0.50	Category C
PCT Global Pty Ltd	Manufacturing	Protective coatings	United States of America	EWCG	0.72	Low Potential - Note 1
Radlink Pty Ltd	Information Media and Telecommunications	Telecommunications infrastructure	Australia	EWCG	2.00	Low Potential - Note 1
Refrigeration Engineering Pty Limited	Manufacturing	Refrigeration unit	Indonesia	Bond x 2	0.46	Low Potential - Note 1
Refrigeration Engineering Pty Limited	Manufacturing	Refrigeration unit	Iraq	Bond	0.87	Low Potential - Note 1
Refrigeration Engineering Pty Limited	Manufacturing	Refrigeration unit	Saudi Arabia	Bond	0.24	Low Potential - Note 1
Refrigeration Engineering Pty Limited	Manufacturing	Refrigeration unit	United Arab Emirates	Bond x 6	1.65	Low Potential - Note 1
State Automation Pty Ltd	Manufacturing	Modern control systems and dimmers	Various	Bond	0.47	Low Potential - Note 1
Steriline Racing Pty Ltd	Manufacturing	Starter gates	Libya	DCG	0.17	Low Potential - Note 2
Synertec Pty Ltd	Mining	Design, supply and install analysers/instrumentation for APLNG	Australia	EWCG	1.50	Low Potential - Note 1
Synertec Pty Ltd	Mining	Design, supply and install analysers/instrumentation for APLNG	Australia	Bond x 2	1.31	Low Potential - Note 1
The Spurs Wine Company Pty Ltd	Wholesale Trade	Wine	Sweden	EWCG	0.40	Low Potential - Note 1
Tomco Electronics Pty Ltd	Manufacturing	RF amplifiers	Germany	EWCG	0.62	Category C
United World Enterprises Pty Ltd	Wholesale Trade	Various	China	EWCG x 13	14.12	Low Potential - Note 1

Exporter/investor/ client	Industry of export	Goods/services	Country	Facility type	Amount	Environmental/ social impact category (a)
Whittens Pty Ltd	Mining	Civil concrete construction for Roy Hill Project	Various	Bond x 3	6.77	Low Potential - Note 1
Asian Development Bank - Pakistan	Wholesale Trade	Various	Pakistan	RPA x 21	1.28	Low Potential - Note 2
Asian Development Bank - Sri Lanka	Wholesale Trade	Various	Sri Lanka	RPA x 72	6.27	Low Potential - Note 2
Asian Development Bank - Vietnam	Wholesale Trade	Various	Vietnam	RPA x 6	2.43	Low Potential - Note 2
Producer Offset Loan clients	Various	Film and television production	Various	Loan x 16	4.97	Low Potential - Note 2
Foreign Exchange Facility Guarantee clients	Various	Various	Various	FXG x 7	2.10	Low Potential - Note 2
Bank Support Clients	Mining	Coking coal	Various	RPA x 7	21.22	Potential Impacts - Note 1
Nyrstar Port Pirie Pty Limited	Manufacturing	Metals processing	Various	EFG	291.25	Potential Impacts - Note 1
Minera Escondida Limitada	Professional, Scientific and Technical Services	EPCM services and capital equipment	Chile	Loan	111.20	Potential Impacts - Note 1
McConnell Dowell Corporation Limited	Construction	Heavy and civil engineering construction	Indonesia	Bond x 1 x 8, Bond x 1 x 4	24.77	Potential Impacts - Note 1
McConnell Dowell Corporation Limited	Construction	Heavy and civil engineering construction	Papua New Guinea	Bond x 1 x 2	20.77	Part of PNG LNG Project (assessed in 2009/10)
Incat Australia Pty Limited	Manufacturing	Aluminium fast ferry	Denmark	Loan	18.62	Low Potential - Note 1
Total transactions (230) supporting export contracts (197)					**576.67**	

EFG: export finance guarantee
EWCG: export working capital guarantee
FXG: foreign exchange facility guarantee
RPA: risk participation agreement

Notes 1: Transaction associated with either a non-project or bond.
Notes 2: Assessed under a general facility review.

(a) An explanation of our three categories (A, B, C) for classifying potential environmental and/or social impacts associated with new projects is on pages 44-45.

Case study

Marand Precision Engineering
Engineering solutions

Industry:
Manufacturing

Country:
Australian companies in a global supply chain

Product:
Performance and warranty bonds

Efic support:
A$10.7 million over 2 projects

" We could not have done these projects without Efic's support. These projects would have gone to overseas competitors."

David Ellul
Executive Chairman, Marand

Established 45 years ago as a machine tool company servicing the automotive industry, Marand has successfully diversified and expanded its business and today is a leading global supplier of precision engineering solutions to a range of industries.

Two large new contracts

Marand, partnered with Spanish company Danobat S Coop (Danobat) through a sub-contracting agreement to win a contract with BHP Billiton Iron Ore (BHPBIO), to design and construct a new railway maintenance workshop at Mooka, in Western Australia.

Marand also won the contract to upgrade the rail service maintenance facility of Rio Tinto (Rio).

Once complete, these workshops will be amongst the largest automated railway workshops in the world and will be integral in improving the efficiency of BHPBIO and Rio's export operations.

Marand needed to provide performance bonds to secure the financing needed for these contracts, and warranty bonds to Danobat for its share of the contract.

Marand's bank wanted to help but was unable to due to a security shortfall, so the company contacted Efic.

How we helped

We provided performance and warranty bonds in support of separate contracts with BHPBIO and Rio subsidiary Hamersley Iron for the establishment of rail maintenance facilities in Western Australia.

Case study

Fibre King
Packaging success

Industry:
Manufacturing

Country:
United Arab Emirates and Malaysia

Product:
Advance payment bonds

Efic support:
Over US$1 million

Fibre King is a Queensland-based engineering company that specialises in the design and manufacture of packaging machinery for the food and beverage, pharmaceutical, fresh produce and household goods industries.

Fibre King moved into manufacturing automated packaging in the 1950s, and was one of the first Australian companies to offer packaging equipment that was designed and manufactured locally and had minimal downtime.

Today their award-winning products are sold in Australia and overseas.

A high-profile new contract

In 2014, Fibre King was awarded a large contract from a major multinational company that is building two new factories in Dubai.

The contract involved the supply and installation of seven case packing machines and end of line palletisers for use within the client's coffee and culinary operations.

Fibre King needed to provide advance payment bonds as security for upfront payments received.

While Fibre King's bank, NAB, was supportive of this opportunity, this would have reduced Fibre King's operating capital facility by an amount equivalent to the bond.

As a result, NAB suggested Fibre King talk to us to see if we had a solution.

How we helped

We provided advance payment bond directly to Fibre King's client.

By not tying up precious working capital, our advance payment bond allowed Fibre King to target other projects with the same client, resulting in additional orders in Thailand and Malaysia.

"As we grow rapidly, it is essential that we have partners who are able to facilitate our activities outside Australia. Efic's support enables us to pursue major projects around the globe."

Earle Roberts
CEO, Fibre King

Our business

About us

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

We are a specialist financier that delivers simple and creative solutions for Australian companies – to enable them to win business, grow internationally and achieve export success.

As Australia's export credit agency, we operate on a commercial basis and partner, but do not compete, with banks to provide financial solutions for:

- Small and medium enterprises (SMEs) that are exporters
- Australian companies in an export supply chain
- Australian companies operating in emerging and frontier markets.

These financial solutions include:

- Security guarantees that guarantee a company's performance where the end product is exported
- Working capital support where we provide a working capital guarantee to allow a bank to approve the funds needed
- Longer-term finance where we provide a guarantee that allows a term loan to be approved.

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

Accountability

We are part of the Australian Government's Foreign Affairs and Trade portfolio, for which the Minister for Trade and Investment (Minister) is responsible.

The current Minister is the Hon Mr Andrew Robb AO, who was appointed on 18 September 2013. The Hon Richard Marles was the Minister for Trade from 1 July 2013 to 17 September 2013.

The Minister has a number of powers in relation to us, as set out in the Efic Act. The Minister may give written directions to us around the performance of our functions or the exercise of our powers, if they are satisfied that it is in the public interest that such directions be given.

The Minister may also approve or direct entry into transactions on the National Interest Account (see page 27). We are not required to obtain ministerial approval or directions to enter into a particular transaction on the Commercial Account. Details of ministerial directions are set out on pages 48-49.

We are required to provide the Minister with a Statement of Intent in response to the Minister's Statement of Expectations. These statements express and formalise the Minister's expectations of us and our Board's intention to meet those expectations.

We are also required to notify the Minister of certain significant events, such as the acquisition or disposal of interests in companies or other ventures. Our Board also keeps the Minister informed about our operations and provides any information required by the Minister or the Minister for Finance.

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

Efic Act

As Australia's export credit agency, we have performed our role within various statutory frameworks since 1957.

We were established in our current form on 1 November 1991, under the *Export Finance and Insurance Corporation Act 1991 (Cth)* (Efic Act), as a statutory corporation wholly-owned by the Commonwealth of Australia.

We have four key functions under the Efic Act:

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

This legislation allows us to support Australian exports in two ways – the Commercial Account (under Part 4 of the Efic Act) and the National Interest Account (under Part 5 of the Efic Act).

Commercial Account

All risks on this account are carried by us as a Commonwealth statutory corporation. We retain all premiums and fees, with any losses coming out of our accumulated capital and reserves.

We have accumulated profits of $536.5 million since 1991, with dividends to the Australian Government of $257.3 million and special dividends of $202.5 million.

National Interest Account

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

Transactions on the National Interest Account tend to involve:

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

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

CAC Act

For the financial year 2013-14, we were classified as a Commonwealth authority and so were subject to the *Commonwealth Authorities and Companies Act 1997 (Cth)* (CAC Act).

In addition to obligations set out in the Efic Act, the CAC Act details our obligations in respect of corporate governance, financial management and reporting.

On 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) came into effect, replacing the CAC Act.

The PGPA Act is a new financial management framework for all Commonwealth entities. Efic will report on its compliance with its PGPA Act obligations in future annual reports.

Whole of government support

In line with the Australian Government's economic diplomacy agenda, we work closely with DFAT, Austrade and other Government departments and agencies to help us support exporters more efficiently and effectively.

Information on overseas markets, export opportunities and activities is regularly shared between agencies and departments.

We also worked with Austrade during the year to gain a better understanding of the issues facing exporting SMEs, as well as cross-promoting our services.

This included supporting the Australian International Business Survey, conducted by the Export Council of Australia and the University of Sydney, and launching the SME Exporter Sentiment Index.

We partnered with the Australian Industry Group and Austrade to conduct educational and information events to support exporters looking to access global value chains.

We also continued to build our 'on-the-ground' presence in Austrade's offices in Perth, Melbourne and Brisbane. Apart from helping Efic reach more SMEs, this also ensures a steady a flow of information and referrals between us.

Our financial operations

We are self-funding and operate on a commercial basis, receiving fees and risk premiums from clients and earning interest on loans and investments that reflect risk. This includes the investment of our cash capital, reserves and working capital.

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

We operate within limits set out in the Efic Act and Regulations in relation to maximum contingent liability for guarantees and insurance contracts and the total amount of loans into which we can enter.

Our governing principles

Corporate governance

Our Board is responsible for managing our corporate governance function. This includes establishing our corporate governance strategy, defining our risk appetite, monitoring our performance, making decisions on capital usage (including large exposures) and making dividend recommendations to the Minister.

The Minister is responsible for appointing all non-executive directors to our Board, except for the Managing Director, who is a Board member and full-time employee.

The Secretary of the Department of Foreign Affairs and Trade, or their alternate, represents the Minister on our Board.

As a Commonwealth authority, our Board and our employees are governed by the Efic Act and, prior to 1 July 2014, the CAC Act. We are required to produce an annual report for each financial year, which is tabled in Federal Parliament.

All our employees are subject to a Code of Conduct and are required to keep information about clients confidential. This confidentiality requirement also applies to our Board. The Efic Act allows us to publish only a limited amount of information about client transactions.

We impose a strong commercial discipline on governance and risk management through our governance framework.

To the extent that they are applicable, we follow the Corporate Governance Principles and Recommendations 3rd Edition (Recommendations) produced by the Australian Securities Exchange (ASX) Corporate Governance Council.

A copy of these recommendations can be found at the ASX's website at: www.asx.com.au/regulation/corporate-governance-council.htm

Our Board met seven times in 2013-14 and its membership is set out on pages 30-35.

Our Board

Annabelle Chaplain   Nicholas Minogue   Deena Shiff   Andrew Mohl

Andrew Hunter   Bruce Brook   David Evans   Jan Adams

Our Board

Andrew Mohl
BEc (Hons)
Born 1955
Chairman
Terms of Board appointment: 09/12/2008 to 08/12/2011 and 09/12/2011 to 08/12/2014
Board attendance: 7 of 7
Independent Board member
Non-executive member

Andrew Mohl is a director of the Commonwealth Bank of Australia and an executive coach to chief executive officers. Andrew is also a member of the Board of Governors for the Committee for Economic Development of Australia, the Corporate Council of the European Australian Business Council and the Review Panel Selection Board of the Banking Finance Oath. Andrew was Managing Director and Chief Executive Officer of AMP Ltd from 2002 to 2007 and has over 35 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 Ltd and Deputy Head of Research at the Reserve Bank of Australia.

Deena Shiff
BSc Econ (Hons), LLB (Hons)
Born 1954
Deputy Chair (from 01/08/2013)
Term of Board appointment: 09/12/2011 to 08/12/2014
Board attendance: 7 of 7
Independent Board member
Non-executive member

Deena has extensive executive experience in the communications industry. Deena served as a Group Managing Director at Telstra Corporation Ltd between 2005 and 2013, during which time she led the Wholesale Division, established Telstra's Business Division dedicated to small to medium enterprises and established Telstra's corporate venture capital arm.

Deena was also a partner of Mallesons Stephen Jaques, in-house corporate counsel at Telstra, and has served as a senior executive and advisor on legal and social policy reforms for the Australian Government. Deena is also a director of a number of venture capital backed software businesses and is currently Chair of the Sydney Writers' Festival.

Andrew Hunter
BEc
Born 1968
Managing Director and Chief Executive Officer
Appointment: 01/09/2013
Board Attendance: 6 of 6
Executive Member

Andrew Hunter has had a career of more than 20 years in financial services. Before joining Efic, Andrew held senior positions within Macquarie Group Ltd. From 2008 to 2010, he was Macquarie Group London Office Head and Head of Macquarie Group Europe. Andrew moved to London in 2003 as Head of Macquarie Capital Advisory. Andrew originally joined Macquarie as part of the bank's acquisition of Bankers Trust Australia in 1999 and focussed on debt financings, including arranging finance for infrastructure assets in Australia. In his 10 years at BT, Andrew worked in Australia and Hong Kong in credit and risk management, structured finance and debt origination.

Bruce Brook
BCom, BAcc
Born 1955
Board member; Chair of Audit Committee
Terms of Board appointment: 01/03/2010 to 28/02/2013 and 01/03/2013 to 29/02/2016
Board attendance: 6 of 7
Board Audit Committee attendance: 4 of 4
Independent Board member
Non-executive member

Bruce Brook has over 30 years' experience in finance across a wide range of public companies, including WMC Resources Ltd, ANZ Banking Group Ltd and Pacific Dunlop Ltd. Now a professional company director, Bruce is Chairman of Programmed Maintenance Services Ltd, and a director of Deep Exploration Technologies CRC, CSL Ltd, Boart Longyear Ltd and Newmont Mining Corporation.

Annabelle Chaplain
BA, MBA FAICD
Born 1958
Board member, Audit Committee Member (from 03/04/2014)
Term of Board appointment: 01/08/2013 to 31/07/2016
Board attendance: 6 of 7
Audit Committee attendance: 1 of 1
Independent Board member
Non-executive member

Annabelle Chaplain is an experienced company director of publicly listed and private companies. She spent her executive career as an investment banker working on a variety of transactions for public sector and large corporate clients. Currently a director of Downer-EDI Ltd and PanAust Ltd, she is also a director of a number of private companies including Keolis Downer Pty Ltd, a joint venture activity between Downer and Keolis SA. She is chairman of Council for St Margaret's Anglican Girls School and a member of the Queensland Advisory Council of the AICD.

David Evans
BEc
Born 1964
Board member
Terms of Board appointment: 09/12/2008 to 08/12/2011 and 09/12/2011 to 08/12/2014
Board attendance: 5 of 7
Independent Board member
Non-executive member

David Evans is the Executive Chairman of Evans and Partners Pty Ltd having established the investment advisory company in April 2007. Since 1990, he has worked in a variety of roles within JB Were & Son, and then the merged entity Goldman Sachs JBWere Pty Ltd. Prior to establishing Evans and Partners, David ran Goldman Sachs JBWere's Private Wealth business and the Institutional Equities business. His most recent role at Goldman Sachs JBWere was as Managing Director and Chief of Staff. David is a director of Seven West Media, The Shane Warne Foundation, and NSR Australia. David is also Chairman of the Cricket Australia Investment Committee and a board member of the Victorian Police Corporate Advisory Group and the State Library of Victoria Foundation Council.

Nicholas Minogue
MA, MBA
Born 1955
Board member, Audit Committee Member
Term of Board appointment: 09/12/2011 to 08/12/2014
Board attendance: 7 of 7
Audit Committee attendance: 4 of 4
Independent Board member
Non-executive member

Nicholas Minogue retired from Macquarie Group in 2009 after a banking career spanning 32 years. Nick was Head of Risk Management at Macquarie for 10 years and a member of the Executive Committee for 9 years. Nick worked in trade finance and corporate banking in London and Hong Kong before joining Macquarie. Nick is also Chairman of Morphic Asset Management Pty Ltd, director of Social Enterprise Finance Australia, President of the Kangaroo Valley Arts Festival and a member of the NSW Aboriginal Land Council Economic Development Advisory Committee.

Government member

Peter Varghese, AO
BA (Hons)
Born 1956
Government Board member
Appointed: 11/02/2013
Board attendance: 0 of 7 (see alternate government member)
Represents the Australian Government
Non-executive Director

Peter Varghese is Secretary of the Department of Foreign Affairs and Trade (DFAT). Prior to that, he has held the positions of Australia's High Commissioner to India and was the Director-General of the Office of National Assessments. Mr Varghese has also previously held the roles of Senior Advisor (International) to the Prime Minister, Australia's High Commissioner to Malaysia and has served overseas in Tokyo, Washington and Vienna.

Mr Varghese was appointed an Officer in the Order of Australia (AO) in 2010 for distinguished service to public administration, particularly leading reform in the Australian intelligence community and as an adviser in areas of foreign policy and international security.

Alternate Government member

Jan Adams
BEc (Hons), LLB (Hons)
Born 1963
Appointed: 07/05/2013
Board attendance (as alternate): 2 of 7
Represents the Australian Government as alternate government Board member
Non-executive member

Ms Adams was appointed Deputy Secretary of the Department of Foreign Affairs and Trade (DFAT) in April 2013. Prior to that Jan was First Assistant Secretary of the DFAT, Free Trade Agreement Division (from March 2009) and Australia's lead negotiator for China, Japan, Korea and India bilateral FTA negotiations. Between 2005 and 2008 Jan served as Ambassador for the Environment and Ambassador for Climate Change. Between 1993 and 1996 she worked as an Advisor to the then Minister for Trade and Minister for Industry, Science and Technology, Senator Peter Cook. Jan joined DFAT in 1999 as Assistant Secretary, APEC Branch.

Overseas, Jan has served as Minister Counsellor (Trade) in Washington (2000 – 2004) and has also worked in the Environment and Trade Directorates of the OECD in Paris.

Members whose term ended in 2013-14

Sally Pitkin
LLB, LLM, PhD, FAICD
Deputy Chair; Audit Committee member
Non-executive member
Appointed: 16/07/2007 to 15/07/2010 and 01/08/2010 to 31/07/2013

Angus Armour
BA (Hons), MBA, FFin, FAICD
Managing Director and Chief Executive Officer
Executive member
Appointed: 31/10/2003 to 31/08/2013
Board attendance: 1 of 1
Board Audit Committee attendance: 1 of 1

Jennifer Seabrook
BCom, ACA, FAICD
Board member; Audit Committee member
Non-executive member
Appointed: 05/04/2011 to 04/04/2014
Board attendance: 5 of 5
Audit Committee attendance: 3 of 3

Board and Audit Committee

Ms Shiff was appointed as Deputy Chair during the year, following Dr Pitkin's retirement from our Board.

Ms Chaplain was appointed to the Audit Committee, replacing Ms Seabrook whose appointment ended on 4 April 2014.

Our Board undertook an external review of its performance during 2013-14, in line with its bi-annual review cycle.

Transactions with Board members and related entities of Board members

All Board members have declared that they do not have any interest in contracts, transactions, arrangements or agreements with us.

Note 22 to the financial statements sets out the total remuneration received, or due to be received, by each Board member for the year ending 30 June 2014.

All material transactions are detailed in the financial statements.

Declared conflicts and potential conflicts of interest

Our Board always ensures 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 our interests or one of our clients.

We maintain a register of Board members' disclosed interests.

Two Board members raised potential conflicts of interest during the year and excluded themselves from that particular Board meeting when the discussions involving the potentially conflicted subject matter were underway.

Case study

Tomco Technologies
Growth frequency

Industry:
Manufacturing

Country:
Germany

Product:
Export working capital guarantee

Efic support:
A$620,000

"Working with Efic has made it possible for Tomco to pursue larger contracts, potentially opening up new, higher value markets for us."

Dr Janice Reid
CEO, Tomco Technologies

Tomco Technologies is a South Australian-based engineering company that designs and manufactures radio frequency power amplifiers for scientific and commercial applications around the world.

A new export contract

Tomco needed additional working capital to support a new contract with Bevatech, a German physics consulting firm, for the manufacture and export of one 140kW and two 340kW radio frequency amplifiers.

These amplifiers will be used by a multi-national research institute based in Russia, to undertake fundamental research into particle behaviour for potential commercial applications.

Tomco is often not able to receive advance payments for its products, and so must buy components and pay for manufacturing and delivery costs before payment is received.

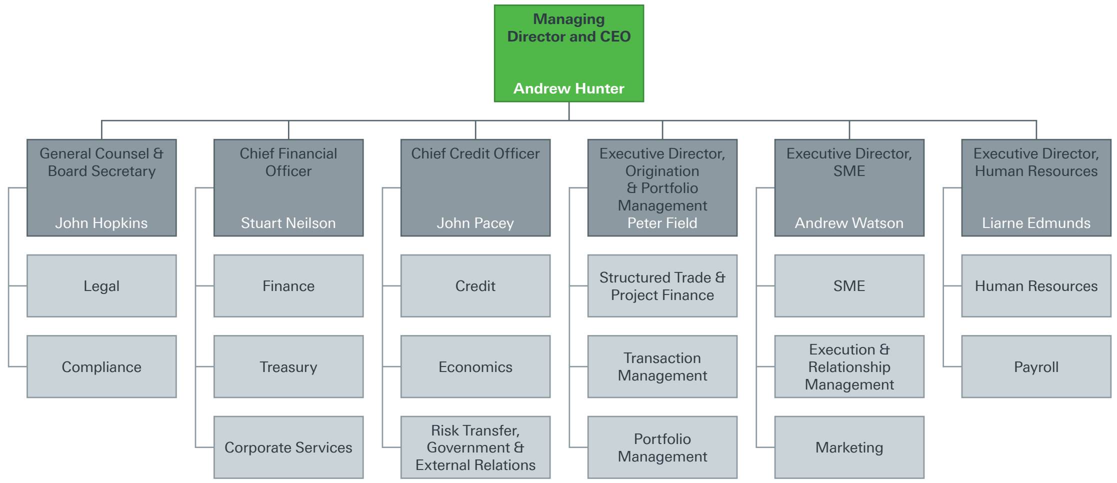
Tomco's bank, NAB, was already covering Tomco's trade facility and, once the contract with Bevatech came about, this facility had reached its limit.

How we helped

We provided an export working capital guarantee which allowed Tomco to receive the working capital it needed to fulfil the contract with Bevatech.

Our executive team

Figure 5: Our organisational structure



John Pacey, Andrew Watson, Stuart Neilson, Andrew Hunter, John Hopkins, Peter Field, Liarne Edmunds

Our people

Our people are our greatest asset and we pride ourselves on supporting our employees through their employment at Efic and individual career aspirations, while aligning to our business strategy.

As our Human Resources function evolves to support continued cultural change and client needs, our focus remains on attracting and retaining the best talent through reward and recognition, learning and development, diversity and inclusion, and work health and safety.

Workforce demographics

The number of our employees (as full-time equivalents) increased during the year, in line with our growing SME business (see Table 6).

Table 6: Number of full-time equivalent employees (as at 30 June 2014)

	30 June 2014	30 June 2013
Employees (excluding short-term)	91.6	81.2
Short-term contract employees	1.0	2.7
Total	**92.6**	**83.9**

Diversity and inclusion

We recognise that a diverse workforce can lead to strategic advantages through the exchange of skills, experiences and perspectives, which foster creativity, innovation and enhanced problem-solving capability.

We value the contribution that our employees make in support of our strategic objectives and we celebrate our diversity across age groups and life experiences, cultural backgrounds, religious beliefs, gender, gender identity, transgender, intersex status, sexual orientation, marital status and disability.

We foster a positive, inclusive and equitable organisational culture by ensuring that employees are never harassed or discriminated against.

We provide equal opportunity in all aspects of employment, including conditions of employment, recruitment and selection, remuneration, training, and development and promotion. All of these are supported by formal policies, including equal employment opportunity (EEO) and diversity policies, procedures and practices that encourage fairness and equity.

We regularly review our policies and practices, and educate all employees and management on workplace behaviour, anti-discrimination, and work health and safety.

We are committed to supporting Australia's indigenous community by promoting awareness of indigenous culture and issues among our employees, and taking steps to support the reconciliation effort.

This year we hosted a lunch to commemorate National Reconciliation Week and invited a speaker from Indigenous Business Australia to provide an overview of the work they do in their effort to help the First Australians be economically independent and an integral part of the Australian economy.

Indigenous Business Australia is a progressive, commercially-focused organisation that promotes and encourages self-management, self-sufficiency and economic independence for Aboriginal and Torres Strait Islander people.

It was valuable for our employees to understand the work they perform in the indigenous community, especially in supporting the development and financing of small businesses.

The *Equal Employment Opportunity (Commonwealth Authorities) Act 1987 (Cth)* promotes equal opportunity in employment for members of designated groups, including women and people from non-English speaking backgrounds. In accordance with the reporting requirements of this Act, statistics on our workforce profile are shown in Table 7.

Although our employees can be classified by role (for example, managers and administrators, professionals, associated professionals and clerical workers), the statistics in Table 7 are grouped by profession due to the nature of our roles.

Table 7: Workforce diversity profile at 30 June 2014.

		Employee Diversity Profile					
		Female	Male	NESB	ATSI	PWD	Total Staff
Classification	Support	15	2	10	0	0	17
		88%	12%	59%	nil	nil	18%
	Technical	14	10	16	0	0	24
		58%	42%	67%	nil	nil	25%
	Senior Technical	12	23	13	0	0	35
		34%	66%	37%	nil	nil	36%
	Leadership	5	16	3	0	0	21
		24%	76%	14%	nil	nil	22%
	Totals	46	51	42	0	0	97
		47%	**53%**	**43%**	**0%**	**0%**	**(92.6 FTE)**

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

As part of our recent building refurbishment, we have taken steps to improve access and facilities for people with disabilities, such as:

- providing easier ramp access to the building
- adding building entry tactile signs
- lowering the height and adding braille to our lift buttons
- adding lift lamps and audible alarms
- providing accessible toilet facilities and showers.

Learning and development

We are committed to investing in our people and striving for continual improvement. All employees are given access to internal, external and on-the-job learning opportunities to support their development.

As part of our performance management framework, our employees have career discussions with their managers and put in place development objectives for the year ahead. This incorporates opportunities to develop and broaden skills through project work and secondments to other teams.

We also undertake targeted training and encourage our employees to attend seminars and conferences relevant to their area of expertise to ensure they remain up-to-date.

We are a corporate member of Women in Banking and Finance (WiBF), which is a professional industry association that actively promotes development and networking opportunities to its female membership, in order to help in their career endeavours and advancement.

In 2013-14, two of our high potential female employees participated in a mentoring program facilitated by WiBF, as well as various other events throughout the year.

We also encourage employees to undertake further studies through our study assistance program, which provides financial support and paid leave to those undertaking approved postgraduate courses.

Work-life balance

We understand the pressures that balancing working life and family/personal commitments can bring.

We provide a family-friendly work environment, which resulted in a 100 per cent return rate from parental leave during the year.

We also offer flexible work arrangements where operational requirements allow it, with 13 per cent of our workforce currently working part-time.

Our employee assistance program continues to provide support to all employees and their immediate families when needed, through access to a free counselling service.

We also provide a corporate income protection (salary continuance) insurance policy to all employees who have completed their probation period.

Work health and safety

Consultation

We take our responsibilities of providing a safe and healthy work environment seriously, and engage with our employees on all work, health and safety matters.

The way we achieve this is through our Work Health and Safety Committee (WHSC), which works with management and employees to enhance our working environment.

The committee includes two management representatives and four employee representatives, including a Health and Safety Representative.

To assist our Board in meeting its due diligence requirements under the *Work Health and Safety Act 2011 (Cth)* (WHS Act), the WHSC holds a meeting prior to each Board meeting (seven times per year).

The minutes of these meetings are made available to all employees on our intranet, with a copy of the minutes, a report and performance indicators being tabled at the subsequent Board meeting,

Our Board Charter describes our due diligence requirements under the WHS Act.

A WHSC representative, in consultation with our employees, conducts a workplace inspection prior to each WHSC meeting. The findings are then reviewed and an action plan put in place to address any issues.

Workplace hazards are prioritised according to the risk they pose to health and safety, and any hazards that can be immediately eliminated are attended to first.

WHSC minutes and the findings of workplace inspections are made available to all employees on our intranet and are also provided to our Board.

Our Health and Safety Management Arrangements are set out in our work health and safety management framework, which is reviewed annually by the WHSC.

We also consult with our employees on the adequacy of our facilities and take steps to ensure a positive, risk-free work environment, which include information sessions with employees that travel overseas.

Risk management

Our WHSC consults with employees when developing and maintaining our Work Health and Safety Risk Control Matrix, which includes hazard controls and a formal review each year.

Given the nature of our operations, we have identified travel as a risk that requires specialised monitoring. Frequent travellers have access to an annual full medical check and have the option of taking a satellite phone when travelling to remote destinations.

We also engage international travel specialists, International SOS, to provide extensive cultural, security and medical information, and assistance before and during international business trips.

We have a certified traveller program that all business travellers are required to complete each year before travelling overseas. The Travel Coordinator is also a member of the WHSC and ensures all important travel-related issues are discussed.

We have a strong culture of incident notification and investigation, which includes reporting of 'near misses'.

Employees are also encouraged to take part in the management of work health and safety. One employee proposed that we trial adjustable desks in common areas to allow work to be carried out standing up.

The use of standing desks will be reviewed by the WHSC, who will also review if providing these desks more widely throughout the business is possible.

Our flexible work environment helps employees meet the demands of their work and personal/family commitments. We also provide annual training on workplace behaviour, and ongoing training to current and new first aid officers.

We conduct regular testing and preventative maintenance on our plant and equipment, including air conditioning, and undertake all reasonable steps to eliminate or minimise risks to employees and visitors.

Health and safety outcomes

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

An indicator of our safety performance is in our workers compensation claims, with no new claims being lodged in the past 12 months.

We have also engaged an independent auditor to undertake an audit of our work health and safety management system.

This report indicated that we met the required standards, noting only two areas for minor improvement (as follows):

- training for the right of entry for permit holders
- centralising the tracking and reporting of work health and safety-related expenses.

We will be taking steps to ensure reception employees are trained on the appropriate protocols regarding union entry, as well as considering the merits of tracking and reporting WHS-related expenses on an annual basis.

We did not receive any notices, and there were no 'notifiable incidents', under the WHS Act during 2013-14.

Corporate responsibility

Our approach to corporate responsibility

Our Corporate Responsibility Working Group includes employees from across our business and is responsible for reviewing our approach to Corporate Responsibility

The Group also develops and maintains our Corporate Responsibility Strategy. This outlines the way in which we fulfil our responsibilities to our stakeholders – our clients, our employees, the Australian Government as our shareholder, and the wider community.

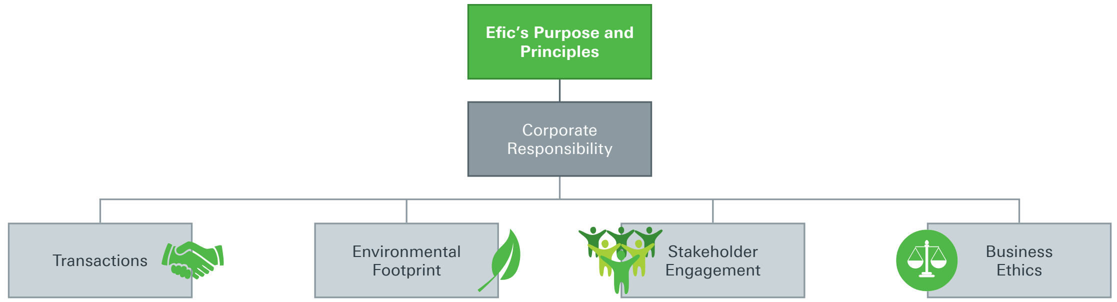
The key parts of our Corporate Responsibility Strategy are:

- Transactions – practising responsible lending and upholding best practice environmental and social standards in the transactions we support, including through our Policy and Procedure for environmental and social review of transactions
- Environmental footprint – minimising the environmental footprint of our operations
- Stakeholder engagement – proactively engaging with our stakeholders
- Business ethics – conducting our operations fairly and with integrity.

Our Corporate Responsibility Group updates our Executive team and our Board on the implementation of our Corporate Responsibility Strategy, along with ways we can improve how we manage our business more responsibly.

Some areas currently being examined by the Group include the use of green power, reducing our use of water, energy and consumables, and how we can increase our philanthropic efforts.

Figure 6: Our approach to corporate responsibility



You can find more information about our Corporate Responsibility Strategy on our website.

EPBC Act

We have a statutory obligation under section 516A of the *Environment Protection and Biodiversity Conservation Act 1999 (Cth)* to report our environmental performance and the below sections on transactions and environmental footprint are our response to that requirement.

Transactions

Our policy for environmental and social review of transactions (Policy) sets out the principles that we apply in meeting our commitment to uphold best-practice environmental and social standards in the transactions that we support.

Our procedure for environmental and social review of transactions (Procedure) describes how we implement the Policy.

You can read the Policy and Procedure on our website.

Our Policy adopts the International Finance Corporation's Performance Standards as its general benchmark for environmental and social review.

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

Our Policy includes a screening process that recognises:

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

This screening process identifies two types of transactions:

- those associated with projects, which are further divided into new and existing projects
- non-projects, where a transaction is either not associated with an identified location or operation, or is a bond.

New projects are classified according to their potential for environmental and/or social impacts as follows:

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

Existing projects and non-projects are further divided into those that have a potential for environmental and/or social impacts, and those that do not have a potential for environmental and/or social impacts.

Table 8 summarises the number of our facilities and their type of environmental review for 2013-14, and includes comparative data for the previous two financial years.

This table excludes transactions dealing only with foreign exchange products, Producer Offset loans and risk participation agreements associated with multilateral institutions, as these transactions are considered to have low potential for environmental and social impact.

Table 8: Environmental and social review summary

Year	Environmental/social impact category				
	Category A	Category B	Category C	Existing project and non-project potential impact	
				Yes	No
2013-14					
All facilities	0	0	4	5	34
Project finance	0	0	0	Not applicable	Not applicable
Project related corporate loans	0	0	0	Not applicable	Not applicable
2012-13					
All facilities	1	1	6	2	27
Project finance	1	0	0	Not applicable	Not applicable
Project related corporate loans	0	0	0	Not applicable	Not applicable
2011-12					
All facilities	2	5	7	1	13
Project finance	1	0	0	Not applicable	Not applicable

Table 5 on pages 20-22 has more information about our transactions in 2013–14, including location, industry type, sector and results of screening and classification.

We didn't enter into any transactions associated with Category A or Category B projects this financial year.

Several transactions associated with non-projects and existing projects with a value in excess of $20 million were identified to have a potential for environmental and/or social impacts.

These were:

- risk participation agreements for the export of coking coal
- a loan to Minera Escondida Limitada (a transaction involving an existing project)
- an export finance guarantee to Nyrstar Port Pirie Pty Ltd (a transaction involving an existing project)
- bonds for the McConnell Dowell Corporation.

The potential environmental and social issues associated with these transactions were examined as described in section 2.3 of our Procedure, which is available on our website.

The first transaction identified above involved a non-project. For this type of transaction we examine the issues associated with the industry or client. The next three transactions were associated with projects and so we examined project-related issues. Our conclusions were that all transactions satisfied the requirements of our Policy and Procedure.

We made a commitment to have the application of our Policy and Procedure audited by an independent firm every two years.

The first audit report was completed by Net Balance Management Group Pty Ltd in December 2012, which you can read on our website. It concluded that we complied with our Policy and Procedure commitments and that our transaction reviews were properly completed and presented fairly in all material respects. The second audit report is due to be released in the first half of 2015.

Equator Principles reporting

As a signatory of the Equator Principles, we are required to report on our implementation of these Principles and the number of project finance and project-related corporate loan transactions that have reached financial close.

Table 8 summarises the project finance transactions signed over the past three years and the project-related corporate loans for 2013-14.

We did not provide new project finance or project-related corporate loans in 2013-14.

We are actively involved in the Equator Principles Association through participation in Working Groups and the Association's AGM.

You can find more information about our implementation of the Equator Principles on our website.

Environmental footprint

We operate from four floors of Export House, 22 Pitt Street, Sydney, and lease the remaining floors to tenants on standard commercial terms.

We manage our environmental performance by endeavouring to minimise the building's environmental footprint. As at 30 June 2014, our building had a 3.5 star Nabers rating.

Table 9 summarises the available information on our energy use, water use, solid waste generation and business travel in 2013-14 and includes comparative data for the previous two financial years.

Table 9: Our environmental footprint

Parameter	2011-12	2012-13	2013-14
Energy use, megajoules/m²			
Efic occupancy[(a)], electricity	684	722	445
Building services[(b)], electricity	538	346	294
Building services[(b)], gas	0	77	75
Green energy, electricity	0	0	0
Water (sewage data not available)			
Water, kilolitres[(c)]	3,132	Not available	Not available
Solid waste, tonnes[(d)]			**(6 months)**
Comingle (recycled)	Not available	Not available	5.1
Cardboard (recycled)	Not available	Not available	5.0
Waste to landfill	Not available	Not available	38.5
Business travel by our employees			
Total domestic (km)	0.73 million	0.68 million	0.89 million
Total international (km)	2.32 million	2.13 million	1.89 million

(a) This figure represents our energy use only, which is energy consumed on the floors that we occupy.
(b) Building services are common facilities for all floors of Export House and include lighting to common areas, lifts and air conditioning and hot water. Energy use per square meter is the building average.
(c) The water figure represents total usage by Export House. It is not possible to separately identify water use by floor or by tenancy. Water figures were not reliable during 2012-13 and 2013-14 due to a low recording meter.
(d) Data on the generation of waste could not be collected prior to a refurbishment of Efic's floors in 2013. Systems have been established to obtain this data and commenced in January 2014.

Renovations to Export House were completed in 2013. Systems to monitor energy use, water use and waste generation, and to assess performance, are operating and are being used to maximise efficiency.

Energy use by Efic and in Export House has declined significantly since the refurbishment. This is a pleasing result and demonstrates the effectiveness of the building efficiencies installed as part of the refurbishment.

We are in the process of amending our electricity supply contract and expect to source a part of our supply from green energy sources in the second half of 2014.

Data on solid waste generation is now being collected, also an outcome of the refurbishment.

Our employees flew 2.78 million kilometres during 2013-14. The majority of this travel was associated with either due diligence for new transactions or the management of existing transactions.

We accept higher risks than our commercial peers and we consider travel to be essential in managing those risks appropriately.

Stakeholder engagement

We engaged with our stakeholders in different ways during the year, including:

- **Clients:** This is discussed in the 'Our clients' section on pages 12-14.
- **Employees:** This is discussed in the 'Our people' section on pages 38-42.
- **Community:** The way in which we engage with the community is available on our website. We have a complaints process that allows anyone (customer, individual, group, community, or other party) concerned about our activities to complain and seek a response. Two complaints were received during 2013-14, both of which related to a transaction being declined. We resolved one complaint directly with the complainant, while the second complainant did not respond to us after submitting the complaint.
- **Government:** This is discussed in the 'Whole of government' section on page 28.

Business ethics

Our business ethics are discussed on our website.

Indemnities and insurance

All of our employees and Board members, and certain former employees and Board members, continued to have the benefit of an indemnity from us during 2013-14, covering them for liabilities incurred as an officer of Efic and related legal costs.

The scope of the indemnity is consistent with the requirements of the CAC Act and the *Competition and Consumer Act 2010 (Cth)* in relation to such indemnities.

During the year, we maintained and paid premiums for certain insurance to cover our employees and Board members.

This included directors' and officers' liability insurance and professional indemnity insurance (both of which include cover for certain legal costs), for which premiums totalling approximately $99,000 were paid. This represents a six-month rollover of the insurances. The annual premium for the financial year was quoted at $197,098.

We did not pay any amount in connection with Board member or employee indemnities during the year.

Judicial and administrative decisions and reviews

There were no judicial decisions or decisions of administrative tribunals that have had, or are likely to have, a significant impact on our operations during the financial year ended 30 June 2014.

The Auditor-General provided his annual independent auditor's report on our financial statements. The report was unmodified. This is discussed in the 'Financial statements' section on pages 65-66.

Freedom of Information

We are partially exempt from freedom of information legislation. The partial exemption and the strong secrecy obligation imposed on us recognises the need to keep confidential the commercial information that we obtain from Australian exporters and investors.

We are, however, required to publish certain information to the public as part of the Information Publication Scheme (IPS), details of which can be found on our website.

Particulars of directions from the Minister

Section 9 Efic Act directions

Section 9 of the Efic Act permits the Minister to issue directions to us with respect to the performance of our functions or the exercise of our powers.

We complied with the section 9 directions referred to below during 2013-14. It is not possible to assess the financial effect of these directions on us.

During the year ended 30 June 2014, directions dated 4 July 2007 were in effect in relation to the following matters:

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

Uranium

A new section 9 direction dated 18 June 2014 also came into effect during the year in relation to uranium. The new direction revoked a previous section 9 direction dated 1 June 2010.

This direction states that we must not provide assistance for any transaction linked to uranium unless we are satisfied that any foreign countries relevant to a particular transaction:

- are a party to the Treaty on the Non-Proliferation of Nuclear Weapons or have concluded a Nuclear Cooperation Agreement with Australia
- have in force a safeguards agreements and an Additional Protocol on strengthened safeguards within the International Atomic Energy Agency.

We must also obtain a proliferation risk assessment from the Department of Foreign Affairs and Trade (DFAT) and be satisfied, on the basis of that assessment, that the proliferation risk is acceptable.

Iran

A section 9 direction dated 15 October 2008 was in effect during the year ended 30 June 2014 in relation to trade with Iran.

The direction states that we must not accept an application from a person in respect of any transaction that relates to trade with, or investment in, Iran.

We also cannot 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 2014 in relation to Zimbabwe.

Under this direction:

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

Democratic People's Republic of Korea

A section 9 direction dated 19 July 2009 was in effect during the year ended 30 June 2014 in relation to the Democratic People's Republic of Korea (DPRK).

This direction states that we must not:

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

Australian Public Sector Workplace Bargaining Policy (Policy)

A section 9 direction dated 26 May 2014 was in effect during the year ended 30 June 2014 in relation to new workplace bargaining arrangements for Commonwealth public sector employees.

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

Section 29 Efic Act directions

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

During the year ended 30 June 2014, a direction dated 4 July 2007 was in effect that set out facility terms for the provision by us of indemnities or guarantees up to an aggregate of $30 million in relation to advance payments under, or performance of, contracts or proposed contracts.

Section 55 Efic Act directions

Section 55(2) of the Efic Act permits the Minister to issue directions to us regarding the payment of a dividend to the Commonwealth.

On 13 May 2014, the Treasurer announced in the Federal Budget a capital injection of $200 million to restore our capital base, following a $200 million special dividend paid in June 2013. Following the Budget announcement, the Minister confirmed that Efic should return to its normal dividend policy of paying 50 per cent of prior year profits on the Commercial Account as a dividend.

Accordingly, a dividend of $11.3 million was paid on 27 June 2014 based on a direction from the Minister for Trade and Investment dated 14 May 2014 that 50 per cent of the 2012-13 Commercial Account profit be paid as a dividend.

At the date of publication, the dividend for the year ended 30 June 2014 had not been determined.

Our risk management framework

Risk Management Framework

Our Risk Management Framework sets out our core principles and the types of risks that we face, which forms the basis of our Risk Appetite Statement and the Risk Control Matrix. You can view our Risk Management Framework on our website.

Our Risk Appetite Statement, while not a public document, describes in detail the manner in which our risk appetite and tolerances (qualitative and quantitative limits) are established and subsequently controlled.

Our approach to risk management and capital management is based around assessing the level of, and our appetite for risk, and ensuring that the level and quality of capital is appropriate to that risk profile.

Similarly, our Risk Control Matrix (RCM) is not a public document as it sets out each of the individual risks that our business faces, as well as our processes and the people responsible for managing these risks. It also includes our management's ratings regarding the likelihood and consequences of each risk.

By assigning practical responsibilities to individuals and management, the RCM engenders a culture of risk awareness. Risks are classified depending on their nature: strategic, reputation, credit/country, market and operational/financial.

The development of our Risk Management Framework and regular discussions with the Board and Audit Committees underlines our commitment to continuously improving our risk management practices, with particular emphasis on planning to identify new risks.

Core principles

Our risk management is built on a foundation that includes:

- awareness and commitment to a single purpose, common principles, shared values and a Code of Conduct that are reviewed and renewed periodically
- a suite of policies and procedures that are supplemented by supportive systems
- human resources practices intended to recruit, develop and retain employees with the required specialist skills
- delegation of responsibility throughout our business and accountability for outcomes
- control processes including 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

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

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

Our Credit Committee, chaired by our Chief Credit Officer, examines credit policy and practices in relation to exposures and potential transactions, with credit transactions approved under appropriate management delegations.

The Risk and Compliance Committee, chaired by our Compliance Counsel, examines, monitors and regulates compliance risks.

The Treasury Risk Review Committee, chaired by our Treasurer, examines treasury activities, limits, noteworthy transactions, and current financial market and risk issues.

Our Board engages an independent internal audit service provider to review our risk management and internal controls. This service provider, currently Deloitte, reports to our Board via the Board Audit Committee and the Executive, and has full access to our employees and company information when conducting its reviews.

The Australian National Audit Office and its appointed agent, currently Ernst & Young, perform an independent review of our financial statements twice a year. In 2014-2015, the Australian National Audit Office has appointed KPMG as its agent to perform this role.

The Chief Financial Officer is responsible for managing our risk management framework, including its periodic review and renewal.

Types of risks

We maintain a comprehensive list of risks that we must manage across the business. This list comes from internal consultation with the Executive team and is reviewed periodically.

Risks fall into the following categories:

- Strategic risk – the risk to income, expenses and capital or product offerings as a result of ineffective corporate planning, specific government policy, trade policy, dividend policy or other legislative implications, or poor decision-making or implementation of those decisions.
- Reputational risk – the risk of deterioration in our reputation arising from adverse publicity.
- Credit and Country risk – the risk that counterparties will default on obligations resulting in a financial loss.
- Market risk – the risk of any fluctuation in the value of a portfolio resulting from adverse changes in market prices and market parameters, including interest rates and exchange rates.
- Operational and Financial risk – the risk of loss resulting from inadequate or failed internal operational or financial processes and systems as well as the actions of people or from external events. We have grouped operational risks into a number of sub-categories, namely: general processes; external regulation; internal policies; domestic and international laws; and events.

Capital management

Under section 56 of the Efic Act, our Board is required *'to ensure, according to sound commercial principles, that the capital and reserves of Efic at any time are sufficient'* in order to:

a) meet our likely liabilities

b) make adequate provision for defaults in loan payments.

This requirement relates only to our Commercial Account activities.

We fulfil this obligation by setting our own regulatory standards, drawing upon both the standards of APRA and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision.

Our Board treats our capital as equivalent to the regulatory capital under Basel and APRA guidelines and uses this as the basis for setting risk tolerances with regard to capital adequacy and large exposures.

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

We hold no capital against the National Interest Account exposures on the basis that the risks are borne by the Commonwealth.

For further information on our capital adequacy, please see Note 20 of the Financial Statements on pages 115-117.

Capital adequacy

We consider capital adequacy from a number of perspectives.

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

(i) A capital adequacy ratio (CAR) assessing actual capital available against risk weighted assets (RWA), of which the Board requires cash capital to RWA to be higher than 8% and including callable capital to be higher than 16%.

(ii) The amount of regulatory capital required calculated under APRA/Basel prudential standards, and adding to regulatory capital an allowance for concentration risk to give a proxy for economic capital, compared to the actual capital available (cash and callable).

Our capital base has increased from $428.4 million to $437.6 due to growth in earnings, less the normal dividend paid to the Commonwealth based on 50 per cent of prior year profits.

Our capital base includes $200 million of callable (non-cash) capital with the balance of $228.4 million comprising retained earnings, reserves and contributed equity as cash capital.

Risk weighted assets declined slightly over the year from $2.0 billion to $1.9 billion. Our capital adequacy ratio including callable capital is 22.5% (21.2% in 2013) and 12.2% (11.3% in 2013) on a cash capital basis.

A second consideration when assessing our capital adequacy is the management of large exposures or concentrations in our portfolio (see 'Large exposures' section on page 54). Concentration risks arise as a natural consequence of operating within the 'market gap' mandate.

That is, Efic by default, fills financing gaps that the private sector will not or cannot support and those gaps may be in a particular country or industry sector that creates concentration risk for Efic.

Efic is unusual in that a significant component of the overall capital required is for concentration risk. The models used in Basel under Pillar 1 don't capture concentration risk, as a key assumption in the capital adequacy formula is that of full diversification i.e. the assumption is that no concentrations are present in the portfolio.

Concentration risk in the Basel context is the 'spread' of outstanding obligors or specifically the level of diversity that exists across a bank's loan portfolios. The lower the diversity, the higher the credit concentration risks.

Our Board had previously written to the Government, following the announcement in the May 2012 Federal Budget of a $200 million special dividend, outlining that we had a number of exposures to individual counterparties and countries that had exceeded, or would exceed, previously approved Board prudential limits.

Further, the Board highlighted that we would have limited or no capacity to consider new exposures to some counterparties and reduced capacity in some emerging and frontier markets in the absence of additional capital.

On 13 May 2014, the Treasurer announced in the Federal Budget a capital injection of $200 million to restore our capital base. The restoration of our capital base was contained in Appropriation Bill (no. 2) and received Royal Assent (Act No. 64) on 30 June 2014.

The actual payment of the $200 million in cash capital occurred on 23 July 2014 and therefore does not form part of our capital base as at 30 June 2014. Assuming it was part of our capital base at 30 June, the capital adequacy ratio including callable capital would have been 32.8% and 22.2% on a cash capital basis.

The $200 million capital injection now brings us back into compliance with our Board approved prudential limits and provides for additional capacity to support exporters, particularly SME and those serving emerging and frontier markets.

A third consideration when assessing our capital adequacy is foreign currency risk. Our actual capital available is denominated in AUD, whereas we have traditionally written larger loans in the currency required by our clients, which is typically USD.

This gives rise to a currency mismatch in that the numerator for capital adequacy purposes is fixed in AUD but the denominator is in a foreign currency, or specifically, the AUD equivalent of that foreign currency.

Similarly, large exposures and concentration risks denominated in a foreign currency are measured relative to capital fixed in AUD. Substantial movements in the exchange rate can therefore impact on capital adequacy and large exposure limits even though the underlying credit exposure in foreign currency is unchanged.

In this context, our Board looks beyond capital adequacy ratios to determine the amount of capital required to prudently manage Efic's business. Large exposures, concentration risks and potential currency movements all impact on Efic's business and capital is required as a buffer against these risks.

Case study Mindful Media - *Redesign My Brain*

Mindful Media is a Sydney-based film and television production company that makes factual programs that not only entertain but are also informative.

Its award-winning series Redesign My Brain was the highest-rated independent science program on the ABC in 2013. It won the AACTA Award for Best Documentary Television Program.

While Mindful Media was successful in obtaining investment funds, it couldn't get finance from commercial lenders to finish the series.

The company had applied for the Australian government's refundable tax rebate, Producer Offset, but production costs had to be met before the rebate could be received.

Mindful Media approached us for help and we approved a Producer Offset loan to help with production funding.

"Efic is integral in helping productions like *Redesign My Brain* come to fruition. We like doing business with Efic because the process is so straightforward," said Isabel Perez, Head of Production, Mindful Media and Senior Producer, *Redesign My Brain*.

Large exposures

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

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

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

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

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

In any event, under current delegations our Board must approve all transactions that involve commitments over $50 million.

As an exception to this policy, our Board has previously approved increases in exposure limits to single counterparties under risk transfer arrangements:

- from a maximum of 25 per cent to 37.5 per cent for risk transfer partners rated ERS 1 or 2
- from a maximum of 25 per cent to 50 per cent for risk transfer partners rated ERS 1 from government-backed export credit agencies.

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

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

Allowances for Risks

Allowance for credit risk

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

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

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

We incorporate an allowance for credit risk into the fair value calculation of all credit exposures, both on and off balance sheet. We assess this allowance in light of the expected losses over the life of facilities.

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

Under 'fair value', expected losses are incorporated into the fair-value calculation as an allowance for credit risk. The current model takes into account the magnitude and nature of the exposures, their risk grading, the type of exposure and the maturity.

We estimate the magnitude of the losses using external data for losses of similarly graded risks, as our own loss history is too narrow to be statistically sound. The fair-value methodology is based on a whole-of-life portfolio, rather than being event driven, for specific risk characteristics.

Periodically, we review our methodology and results against independent market sources to ensure consistency. We also review the inputs to the model, such as probability of default and loss given default each year, and run sensitivity scenarios that stress-test the model to take into account deterioration in our portfolio, including with respect to industry downturns.

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

We don't make any collective provision for losses on National Interest Account facilities as the Commonwealth reimburses us for any losses.

We monitor closely the financial health and risk grade of each of the counterparties to which we are exposed. At year end, the weighted average risk grade of our Commercial Account exposures, excluding reinsurance, was an Efic risk score (ERS) of 3.5.

An ERS of 1 is equivalent to a Standard & Poor's rating of AAA through AA– (Moody's: Aaa through Aa3), while an ERS of 7 is the lowest grade before default. An ERS of 3 is the equivalent of BBB+/BBB– (Baa1/Baa3) and an ERS of 4 is the equivalent of BB+/BB– (Ba1/Ba3).

Allowance for derivative risk

Standard practice within financial markets is to value the credit risk component of derivative transactions. It is also standard practice to recognise that different counterparties may value the same transaction differently – giving rise to valuation risk. Each year we consult with our external auditors on the appropriate way to value our derivative exposures to recognise both credit and valuation risk.

The Credit Valuation Adjustment (CVA) is by definition the difference between the risk-free portfolio and the true portfolio value that takes into account the possibility of a counterparty defaulting.

The Debt Valuation Adjustment (DVA) reflects an offset to the extent that a defaulting institution 'gains' on any outstanding liabilities that cannot be paid in full by them. Most banks therefore offset 'losses' from CVA with 'gains' from DVA, resulting in a smaller net impact to profitability.

We use CDS spreads as a proxy for credit risk in our CVA and DVA calculations, as it is more aligned to a 'fair value' approach.

We also take into account the risk that the valuation of a contract and the valuation of the same contract by our counterparty may not agree. We hold a reserve for valuation risk which reflects the fact that if a derivative counterparty fails for example, and there is a difference in settlement values when closing out the transaction, the difference would be written against the valuation risk reserve and not taken directly to profit and loss. Valuation risk is calculated on all cross currency transactions.

Residual margin

We apply fair value to our loans and guarantees and use a discounted cash flow methodology to calculate a valuation on day one for a particular transaction. To the extent that the net present value of the income stream and the allowance for credit risk adjustment on that transaction does not equal the cash flow on day one, this difference is termed 'residual margin' and includes other risk factors such as servicing costs and prepayment risk.

When these factors are included in the valuation, the day one profit equates to zero. The residual margin is then recognised over the life of the transaction.

Our Treasury

Activities

The core function of our Treasury unit is to prudently raise funding at competitive rates and to manage the investment of the capital and reserves portfolio, and the other investment and liquidity portfolios.

Our treasury activities are carried out within a control framework approved by our Board and compliant with the Efic Act, the CAC Act (as replaced by the PGPA Act on 1 July 2014) and associated approvals required of the Australian Government.

Within this framework, we aim to prudently minimise the cost of funding our loan assets on both the Commercial Account and National Interest Account, and to prudently maximise the return on our investments, including funds representing our equity, cash reserves and working capital.

In transacting on wholesale markets, our Treasury unit manages credit risk within Board and management-approved limits and does not trade speculatively.

We use derivative products to minimise currency and interest rate risks arising from our core businesses, and our funding and investing operations. Our management reports the results of our treasury operations regularly to our Board.

The loans we have provided to customers and the rescheduled debts are mostly denominated in foreign currencies. As at 30 June 2014, taking both the National Interest Account and Commercial Account into consideration, 87 per cent were denominated in US dollars and 9 per cent in Euro.

We don't take currency exposure on our assets and liabilities. We effectively eliminate this exposure by borrowing in the same currency as the assets or, typically, by borrowing in another currency and using cross-currency swaps and other foreign exchange instruments to remove the foreign exchange exposure.

Similarly, we use interest rate swaps and futures to match the interest rate profiles of our liabilities with those of our loans.

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

Income and expenses are converted to Australian dollars largely when they are received or paid and any currency exposure is subject to a small Board approved limit.

Note 18 of the Financial Statements on pages 91-109 provides further details about our financial exposures.

Borrowings

The main borrowing instruments currently used are medium-term notes issued in the capital markets and Euro-commercial paper. The main reason we borrow money is to fund loans made to exporters or buyers of Australian exports on either the Commercial Account or the National Interest Account.

Funding may also be necessary when contingent liabilities, such as export finance guarantees provided to banks to support the financing of Australian export trade, are called upon and we are required to pay out the bank.

For this reason, we are required to have additional funding capacity available to cover the possibility of borrower defaults and subsequent calls by lending banks on our guarantees.

We also maintain a diversified funding capability with spare capacity in order to ensure that we have a flexible and robust funding model that can accommodate a degree of disruption to financial markets and to enable a range of pricing and risk management strategies.

We are authorised to raise funds from our approved commercial paper borrowing facility in advance of loan funding needs. This facility was introduced in 1990 to maintain a minimum market presence and thereby enhance the effectiveness and robustness of our funding model.

Funding activity in 2013-14 included the issue of short-term Euro-commercial paper in US dollars, and short-term direct loans from banks. We were consistently able to borrow USD at sub-LIBOR margins.

Investments and liquidity

At 30 June 2014, the face value of our investment and liquidity holdings on the Commercial Account was $819 million, comprising cash, bank deposits and investment securities.

Of this amount, $208 million represented cash capital and reserves, while the remainder represented liquidity held to maintain a minimum market presence, reduce collateral posting risk or to refinance borrowings.

Our treasury investments, which are treated from an accounting perspective as 'available-for-sale', are required to be 'marked to market' and gains or losses are 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 (PGPA Act) requires our treasury investments to be in entities rated AA– or better, or authorised deposit-taking institutions rated BBB– or better.

Financial matters

Rescheduling and Debt Forgiveness

In previous years, pursuant to Paris Club determinations, we have rescheduled debts owed by the Indonesian, Egyptian 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 2013-14. At 30 June 2014, all previously rescheduled amounts had been paid on time as per the rescheduling agreements.

Indonesia

At 30 June 2014, our rescheduled loans to the Indonesian Government were $145.6 million on the National Interest Account and $7.6 million on the Commercial Account. The National Interest Account loans were predominantly loans supported by aid grants and approved under the now-discontinued Development Import Finance Facility. The loans have various maturities, the longest having a final repayment in 2024. At 30 June 2014, all rescheduled amounts had been paid on time as per the rescheduling agreements.

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 the Commercial Account, and US$93 million and €108 million on the National Interest Account.

On 8 July 2010, the then Minister for Foreign Affairs and Trade issued a section 31 direction requiring us to cancel up to $75 million in debt service owed to it by the Republic of Indonesia. This cancellation is contingent on the Republic of Indonesia investing in tuberculosis programs approved by the Global Fund to Fight AIDS, Tuberculosis and Malaria. During 2013-14, $9.6 million was cancelled under this program.

Egypt

At 30 June 2014, we were owed $48.3 million and US$15.8 million by the Egyptian Government ($12.1 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 2014, all rescheduled amounts had been paid on time as per the rescheduling agreements.

Iraq

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

The Paris Club agreed to provide Iraq with 80 per cent debt forgiveness in three stages. In May 2006, we signed a bilateral agreement with Iraq, which triggered 60 per cent forgiveness under stages one and two of the debt-relief package. The third and final stage of debt forgiveness, 20 per cent, was made in accordance with the last International Monetary Fund (IMF) Board review of Iraq's three-year IMF Program, in December 2008. The remaining principal debt is to be repaid over 17 years till January 2028.

At 30 June 2014, Iraq's debt was transferred from a contingent asset onto our balance sheet as a rescheduled debt but with 100 per cent impairment. The rescheduled debt balance at 30 June 2014 is US$0.6 million on the Commercial Account and US$168.1 million on the National Interest Account. At 30 June 2014, all rescheduled amounts have been paid on time as per the rescheduling agreements.

However, the current situation in Iraq and the deterioration in the economic environment were assessed as posing a real threat to the reliability of future payments. Accordingly, in consultation with the Department of Foreign Affairs and Trade, it was deemed appropriate to establish a 100 per cent provision for impairment against the rescheduled debt.

Therefore, future payments from Iraq will only be recognised as income on receipt and booked as a recovery, consistent with current practice. Recoveries made during the year under this agreement were taken to income, resulting in $15.5 million taken up as income during 2013-14 on the National Interest Account.

Dividends

Section 55 of the Efic Act requires our Board to make a written recommendation to the Minister for Trade and Investment (Minister) to pay a specified dividend, or not pay a dividend, to the Commonwealth for that financial year.

The Minister then either approves the recommendation or directs we pay a different dividend.

On May 13, 2014 the Treasurer announced in the Federal Budget a capital injection of $200 million to restore our capital base, following a $200 million special dividend paid in June 2013.

Following the Budget announcement, the Minister confirmed that we should return to our normal dividend policy of paying 50 per cent of prior year profits on the Commercial Account as a dividend.

Accordingly, a dividend of $11.3 million was paid on 27 June 2014, based on a direction from the Minister, dated 14 May 2014 that 50 per cent of the 2012-13 Commercial Account profit be paid as a dividend.

In addition to the $200 million special dividend paid, the dividend for last year was based on a direction from the previous Minister that 100 per cent of the 2011-12 profit of $26.8 million be paid as a dividend.

At the date of publication, the dividend for the year ended 30 June 2014 had not been determined.

Ten-year summary

Commercial Account

Years ended 30 June: $ million	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Signings	**577**	514	990	593	697	377	365	545	265	112
Export contracts and overseas investments supported	**2,138**	2,075	4,278	3,473	3,561	817	2,219	1,367	605	176
Net interest income	**22.6**	32.8	38.1	39.6	38.3	44.5	32.2	23.4	19.3	18.5
Net premiums and fees	**27.2**	15.0	16.5	14.5	32.0	11.0	4.6	9.0	19.2	12.8
Fair value other financial instruments	**(2.0)**	(3.0)	(4.1)	(6.1)	(7.4)	(4.2)	(1.6)	21.0	0.0	0.0
Other income	**4.1**	4.7	3.1	3.0	2.6	3.0	2.9	2.4	1.9	2.9
Total revenue	**51.9**	49.5	53.6	51.0	65.5	54.3	38.1	55.8	40.4	34.2
Operating expenses	**(27.9)**	(26.9)	(26.7)	(24.5)	(23.8)	(20.6)	(18.8)	(15.5)	(12.5)	(11.7)
(Charge)/credit for sundry allowances	**0.0**	0.0	0.1	3.6	(3.4)	(0.2)	0.0	0.0	0.0	6.7
Profit/(loss) from the discontinued credit insurance business	**0.2**	0.0	(0.2)	0.1	0.0	0.1	0.4	0.4	0.8	0.2
Operating profit of Efic	**24.2**	22.6	26.8	30.2	38.3	33.6	19.7	40.7	28.7	29.4
Dividend (paid in subsequent years)	**Not decided**	11.3	26.8	30.2	28.7	16.8	9.8	20.4	14.3	14.7
Dividend payout ratio	**Not decided**	50%	100%	100%	75%	50%	50%	50%	50%	50%
Special dividend	**0**	200	0	0	0	0	0	0	0	0
Equity	**225.9**	216.3	418.1	408.1	407.6	376.7	331.2	359.8	321.7	287.5
Return on average equity (% pa)	**11%**	5%	6%	7%	10%	9%	6%	12%	9%	11%
Capital adequacy ratio including callable capital	**22.5%**	21.2%	31.0%	34.6%	37.3%	31.2%	34.5%	46.5%	34.2%	33.8%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	**594**	535	458	361	342	227	145	120	210	263
Funded EFG's	**123**	149	101	102	115	55	0	0	0	0
Guarantees and other off-balance-sheet exposures	**663**	654	513	362	403	514	510	408	464	498
Exposures reinsured	**478**	362	327	112	87	206	212	103	142	97
Rescheduled debts	**13**	16	20	24	22	24	25	26	33	37
Total Commercial Account facilities	**1,871**	**1,716**	**1,419**	**961**	**969**	**1,026**	**892**	**657**	**849**	**895**

National Interest Account

Years ended 30 June: $ million	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Signings	**0**	0	13	0	274	200	4	9	5	4
Export contracts and overseas investments supported	**0**	0	240	0	2,411	530	18	85	33	39
Exports supported by Australian content by drawdown	**305**	904	1,005	338	0	0	21	46	21	30
Net interest income (including grant amortised)	**2.1**	2.1	1.2	1.0	2.9	3.0	0.3	9.5	17.7	18.7
Net premiums and fees	**9.8**	7.7	5.3	5.0	6.9	2.2	2.4	2.6	3.0	3.2
Fair value other financial instruments	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	60.6	88.0	0.0
Total revenue	**11.9**	9.8	6.5	6.0	9.8	5.2	2.7	72.7	108.7	21.9
Operating expenses	**(1.6)**	(2.2)	(1.4)	(1.5)	(2.5)	(2.7)	(1.8)	(3.8)	(4.3)	(4.7)
(Charge)/credit for specific provisions	**(9.6)**	(8.3)	(8.1)	(7.5)	0.1	0.2	1.8	1.4	0.0	2.7
Profit/(loss) from the discontinued credit insurance business	**15.3**	14.7	19.6	10.7	2.0	(2.9)	2.1	0.1	2.1	(7.9)
Operating profit attributable to the Commonwealth	**16.0**	14.0	16.6	7.7	9.4	(0.2)	4.8	70.4	106.5	12.0
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	**625**	670	590	567	722	898	893	1,066	1,326	1,398
Guarantees and other off-balance-sheet exposures	**11**	11	6	0	1	4	8	11	8	7
Exposures reinsured	**0**	5	10	18	33	45	43	52	61	59
Rescheduled debts	**232**	72	87	101	101	111	111	121	360	532
Total National Interest facilities	**867**	**758**	**693**	**686**	**858**	**1,058**	**1,055**	**1,250**	**1,755**	**1,996**

We put our clients at the heart of all we do.
We build genuine partnerships.
We use our commercial nous to grow Australia's exports.
We advocate for Australian exporters.
We act responsibly.

Financial statements

Statement by Board members and Chief Financial Officer

In the opinion of the members of the Board and the Chief Financial Officer of the Export Finance and Insurance Corporation (the Corporation/Efic):

(a) the accompanying financial statements are drawn up to give a true and fair view of the performance of the Corporation for the year ended 30 June 2014 and the financial position of the Corporation at 30 June 2014;

(b) the financial statements give a true and fair view of the matters required by Schedule 1 of the *Commonwealth Authorities and Companies Orders* (Financial Statements for periods ended on or after 1 July 2013) under subsection 48(1) of the *Commonwealth Authorities and Companies Act 1997* (the CAC Act);

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

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

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

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

Signed in accordance with a resolution of the Board:

Andrew Mohl Chairman	Andrew Hunter Managing Director and CEO	Stuart Neilson Chief Financial Officer

28 August 2014

Independent auditor's report

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Trade and Investment

I have audited the accompanying financial statements of the Export Finance and Insurance Corporation for the year ended 30 June 2014, which comprise: a Statement by Board Members and Chief Financial Officer; the Statement of Comprehensive Income; Statement of Financial Position; Statement of Changes in Equity; Cash Flow Statement; and Notes to and forming part of the financial statements comprising a Summary of Significant Accounting Policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I 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 about whether the financial statements are free from material misstatement.

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

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Independent auditor's report

(continued)

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

Independence

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

Opinion

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

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

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Export Finance and Insurance Corporation's financial position as at 30 June 2014 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Phillip Sands

Phillip Sands

Executive Director
Delegate of the Auditor-General

Canberra
28 August 2014

Statement of comprehensive income

(for the year ended 30 June 2014)

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
Interest income	3(i)	**140.1**	161.7	**25.4**	28.5
Interest expense	3(ii)	**(117.5)**	(128.9)	**(23.3)**	(26.4)
Net interest income		**22.6**	32.8	**2.1**	2.1
Fair value movement of third-party loans and guarantees	3(iii)	**27.2**	14.4	**-**	-
Fair value movement of other financial instruments	3(iv)	**(2.0)**	(3.0)	**-**	-
Foreign exchange profit/(loss)		**0.2**	0.6	**(0.2)**	(0.1)
Other revenue	3(v)	**4.1**	4.7	**25.3**	22.5
Operating income		**52.1**	49.5	**27.2**	24.5
Operating expenses	3(vi)	**(27.9)**	(26.9)	**(1.6)**	(2.2)
Net operating income		**24.2**	22.6	**25.6**	22.3
Net rescheduled loans and debt forgiveness	3(vii)	**-**	-	**(9.6)**	(8.3)
Profit/(loss) from ordinary activities		**24.2**	22.6	**16.0**	14.0
National Interest Account attributable directly to the Commonwealth		**-**	-	**(16.0)**	(14.0)
Net profit available to the Commonwealth		**24.2**	22.6	**-**	-
Other comprehensive income					
Items subject to subsequent reclassification to profit or loss:					
Net gain/(loss) taken to equity on cash flow hedge		**(0.5)**	(0.4)	**-**	-
Net fair value gain/(loss) on available-for-sale investments		**(2.8)**	2.8	**-**	-
Total other comprehensive income for the period		**(3.3)**	2.4	**-**	-
Total comprehensive income for the period available to the Commonwealth		**20.9**	25.0	**-**	-

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

Statement of financial position

(as at 30 June 2014)

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
Assets					
Cash and liquid assets	1(i)	**1.2**	0.6	**-**	-
Receivables from other financial institutions	4, 1(j)	**150.9**	129.6	**-**	-
Amounts receivable from the Commonwealth	5	**-**	-	**-**	3.8
Available-for-sale investment securities	6, 1(k)	**681.6**	745.2	**-**	-
Loans and receivables at amortised cost	7, 1(l)	**29.7**	36.9	**631.4**	685.6
Loans and receivables designated at fair value through profit or loss	8, 1(m)	**855.5**	783.2	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	1(n)	**692.9**	768.8	**-**	-
Derivative financial instruments	9, 1(o)	**170.6**	193.3	**-**	-
Property, plant and equipment	10, 1(p)	**46.0**	47.7	**-**	-
Other assets	11	**2.3**	1.4	**16.6**	18.5
Total assets		**2,630.7**	2,706.7	**648.0**	707.9
Liabilities					
Payables to other financial institutions	12, 1(q)	**45.1**	62.2	**-**	-
Amounts payable to the Commonwealth	5	**-**	-	**0.5**	-
Borrowings from Commercial Account	1(r)	**-**	-	**643.4**	702.5
Borrowings designated at fair value through profit or loss	13, 1(s)	**2,175.0**	2,193.8	**-**	-
Guarantees designated at fair value through profit or loss	14, 1(t)	**23.3**	32.1	**-**	-
Derivative financial instruments	9, 1(o)	**136.2**	179.0	**-**	-
Sundry provisions and allowances	15	**3.7**	3.6	**-**	-
Other liabilities	16	**21.5**	19.7	**4.1**	5.4
Total liabilities		**2,404.8**	2,490.4	**648.0**	707.9
Net assets		**225.9**	216.3	**-**	-
Equity					
Contributed equity		**6.0**	6.0	**-**	-
Capital injection		**-**	-	**-**	-
Reserves		**108.8**	112.1	**-**	-
Retained profits		**111.1**	98.2	**-**	-
Total equity		**225.9**	216.3	**-**	-

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

Statement of changes in equity

(for the year ended 30 June 2014)

	Retained Profits $ m	Asset Revaluation Reserves $ m	Available-for-sale Investment Reserve $ m	Cash Flow Hedge Reserve (Note 18) $ m	Other Reserves $ m	Contributed Equity $ m	Total Equity $ m
Commercial Account							
Opening balance as at 30 June 2013	**98.2**	**36.6**	**7.8**	**1.5**	**66.2**	**6.0**	**216.3**
Comprehensive income							
Other comprehensive income	**-**	**-**	**(2.8)**	**(0.5)**	**-**	**-**	**(3.3)**
Profit/(loss) for the period	**24.2**	**-**	**-**	**-**	**-**	**-**	**24.2**
Total comprehensive income	**24.2**	**-**	**(2.8)**	**(0.5)**	**-**	**-**	**20.9**
Transactions with the Commonwealth							
Dividends paid 2012-13 profit	**(11.3)**	**-**	**-**	**-**	**-**	**-**	**(11.3)**
Special dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance available to the Commonwealth 30 June 2014	**111.1**	**36.6**	**5.0**	**1.0**	**66.2**	**6.0**	**225.9**
Commercial Account							
Opening balance as at 30 June 2012	302.4	36.6	5.0	1.9	66.2	6.0	418.1
Comprehensive income							
Other comprehensive income	-	-	2.8	(0.4)	-	-	2.4
Profit/(loss) for the period	22.6	-	-	-	-	-	22.6
Total comprehensive income	22.6	-	2.8	(0.4)	-	-	25.0
Transactions with the Commonwealth							
Dividends paid 2011-12 profit	(26.8)	-	-	-	-	-	(26.8)
Special dividends paid	(200.0)	-	-	-	-	-	(200.0)
Closing balance available to the Commonwealth 30 June 2013	98.2	36.6	7.8	1.5	66.2	6.0	216.3

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

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 of callable capital from the Commonwealth, which to date has never been called.

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

On May 13 2014 the Treasurer announced in the Federal Budget a capital injection of $200 million to restore Efic's capital base following a $200 million special dividend paid in June 2013. The capital injection will bring Efic back into compliance with its own internal capital-based limits for large exposures and country risk.

Following the announcement in the Federal Budget, the Minister for Trade and Investment (Minister) confirmed that Efic should return to its normal dividend policy of paying 50% of prior year profits on the commercial account as a dividend.

Accordingly, a dividend of $11.3 million was paid on 27 June 2014 based on a direction from the Minister which was 50% of the 2012-13 commercial account profit. In the prior year, in addition to the $200 million special dividend paid, the dividend was based on a direction from the previous Minister that 100% of the 2011-12 profit of $26.8 million be paid as a dividend.

Cash flow statement

(for the year ended 30 June 2014)

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
Cash flows from operating activities					
Inflows:					
Premium and fees received*		**23.1**	26.5	**8.4**	6.0
Interest received		**138.0**	169.6	**12.3**	12.8
Insurance claim recoveries		**0.1**	0.1	**15.8**	14.5
Guarantees and associated costs recovered		**0.9**	0.2	**-**	-
Sundry income*		**2.2**	2.7	**-**	-
Rescheduled debt repayments		**4.3**	4.0	**19.0**	16.9
Net decrease/(increase) in other debtors and prepayments		**3.9**	0.4	**0.3**	(0.6)
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(3.0)**	(1.7)	**-**	-
Interest and other costs of finance paid		**(117.5)**	(133.0)	**(24.6)**	(27.6)
Loan administration management fee		**(0.4)**	(0.3)	**-**	-
Guarantees called and associated costs		**-**	(0.2)	**-**	-
Net repayments/(disbursements) of loans		**(34.5)**	(90.4)	**38.4**	(17.6)
Payments to creditors and employees*		**(26.0)**	(26.1)	**-**	-
Net cash from/(used by) operating activities	23	**(8.9)**	(48.2)	**69.6**	4.4
Cash flows from investing activities					
Inflows:					
Proceeds from available-for-sale investments		**710.4**	1,195.8	**-**	-
Proceeds from sale of property, plant and equipment		**0.2**	0.1	**-**	-
Outflows:					
Payments for available-for-sale investments		**(639.7)**	(1,084.2)	**-**	-
Payments for property, plant and equipment		**(1.7)**	(3.3)	**-**	-
Net cash from/(used by) investing activities		**69.2**	108.4	**-**	-

* Grossed up for Goods and Services Tax

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		**-**	-	**12.5**	13.1
Receipts from National Interest Account		**1.8**	2.1	**-**	-
Outflows:					
Net proceeds/(repayments) of borrowings		**(24.7)**	(218.1)	**(56.0)**	4.7
Dividend payments to the Commonwealth		**(11.3)**	(257.0)	**-**	-
Other payments to the Commonwealth		**-**	-	**(24.3)**	(20.1)
Payments to Commercial Account		**-**	-	**(1.8)**	(2.1)
Net cash from/(used by) financing activities		**(34.2)**	(473.0)	**(69.6)**	(4.4)
Net increase/(decrease) in cash equivalents held		**26.1**	(412.8)	**-**	-
Cash equivalents at beginning of financial year		**130.2**	552.7	**-**	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		**(4.2)**	(9.7)	**-**	-
Cash equivalents at end of financial year	23	**152.1**	130.2	**-**	-

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

Note 1: Summary of significant accounting policies

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

"Efic is a specialist financier that delivers simple and creative solutions to Australian companies – to enable them to win business, grow internationally and achieve export success."

As the Australian Governments export credit agency (ECA), Efic works directly with businesses and their banks to provide loans, guarantees, bonds and insurance products. Efic also support buyers of Australian goods and services in emerging markets and subcontractors of Australian exporters.

Efic's primary purpose is to facilitate and encourage Australian export trade on a commercial basis. Efic assists these clients specifically, by providing financial services in circumstances where they have been unable to source adequate finance from the private sector.

The continued existence of Efic in its present form is dependent on Government policy.

(a) Basis of preparation of the Financial Statements

"On 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act) replaced the *Commonwealth Authorities* and Companies Act 1997 (the CAC Act). However as these financial statements are prepared as at 30 June 2014, the provisions under the CAC Act still apply and accordingly these financial statements are prepared in accordance with clause 1(b) of Schedule 1 to the CAC Act and are general purpose financial statements."

The financial statements have been prepared in accordance with:

- the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that apply for the reporting period; and
- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011.

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

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

(i) Business undertaken on the Commercial Account

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

The Commercial Account operates on a for-profit basis and bears all the risks for those business activities undertaken under Part 4 of the Efic Act.

(ii) Business undertaken on the National Interest Account

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

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

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

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

Note 1: Summary of significant accounting policies *(continued)*

(b) New Australian Accounting Standards (AAS)

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

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

Listed below are the standards (including reissued standards) and interpretations introduced by the Australian Accounting Standards Board (AASB) this year that will become effective in the future. Based on an initial assessment at this date the expected impact on the financial statements of adoption of these standards is not significant, other than the requirements of AASB 9 'Financial Instruments' which does not come into effect until 1 July 2018 and Efic has not yet determined the impact. It should be noted that AASB 2012-3 when adopted, will result in a significant gross up on the balance sheet of derivative assets and derivative liabilities of approximately $2 billion. Efic intends to adopt all the standards upon their application date.

Standard	Title	Application date for Efic
AASB 1031	Materiality	1 July 2014
AASB 1055	Budgetary Reporting	1 July 2014
AASB 9	Financial Instruments	1 July 2018
Interp. 21	Levies	1 July 2014
AASB 2012-3	Amendments to AAS – offsetting financial assets and financial liabilities	1 July 2014
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	1 July 2014
AASB 2013-4	Amendments to AAS – Novation of Derivatives and Continuation of Hedge Accounting	1 July 2014
AASB 2013-5	Amendments to AAS – Investment Entities	1 July 2014
AASB 2013-7	Amendments to AASB 1036 arising from AASB 10 in relation to Consolidation and interests of Policyholders	1 July 2014
AASB 2013-9	Amendments to AAS – Conceptual Framework, Materiality and Financial Instruments (Part B)	1 July 2014
AASB 2014-1	Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles	1 July 2014
AASB 2014-1	Part B: Defined Benefit Plans: Employee Contributions	1 July 2014
AASB 2014-1	Part C: Materiality	1 July 2014
AASB 2014-2	Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements	1 July 2014
AASB 2013-9	Amendments to AAS - Conceptual Framework, Materiality and Financial Instruments (Part C)	1 July 2015
AASB 2014-1	Part D: Consequential Amendments arising from AASB 14	1 July 2016
AASB 2014-1	Part E: Financial Instruments	1 July 2018

(c) Recognition of income and expenses

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

On the National Interest Account income and expenses are recognised in the financial statements as earned or incurred from the date of attachment of risk and are taken through profit or loss using the effective interest method.

(d) Operating segments

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

(e) Unamortised grants

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

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

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

Note 1: Summary of significant accounting policies *(continued)*

(f) Foreign currency

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

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

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

	2014	2013
Average rates during year		
US$/A$	**0.9186**	1.0272
Euro/A$	**0.6772**	0.7953
Yen/A$	**92.7782**	89.7431
Rates at 30 June		
US$/A$	**0.9421**	0.92775
Euro/A$	**0.6906**	0.7096
Yen/A$	**95.4344**	91.6200

(g) Hedge accounting

Hedge accounting is only applied on transactions where the formal documentation and designation criteria has been met. The purpose of cash flow hedges is to hedge the exposure to variability in interest rate movements that are attributable to future interest cash flows. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion of the hedge is recognised through profit or loss.

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

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

(h) Taxation

Under section 63 of the Efic Act, Efic is not subject to income tax and a number of other taxes, however, 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 asset

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.

Note 1: Summary of significant accounting policies *(continued)*

(j) Receivables from other financial institutions

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

(k) Available-for-sale investment securities

Available-for-sale investment securities are those purchased with an intention of being held until maturity but can be sold if required. They are short-term, medium-term and long-term government, bank and other debt securities and include bonds, bills of exchange, commercial paper and certificates of deposit. Interest income is taken up using the effective interest method. They are carried at market value with changes in fair value recognised directly in equity unless they are part of a fair value hedge where, in that case, the changes in fair value that are due to future interest cash flows in an effective hedge are taken directly through profit or loss. For more detail on the valuation calculation refer to Note 19.

(l) Loans and receivables at amortised cost

On the Commercial Account, transactions that are recorded at amortised cost are floating rate loans. As such the amortised value approximates their fair value.

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

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

Export finance loans and rescheduled credit insurance debts held on the Commercial Account are designated at fair value through profit or loss. They are designated at fair value as this designation significantly reduces the accounting mismatch that would otherwise arise from measuring the asset on a different basis from derivatives that have been entered into to hedge the transactions. Interest income through profit or loss is recorded using the effective interest method, which forms part of the fair value calculation. Movement in fair value for premium, reinsurance, residual margin, interest income and credit risk is recorded separately through profit or loss. For more detail on the fair value calculation refer to Note 19.

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

The Commercial Account funds the loans on the National Interest Account and this funding is recorded in the Commercial Account at fair value through profit or loss. For more detail on the fair value calculation refer to Note 19.

(o) Derivative financial instruments

Efic uses derivative financial instruments on the Commercial Account to manage exposures to interest rate and foreign exchange risk. These include foreign exchange contracts, interest rate and cross-currency swaps, futures contracts and forward rate agreements. Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured to their fair value at each reporting date. Derivatives are carried as assets when their fair value is positive (in the money) and as liabilities when their fair value is negative (out of the money). Any gains and losses arising from changes in the fair value of derivatives, except those that qualify for hedge accounting, are taken through profit or loss. For more detail on the fair value calculation refer to Note 19.

Note 1: Summary of significant accounting policies *(continued)*

(p) Property, plant and equipment

Property, plant and equipment are revalued periodically to fair value, as required by Schedule 1 of the *Commonwealth Authorities and Companies Orders* (Financial Statements for periods ended on or after 1 July 2011) 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 remain the same as last year and the rates used are as follows:

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

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

(q) Payables to other financial institutions

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

(r) Borrowings from Commercial Account

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

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

Commercial paper, medium-term notes, bonds and callable bonds (which may have embedded derivatives) are designated at fair value through profit or loss. They are designated at fair value as this designation significantly reduces the accounting mismatch that would otherwise arise from measuring the liability on a different basis from derivatives that have been entered into to hedge the transactions. Interest expense in the profit or loss is recorded using the effective interest method, which forms part of the fair value calculation, and movement in fair value is recorded separately through profit or loss. For more detail on the fair value calculation refer to Note 19.

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

Guarantees, medium term insurance, bonds and political risk insurance transactions are regarded as financial instruments under accounting standards. These are designated at fair value through profit or loss at inception. Subsequently, they are carried at their fair value with any movements transferred through profit or loss. For more detail on the fair value calculation refer to Note 19.

Note 1: Summary of significant accounting policies *(continued)*

(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 reporting date. Long service leave is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date and discounted using appropriate market yields at reporting date.

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

(v) Sundry creditors

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

(w) Cash flows

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

(x) Contingencies and commitments – assets and liabilities

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

Commitments to provide financial facilities are contractually based. For loans and funded guarantees Efic has committed to lend a fixed amount and any undrawn amounts under these facilities are shown as commitments. For guarantees, political risk insurance and bonds, Efic has committed to cover a fixed exposure and any undrawn amounts under these facilities are shown as commitments.

(y) Comparative figures

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

(z) Events after the reporting period

There have been no material events occurring after the reporting period that impact these financial statements for the year ending 30 June 2014.

Note 2: Significant accounting judgements, estimates and assumptions

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

Impairment of available-for-sale investment securities

Efic holds a number of available-for-sale financial assets. A review of these assets has been undertaken for the year ended 30 June 2014, and it has been determined that no investment is considered to be impaired. On a portfolio as well as on an individual basis, there has been an appreciation in the value of the available-for-sale investments since purchase.

Plant and equipment

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

An independent valuation of land and buildings was carried out in June 2012 by Mr Mark Smallhorn FAPI, Registered Valuer No. 1207 and Mr James Marks AAPI, Registered Valuer No. 14499 of Jones Lang La Salle. On a capital approach and discounted cash flow analysis, the land and buildings were valued at $38,900,000.

Fair value of financial instruments

Where financial instruments have a price quoted in an active market, this is its fair value.

Where the fair value of financial instruments cannot be determined from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 19.

Significant accounting events on judgements, estimates and assumptions during the year

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

Note 3: Revenue and expenses

	Commercial Account		National Interest Account	
	30 June 2014 $ m	30 June 2013 $ m	**30 June 2014 $ m**	30 June 2013 $ m
(i) Interest income				
Receivables from other financial institutions	**1.0**	1.9	**-**	-
Available-for-sale investment securities	**23.9**	36.3	**-**	-
Loans at amortised cost	**0.1**	0.2	**25.4**	28.5
Loans and receivables designated at fair value through profit or loss	**10.8**	11.8	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	**22.8**	26.2	**-**	-
Derivative financial instruments	**81.5**	85.3	**-**	-
Total interest income	**140.1**	161.7	**25.4**	28.5
(ii) Interest expense				
Payables to other financial institutions	**(0.3)**	(0.6)	**-**	-
Borrowings from Commercial Account	**-**	-	**(23.3)**	(26.4)
Borrowings at amortised cost	**(0.1)**	(0.2)	**-**	-
Borrowings designated at fair value through profit or loss	**(68.2)**	(68.5)	**-**	-
Derivative financial instruments	**(48.9)**	(59.6)	**-**	-
Total interest expense	**(117.5)**	(128.9)	**(23.3)**	(26.4)
(iii) Fair value movement of third-party loans and guarantees				
Net premium and fees	**34.7**	31.7	**-**	-
Reinsurance	**(10.7)**	(5.4)	**-**	-
Interest income/(expense)	**(1.1)**	(1.7)	**-**	-
Credit risk	**1.2**	(6.8)	**-**	-
Specific events	**3.1**	(3.4)	**-**	-
Total fair value movement of third-party loans and guarantees	**27.2**	14.4	**-**	-
(iv) Fair value movement of other financial instruments				
Available-for-sale investment securities	**(0.6)**	(0.4)	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	**(15.5)**	(15.0)	**-**	-
Borrowings designated at fair value through profit or loss	**(17.6)**	0.2	**-**	-
Derivative financial instruments	**31.7**	12.2	**-**	-
Total fair value movement of other financial instruments	**(2.0)**	(3.0)	**-**	-
(v) Other revenue				
Premium and fees	**-**	-	**9.8**	7.6
Rental income	**1.5**	2.4	**-**	-
Sundry income	**0.1**	0.1	**-**	-
Profit on sale of available-for-sale investment securities	**2.3**	1.9	**-**	-
Recoveries from export finance	**0.1**	0.2	**-**	-
Recoveries from credit insurance	**0.1**	0.1	**15.5**	14.9
Total other revenue	**4.1**	4.7	**25.3**	22.5

Note 3: Revenue and expenses *(continued)*

	Commercial Account		National Interest Account	
	30 June 2014 $ m	30 June 2013 $ m	**30 June 2014 $ m**	30 June 2013 $ m
(vi) Operating expenses				
Staff costs	**(15.7)**	(15.1)	**-**	-
Depreciation	**(3.4)**	(3.2)	**-**	-
Superannuation costs	**(1.6)**	(1.5)	**-**	-
Advertising and promotional costs	**(1.6)**	(1.4)	**-**	-
Property costs	**(1.4)**	(1.2)	**-**	-
Professional fees	**(1.3)**	(2.1)	**-**	-
Travel costs	**(1.2)**	(1.3)	**-**	-
Computer and communication costs	**(0.8)**	(0.8)	**-**	-
Credit information	**(0.4)**	(0.4)	**-**	-
Provision for employee entitlements	**(0.3)**	(0.4)	**-**	-
Other expenses	**(1.8)**	(1.7)	**-**	-
National Interest Account recovery/(expense)	**1.6**	2.2	**(1.6)**	(2.2)
Total operating expenses	**(27.9)**	(26.9)	**(1.6)**	(2.2)
(vii) Net rescheduled loans and debt forgiveness				
Reinstatement of rescheduled loan	**0.7**	-	**178.4**	-
Credit/(charge) to specific provisions	**(0.7)**	-	**(178.4)**	-
Debt forgiveness	**-**	-	**(9.6)**	(8.3)
Total rescheduled loans and debt forgiveness	**-**	-	**(9.6)**	(8.3)

At 30 June 2014, Iraq's debt was transferred from a contingent asset onto the balance sheet as a rescheduled debt but with 100% impairment. The rescheduled debt balance at 30 June 2014, is US$168.1 million on the National Interest Account and US$0.6 million on the Commercial Account. At 30 June 2014, all rescheduled amounts have been paid on time as per the rescheduling agreements. However, the current situation in Iraq and the deterioration in the economic environment were assessed as posing a real threat to the reliability of future payments. Accordingly, in consultation with DFAT, it was deemed appropriate to establish a 100% provision for impairment against the rescheduled debt. Therefore future payments from Iraq will only be recognised as income on receipt, consistent with current practice. Recoveries made during the year under this agreement were taken to income resulting in $15.5 million on the National Interest Account and $0.1 million on the Commercial Account taken up as income during 2013-14.

On 8 July 2010 the then Minister for Trade issued a section 31 Direction under the Efic Act requiring Efic to cancel up to $75 million in debt owed to it by the Republic of Indonesia. In this financial year $9.6 million (2013: $8.3m) was cancelled bringing the total cancelled to $33.4 million and the remainder is available to be cancelled if the Republic of Indonesia continues to invest in approved tuberculosis programs.

Note 4: Receivables from other financial institutions

	Note	Commercial Account		National Interest Account	
		30 June 2014 $ m	30 June 2013 $ m	**30 June 2014 $ m**	30 June 2013 $ m
	1(j)				
Overnight deposits		**57.2**	30.3	**-**	-
Fixed cash deposits		**93.7**	99.3	**-**	-
Total receivables from other financial institutions		**150.9**	129.6	**-**	-
Maturity analysis of receivables from other financial institutions					
At call		**57.2**	30.3	**-**	-
Due in less than 3 months		**85.7**	61.9	**-**	-
Due after 3 months to 1 year		**8.0**	37.4	**-**	-
Total receivables from other financial institutions		**150.9**	129.6	**-**	-

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

Note 5: Amounts receivable from/(payable to) the Commonwealth

	Commercial Account		National Interest Account	
	30 June 2014 $ m	30 June 2013 $ m	**30 June 2014 $ m**	30 June 2013 $ m
Commonwealth opening balance receivable	**-**	-	**3.8**	10.7
Net (receipts from)/payments to the Commonwealth	**-**	-	**11.7**	7.1
	-	-	**15.5**	17.8
Less: Profit/(loss) for the year on National Interest Account	**-**	-	**16.0**	14.0
Total amounts receivable from/(payable to) the Commonwealth	**-**	-	**(0.5)**	3.8

Note 6: Available-for-sale investment securities

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
	1(k)				
Discount securities		**194.3**	265.5	**-**	-
Floating rate notes		**249.3**	249.3	**-**	-
Fixed rate bonds		**238.0**	230.4	**-**	-
Total available-for-sale investment securities		**681.6**	745.2	**-**	-
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**96.5**	24.4	**-**	-
Due after 3 months to 1 year		**188.5**	354.0	**-**	-
Due after 1 year to 5 years		**396.6**	366.8	**-**	-
Total available-for-sale investment securities		**681.6**	745.2	**-**	-

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

Note 7: Loans and receivables at amortised cost

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
	1(l)				
Gross export finance loans		**-**	-	**624.6**	674.9
Gross funded export finance guarantees		**29.7**	36.9	**-**	-
Gross rescheduled credit insurance debts		**0.7**	-	**231.5**	72.1
Loans and receivables gross		**30.4**	36.9	**856.1**	747.0
Unearned premiums		**-**	-	**(7.6)**	(8.9)
Specific provision for impairment		**(0.7)**	-	**(188.1)**	(9.7)
Deferred income		**-**	-	**(4.4)**	(7.9)
Unamortised grants	1(e)	**-**	-	**(24.6)**	(34.9)
Total loans and receivables at amortised cost		**29.7**	36.9	**631.4**	685.6
Maturity analysis loans and receivables gross					
Overdue – impaired		**-**	-	**9.7**	9.7
Due in 3 months or less		**-**	-	**22.1**	21.3
Due after 3 months to 1 year		**6.6**	6.7	**70.7**	75.7
Due after 1 year to 5 years		**23.3**	26.8	**357.4**	289.3
Due after 5 years		**0.5**	3.4	**396.2**	351.0
Total loans and receivables gross		**30.4**	36.9	**856.1**	747.0
Restructured exposures included above		**0.7**	-	**376.9**	233.7

Note 7: Loans and receivables at amortised cost *(continued)*

At 30 June 2014, Iraq's debt was transferred from a contingent asset onto the balance sheet as a rescheduled debt but with 100% impairment. The rescheduled debt balance at 30 June 2014, is US$168.1 million on the National Interest Account and US$0.6 million on the Commercial Account. At 30 June 2014, all rescheduled amounts have been paid on time as per the rescheduling agreements. However, the current situation in Iraq and the deterioration in the economic environment were assessed as posing a real threat to the reliability of future payments. Accordingly, in consultation with DFAT, it was deemed appropriate to establish a 100% provision for impairment against the rescheduled debt. Therefore future payments from Iraq will only be recognised as income on receipt, consistent with current practice. The provision for impairment will continue to be assessed on an ongoing basis.

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

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

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

A loan or receivable is recognised as impaired when it is likely that the debt will not be recovered in full. In this instance a specific provision will be created for the impairment. There are no overdue amounts for non-impaired loans.

	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
Specific provision				
Specific provision opening balance	**-**	-	**9.7**	9.7
Charge against asset transferred from contingent	**0.7**	-	**178.4**	-
Specific provision closing balance	**0.7**	-	**188.1**	9.7
Impaired loans				
Impaired loans	**0.7**	-	**188.1**	9.7
Specific provision for impairment	**(0.7)**	-	**(188.1)**	(9.7)
Carrying value of impaired loans	**-**	-	**-**	-
Interest foregone on impaired loans	**-**	-	**0.2**	0.3

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

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

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
	1(m)				
Gross export finance loans		**633.5**	564.0	**-**	-
Gross funded export finance guarantees		**218.1**	218.7	**-**	-
Gross rescheduled credit insurance debts		**12.1**	16.4	**-**	-
Loans and receivables gross		**863.7**	799.1	**-**	-
Fair value net premium and fees		**16.5**	18.6	**-**	-
Fair value interest income		**2.1**	2.5	**-**	-
Fair value of credit risk		**(26.8)**	(30.6)	**-**	-
Fair value of specific events		**-**	(6.4)	**-**	-
Total loans and receivables at fair value		**855.5**	783.2	**-**	-
Maturity analysis loans and receivables gross					
Overdue – impaired		**-**	6.4	**-**	-
Overdue		**1.0**	1.5	**-**	-
Due in 3 months or less		**22.7**	53.8	**-**	-
Due after 3 months to 1 year		**70.3**	56.7	**-**	-
Due after 1 year to 5 years		**353.8**	303.8	**-**	-
Due after 5 years		**415.9**	376.9	**-**	-
Total loans and receivables gross		**863.7**	799.1	**-**	-
Restructured exposures included above		**19.7**	65.9	**-**	-

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

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

The overdue amount of $1.0 million relates to an export finance loan that was due to be repaid on the 30th June 2014 and payment was not received.

Impaired loans				
Impaired loans	**-**	6.4	**-**	-
Fair value of specific events on impaired loan	**-**	(6.4)	**-**	-
Carrying fair value of impaired loans	**-**	-	**-**	-

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

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

Note 9: Derivative financial instruments

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
	1(o)				
Derivative financial assets					
Interest rate swaps		**72.1**	66.2	**-**	-
Cross-currency swaps		**97.8**	113.9	**-**	-
Forward foreign exchange contracts		**0.7**	13.2	**-**	-
Total derivative financial assets		**170.6**	193.3	**-**	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		**1.5**	4.0	**-**	-
Due after 3 months to 1 year		**31.3**	55.6	**-**	-
Due after 1 year to 5 years		**100.4**	87.1	**-**	-
Due after 5 years		**37.4**	46.6	**-**	-
Total derivative financial assets		**170.6**	193.3	**-**	-
Derivative financial liabilities					
Interest rate swaps		**48.4**	64.0	**-**	-
Cross-currency swaps		**84.8**	114.2	**-**	-
Forward foreign exchange contracts		**3.0**	0.8	**-**	-
Total derivative financial liabilities		**136.2**	179.0	**-**	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**1.3**	2.6	**-**	-
Due after 3 months to 1 year		**3.3**	3.4	**-**	-
Due after 1 year to 5 years		**13.9**	12.9	**-**	-
Due after 5 years		**117.7**	160.1	**-**	-
Total derivative financial liabilities		**136.2**	179.0	**-**	-

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

Note 10: Property, plant and equipment

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
	1(p)				
Freehold land and building, at valuation		**38.9**	38.9	**-**	-
Accumulated depreciation		**(3.7)**	(1.9)	**-**	-
Net book value – land and building		**35.2**	37.0	**-**	-
Plant and equipment, at valuation		**14.9**	13.6	**-**	-
Accumulated depreciation		**(4.1)**	(2.9)	**-**	-
Net book value – plant and equipment		**10.8**	10.7	**-**	-
Total property, plant and equipment		**46.0**	47.7	**-**	-

	Land and buildings $ m	Plant and equipment $ m	Total $ m
Gross value			
Balance as at 30 June 2013	38.9	13.6	52.5
Additions	-	1.8	1.8
Disposals	-	(0.5)	(0.5)
Gross value as at 30 June 2014	**38.9**	**14.9**	**53.8**
Accumulated depreciation			
Balance as at 30 June 2013	(1.9)	(2.9)	(4.8)
Depreciation charged for assets held at 1 July 2013	(1.8)	(1.4)	(3.2)
Depreciation charged for additions	-	(0.1)	(0.1)
Depreciation recovered on disposals	-	0.3	0.3
Depreciation as at 30 June 2014	**(3.7)**	**(4.1)**	**(7.8)**
Net book value as at 1 July 2013	37.0	10.7	47.7
Net book value as at 30 June 2014	**35.2**	**10.8**	**46.0**

An independent valuation of land and buildings was carried out in June 2012 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 $38,900,000.

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 is based on a pro rata of floor space:

Leased accommodation	30 June 2014 $ m	30 June 2013 $ m
Freehold land and building, at valuation	**15.8**	20.7
Accumulated depreciation	**(1.5)**	(1.0)
Written-down value	**14.3**	19.7
Depreciation expense	**0.7**	1.0

Note 11: Other assets

	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
Accrued interest receivable	**-**	-	**4.6**	6.0
Sundry debtors and prepayments	**2.3**	1.4	**12.0**	12.5
Total other assets	**2.3**	1.4	**16.6**	18.5

Note 12: Payables to other financial institutions

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
	1(q)				
Overnight borrowings		**15.4**	25.4	**-**	-
Floating rate borrowing*		**29.7**	36.8	**-**	-
Total payables to other financial institutions		**45.1**	62.2	**-**	-
Maturity analysis of payables to other financial institutions					
At call		**15.4**	25.4	**-**	-
Due in less than 3 months		**-**	-	**-**	-
Due after 3 months to 1 year		**6.6**	6.7	**-**	-
Due after 1 year to 5 years		**23.1**	26.8	**-**	-
Due after 5 years		**-**	3.3	**-**	-
Total payables to other financial institutions		**45.1**	62.2	**-**	-

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

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

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
	1(s)				
Borrowings		**2,175.0**	2,193.8	**-**	-
Total borrowings at fair value		**2,175.0**	2,193.8	**-**	-
Borrowings designated at fair value through profit or loss					
Structured borrowings					
Japanese yen		**146.0**	303.1	**-**	-
US dollar		**84.2**	83.9	**-**	-
Total structured borrowings		**230.2**	387.0	**-**	-
Non-structured borrowings					
Australian dollar		**1,201.5**	1,172.2	**-**	-
Euro		**6.7**	17.4	**-**	-
New Zealand dollar		**122.4**	110.1	**-**	-
US dollar		**41.1**	43.7	**-**	-
Total non-structured borrowings		**1,371.7**	1,343.4	**-**	-
Euro commercial paper					
US dollar		**573.1**	463.4	**-**	-
Total euro commercial paper		**573.1**	463.4	**-**	-
Total borrowings at fair value		**2,175.0**	2,193.8	**-**	-
Maturity analysis of borrowings					
Due in 3 months or less		**648.9**	512.6	**-**	-
Due after 3 months to 1 year		**143.3**	249.5	**-**	-
Due after 1 year to 5 years		**411.6**	446.1	**-**	-
Due after 5 years		**971.2**	985.6	**-**	-
Total borrowings at fair value		**2,175.0**	2,193.8	**-**	-

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

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

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

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
	1(t)				
Fair value of credit risk		**31.6**	29.2	**-**	-
Fair value of specific events		**2.2**	9.9	**-**	-
Fair value of net premium receivable		**(10.5)**	(7.0)	**-**	-
Total guarantees designated at fair value through profit or loss		**23.3**	32.1	**-**	-

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

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

Note 15: Sundry provisions and allowances

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
Employee entitlements	1(u)	**3.6**	3.5	**-**	-
Allowances for unrecoverable costs		**0.1**	0.1	**-**	-
Total sundry provisions and allowances		**3.7**	3.6	**-**	-

Note 16: Other liabilities

	Note	Commercial Account 30 June 2014 $ m	Commercial Account 30 June 2013 $ m	National Interest Account 30 June 2014 $ m	National Interest Account 30 June 2013 $ m
Sundry creditors	1(v)	**21.5**	19.7	**-**	-
Interest payable		**-**	-	**4.1**	5.4
Total other liabilities		**21.5**	19.7	**4.1**	5.4

Note 17: Contingencies and commitments

	Commercial Account		National Interest Account	
	30 June 2014 $ m	30 June 2013 $ m	**30 June 2014 $ m**	30 June 2013 $ m
Contingent liabilities				
Guarantees	**505.5**	336.8	**11.1**	10.6
Bonds	**184.3**	206.8	**-**	-
Political risk insurance	**-**	45.4	**-**	-
Medium-term insurance	**286.6**	291.0	**-**	-
Total contingent liabilities	**976.4**	880.0	**11.1**	10.6
These contingent liabilities commit Efic to make payments should a default occur by a client.				
Contingent assets				
Potential recoveries of claims paid	**-**	0.7	**-**	194.6
Total contingent assets	**-**	0.7	**-**	194.6

Between 1987 and 1992, Efic paid credit insurance claims, in respect of non-payment by the Iraqi Government for exports from Australia. These credit insurance claims were expensed as paid. The contingent asset related to a potential recovery from Iraq on these claim payments. This contingent asset has now been transferred into a rescheduled loan receivable, with a specific provision for impairment. Refer to Note 7 for further details.

Commitments to provide financial facilities				
Loans	**46.0**	95.2	**-**	33.4
Funded guarantees	**4.4**	38.8	**-**	-
Guarantees*	**333.1**	333.6	**2.3**	2.7
Bonds	**63.4**	137.7	**-**	-
Total commitments to provide financial facilities	**446.9**	605.3	**2.3**	36.1

* Guarantees include facilities signed under risk participation agreements.

Commitments to provide financial facilities are contractually based.

Commitments payable				
Capital commitments				
Due in 1 year or less	**0.2**	-	**-**	-
Operating lease payable				
Due in 1 year or less	**0.1**	0.2	**-**	-
Due after 1 year to 2 years	**0.1**	0.1	**-**	-
Due after 2 years to 5 years	**-**	0.1	**-**	-
Total commitments payable	**0.4**	0.4	**-**	-
Commitments receivable				
Operating lease receivable				
Due in 1 year or less	**1.4**	1.6	**-**	-
Due after 1 year to 2 years	**1.3**	1.2	**-**	-
Due after 2 years to 5 years	**1.8**	1.5	**-**	-
Total commitments receivable	**4.5**	4.3	**-**	-

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

Note 18: Financial risk management

(i) General

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

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

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

(ii) Credit risk

(a) Commercial Account exposures

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

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

	Note	**30 June 2014 $ m**	30 June 2013 $ m
Credit risk exposures			
Receivables from other financial institutions	4, 1(j)	**150.9**	129.6
Available-for-sale investment securities	6, 1(k)	**681.6**	745.2
Loans and receivables at amortised cost	7, 1(l)	**29.7**	36.9
Loans and receivables designated at fair value through profit and loss	8, 1(m)	**855.5**	783.2
Derivative financial instruments	9, 1(o)	**170.6**	193.3
Total*		**1,888.3**	1,888.2
Contingent liabilities	17	**976.4**	880.0
Commitments	17	**446.9**	605.3
Total		**1,423.3**	1,485.3
Total credit risk exposure		**3,311.6**	3,373.5

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

> *Exposures to Treasury counterparties*

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

Prudential controls set by the CAC Act which are replicated in the PGPA Act for the investment by Efic's Treasury operations of surplus money consist of the following:

Note 18: Financial risk management *(continued)*

(i) Efic can invest surplus money with Authorised Deposit-taking Institutions (ADIs) in Australia rated BBB- or above
(ii) Efic can invest surplus money in securities issued by or guaranteed by the Commonwealth, a State or Territory
(iii) Efic can invest surplus money with other entities with credit ratings the equivalent of AA- or better
(iv) the investment of surplus money is limited to deposits with, or securities issued, by the above ADIs
(v) the investment of surplus money is limited to deposits with, or securities issued or guaranteed, by the above entities
(vi) investments in ADIs with a rating lower than A- must not exceed 25% of Efic's total investments
(vii) 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
(viii) 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 operations which consist of:

(i) a cap on foreign exchange open positions
(ii) a cap on interest rate exposure to asset maturity
(iii) minimum levels for committed funding over the life of assets
(iv) a cap on the structured borrowing component of funding
(v) limits relating to individual counterparty exposures and terms
(vi) limits relating to portfolio exposures and terms
(vii) limits on investments in structured, multi-credit entities
(viii) performance benchmarks relating to specific portfolios
(ix) derivative limits and a CSA collateral policy
(x) proprietary trading is not permitted.

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

All limits set by the Board are monitored by management. A Treasury Report, addressing prudential controls and risk is submitted to the Board Audit meeting quarterly, which then reports to the Board. A Treasury update is provided at each Board meeting.

Credit risk on treasury derivative transactions is mitigated by the fact that most of the contracts have a mutual 5 year right to break clause. In addition some contracts include a clause that allows the contract to be terminated if the counterparty rating falls below an agreed credit rating and some contracts also have Credit Support Annexes in operation where Efic receives collateral to offset the exposure.

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

	Note	**30 June 2014 $ m**	30 June 2013 $ m
Available-for-sale investment securities			
Authorised Deposit-taking Institutions in Australia			
AA-		**287.5**	389.7
A+		**21.3**	20.2
A		**-**	-
A-		**223.8**	98.5
BBB+		**38.7**	63.8
Other financial institutions or foreign entities			
AA+		**-**	-
AA		**-**	-
AA-		**110.3**	152.8
A+		**-**	20.2
Exposure to credit risk of available-for-sale investment securities	6, 1(k)	**681.6**	745.2

Note 18: Financial risk management *(continued)*

	Note	**30 June 2014 $ m**	30 June 2013 $ m
Derivative financial instruments			
Authorised Deposit-taking Institutions in Australia			
AA-		**123.9**	111.4
Other financial institutions or foreign entities			
AAA		**3.2**	12.1
AA		**-**	-
AA-		**5.1**	13.5
A+		**24.8**	40.1
A		**13.6**	16.2
Exposure to credit risk for derivative financial instruments	9, 1(o)	**170.6**	193.3

For Treasury exposures there are no overdue or restructured amounts.

> *Exposures to clients*

Efic's principal exposure to credit risk arises from the financing and credit facilities extended to clients. On the Commercial Account, loans written off during the year or credit facilities called was nil (2013: $0.2 million).

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

	Note	**30 June 2014 $ m**	30 June 2013 $ m
Gross exposures			
Export finance loans	8, 1(m)	**633.5**	564.0
Funded export finance guarantees	8, 1(m)	**218.1**	218.7
Rescheduled credit insurance debts	8, 1(m)	**12.1**	16.4
Funded export finance guarantees at amortised cost	7	**30.4**	36.9
Guarantees	17	**505.5**	336.8
Medium-term insurance	17	**286.6**	291.0
Bonds	17	**184.3**	206.8
Political risk insurance	17	**-**	45.4
Total gross exposures		**1,870.5**	1,716.0
Reinsured exposures included above		**478.1**	362.4

Note 18: Financial risk management *(continued)*

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

	30 June 2014 $ m	**30 June 2014 % of total**	30 June 2013 $ m	30 June 2013 % of total
Country exposures				
Australia*	**669.6**	**35.8**	526.9	30.7
Canada	**191.1**	**10.2**	194.0	11.3
United Arab Emirates	**124.3**	**6.6**	132.0	7.7
China	**107.5**	**5.8**	111.5	6.5
Chile	**106.1**	**5.7**	-	-
Japan	**66.9**	**3.6**	42.9	2.5
Trinidad and Tobago	**59.7**	**3.2**	74.1	4.3
Malaysia	**53.1**	**2.8**	-	-
Sri Lanka	**52.3**	**2.8**	49.9	2.9
Denmark	**52.1**	**2.8**	56.4	3.3
Papua New Guinea	**51.6**	**2.8**	52.4	3.0
United States of America	**49.2**	**2.6**	67.0	3.9
Turkey	**39.8**	**2.1**	48.2	2.8
Russia	**39.3**	**2.1**	50.7	3.0
Belgium	**37.9**	**2.0**	21.3	1.2
United Kingdom	**32.8**	**1.8**	44.7	2.6
Indonesia	**29.2**	**1.6**	78.5	4.6
France	**26.5**	**1.4**	11.9	0.7
Singapore	**24.1**	**1.3**	-	-
Bermuda	**24.0**	**1.3**	24.4	1.4
Vietnam	**14.7**	**0.8**	16.9	1.0
Egypt	**12.1**	**0.6**	16.4	1.0
Spain	**4.1**	**0.2**	9.0	0.5
Philippines	**1.7**	**0.1**	4.8	0.3
Luxemburg	**-**	**-**	59.4	3.5
Greece	**-**	**-**	16.2	0.9
Other	**0.8**	**-**	6.4	0.4
Total country exposures	**1,870.5**	**100.0**	1,715.9	100.0
Reinsured exposures included above	**478.1**		362.4	

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

Note 18: Financial risk management *(continued)*

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

	30 June 2014 $ m	30 June 2013 $ m
Allowance for credit risk by product		
Export finance loans	**(23.9)**	(26.6)
Funded export finance guarantees	**(6.6)**	(6.9)
Rescheduled credit insurance debts	**(2.9)**	(4.0)
Guarantees	**(21.9)**	(19.9)
Medium Term Insurances	**(0.9)**	(1.0)
Bonds	**(2.2)**	(1.4)
Allowance for credit risk closing balance	**(58.4)**	(59.8)

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

	30 June 2014 $ m	30 June 2013 $ m
Allowance for credit risk for gross exposures		
Allowance for credit risk opening balance	**(59.8)**	(60.5)
New exposures	**(12.3)**	(12.9)
Repayments	**8.2**	11.5
Change in risk grade	**(3.4)**	(4.7)
Change in term to maturity	**7.0**	5.1
Change in allowance rates	**1.7**	(0.5)
Transfer to specific events	**-**	7.5
Exchange rate movements	**0.2**	(5.3)
Allowance for credit risk closing balance	**(58.4)**	(59.8)

Note 18: Financial risk management *(continued)*

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

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

	Note	**30 June 2014 $ m**	30 June 2013 $ m
Loans and receivables designated at fair value through profit and loss			
Risk category 1 (AA- to AAA)		**130.9**	134.2
Risk category 2 (A- to A+)		**146.2**	116.4
Risk category 3 (BBB- to BBB+)		**436.5**	353.1
Risk category 4 (BB- to BB+)		**9.5**	7.2
Risk category 5 (B- to B+)		**95.5**	104.7
Risk category 6 (CCC+)		**28.1**	51.8
Risk category 7 (C to CCC)		**8.8**	11.7
Risk category 8 Doubtful		**-**	4.1
Risk category 9 Impaired		**-**	-
Allowance for credit risk closing balance	8, 1(m)	**855.5**	783.2

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

	Note	**30 June 2014 $ m**	30 June 2013 $ m
Contingent liabilities			
Risk category 1 (AA- to AAA)		**216.1**	228.5
Risk category 2 (A- to A+)		**213.9**	111.3
Risk category 3 (BBB- to BBB+)		**202.0**	138.9
Risk category 4 (BB- to BB+)		**83.4**	179.5
Risk category 5 (B- to B+)		**198.1**	149.0
Risk category 6 (CCC+)		**56.5**	49.1
Risk category 7 (C to CCC)		**6.4**	9.1
Risk category 8 Doubtful		**-**	14.6
Total contingent liabilities	17	**976.4**	880.0

Note 18: Financial risk management *(continued)*

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

	Note	**30 June 2014 $ m**	30 June 2013 $ m
Commitments			
Risk category 1 (AA- to AAA)		**311.9**	20.9
Risk category 2 (A- to A+)		**12.3**	143.6
Risk category 3 (BBB- to BBB+)		**15.2**	269.2
Risk category 4 (BB- to BB+)		**48.9**	106.5
Risk category 5 (B- to B+)		**49.5**	42.3
Risk category 6 (CCC+)		**9.1**	22.8
Total commitments	17	**446.9**	605.3

> *Retained sector exposure*

The sectors that represent more than 15% of Efic's Commercial Account retained exposure are the Mining LNG and Sovereign sectors. At 30 June 2014, the exposure to the Mining LNG sector accounted for $359.2 million, representing 25.8% of Efic's total retained exposure (2013: $161.1 million, representing 11.9% of the total), the exposure to the Sovereign sector accounted for $216.6 million, representing 15.6% of Efic's total retained exposure (2013: $243.2 million, representing 18.0% of the total).

> *Reinsured exposure*

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

	30 June 2014 $ m	30 June 2013 $ m
Reinsurance		
Reinsured to		
Risk category 1 (AA- to AAA)	**257.6**	285.2
Risk category 2 (A- to A+)	**220.5**	77.2
Reinsured from		
Risk category 2 (A- to A+)	**(229.0)**	(215.3)
Risk category 3 (BBB- to BBB+)	**(164.5)**	(53.1)
Risk category 4 (BB- to BB+)	**-**	-
Risk category 5 (B- to B+)	**-**	-
Risk category 6 (CCC+)	**(84.6)**	(94.0)
Risk category 7 (C to CCC)	**-**	-
Total reinsurance	**-**	-

The above tables do not take into account the value of any collateral or security held which may include first-ranking mortgage over assets financed by Efic, standby documentary credits, third-party guarantees and recourse to companies and company directors. No collateral has been called and held at year end. For the bond product in the normal course of business we do hold cash security deposits which at the 30 June 2014 were $11.9 million (2013: $8.0 million).

Note 18: Financial risk management *(continued)*

(b) National Interest Account exposures

Under the National Interest Account, the exposures for non project finance loans and rescheduled credit insurance debts are all to overseas governments, or entities owned or guaranteed by overseas governments. Project finance loans are project specific where the loan repayments are solely reliant from income from the project. On the National Interest Account, there was debt forgiveness of $9.6 million during the year (2013: $8.3 million).

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

	Note	**30 June 2014 $ m**	30 June 2013 $ m
Gross exposures			
Export finance loans	7, 1(l)	**624.6**	674.9
Rescheduled credit insurance debts	7, 1(l)	**231.5**	72.1
Guarantees	17	**11.1**	10.6
Bonds	17	**-**	-
Total gross exposures		**867.2**	757.6
Reinsured exposures included above		**-**	5.0

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

	30 June 2014 $ m	**30 June 2014 % of total**	30 June 2013 $ m	30 June 2013 % of total
Country exposures				
Indonesia	**332.1**	**38.3**	400.7	52.9
Iraq*	**178.4**	**20.6**	-	-
Papua New Guinea	**129.0**	**14.9**	114.7	15.1
United States of America	**88.1**	**10.2**	83.4	11.0
Egypt	**53.0**	**6.1**	72.1	9.5
Australia**	**47.0**	**5.4**	42.5	5.6
China	**17.5**	**2.0**	21.4	2.8
Japan	**12.4**	**1.4**	11.0	1.5
Cuba	**9.7**	**1.1**	9.7	1.3
Philippines	**-**	**-**	2.1	0.3
Total country exposures	**867.2**	**100.0**	757.6	100.0
Reinsured exposures included above	**-**		5.0	

* Previously treated as a contingent asset (refer Note 17)
** Includes performance bonds and guarantees issued on behalf of Australian companies

(c) Rescheduled debt exposures

Indonesia: Scheduled payments from Indonesia for December 1998 to December 2003 have been rescheduled on three occasions in the Paris Club. The rescheduled payments totalled US$21 million on Efic's Commercial Account and US$93 million and Euro 108 million on the National Interest Account. The repayment schedule for the rescheduled debts requires six-monthly payments until June 2019, June 2016, and June 2021 respectively depending on the rescheduling agreement. As at 30 June 2014 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Note 18: Financial risk management *(continued)*

Egypt: Efic is owed $12.1 million by Egypt on the Commercial Account and US$15.8 million and $36.2 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 2014 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Iraq: At 30 June 2014, Iraq's debt was transferred from a contingent asset onto the balance sheet as a rescheduled debt but with 100% impairment. The rescheduled debt balance at 30 June 2014, is US$0.6 million on the Commercial Account and US$168.1 million on the National Interest Account. At 30 June 2014, all rescheduled amounts have been paid on time as per the rescheduling agreements. However, the current situation in Iraq and the deterioration in the economic environment were assessed as posing a real threat to the reliability of future payments. Accordingly, in consultation with DFAT, it was deemed appropriate to establish a 100% provision for impairment against the rescheduled debt. Therefore future payments from Iraq will only be recognised as income on receipt and booked as a recovery, consistent with current practice. Recoveries made during the year under this agreement were taken to income resulting in $15.5 million taken up as income during 2013-14 on the National Interest Account. These debts arose from credit insurance claims between 1987 and 1992 in respect of non-payment by the Iraqi Government for exports from Australia. These debts were subject to rescheduling with 80% debt forgiveness in three stages at the Paris Club. The repayment schedule for the remaining rescheduled amounts call for six-monthly payments until January 2028.

(iii) Liquidity risk

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

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

The liquidity table on page 100 is based on estimated future cash flows for principal and interest and is not their fair value as is shown in the balance sheet. For the Commercial Account the contractual undiscounted amounts comprise principal and interest repayment obligations and are as follows:

Note 18: Financial risk management *(continued)*

30 June 2014	Contractual undiscounted principal and interest 3 months or less $ m	3 months to 1 year $ m	1 year to 5 years $ m	Greater than 5 years $ m
Undiscounted financial assets				
Cash and liquid assets	1.2	-	-	-
Receivables from other financial institutions	142.9	8.1	-	-
Available-for-sale investment securities	99.9	205.1	399.6	-
Loans and receivables at amortised cost	-	6.7	24.0	0.5
Loans and receivables designated at fair value through profit or loss	24.3	77.3	385.4	477.9
Loans to National Interest Account designated at fair value through profit or loss	24.1	73.0	348.8	317.8
Derivative financial instruments				
- Contractual amounts receivable	174.0	266.3	836.4	1,348.2
Total undiscounted financial assets	466.4	636.5	1,994.2	2,144.4
Undiscounted financial liabilities				
Payables to other financial institutions	15.4	6.7	23.7	-
Borrowings designated at fair value through profit or loss				
- Euro commercial paper	520.1	53.0	-	-
- Non-structured borrowings	79.8	41.6	364.4	1,198.5
- Structured borrowings	49.6	49.9	73.1	59.2
Derivative financial instruments				
- Contractual amounts payable	169.8	234.8	736.6	1,335.5
Total undiscounted financial liabilities	834.7	386.0	1,197.8	2,593.2
Net undiscounted financial assets/(liabilities)	(368.3)	250.5	796.5	(448.8)

While the above maturity profile shows a refinancing shortfall in the next 3 months, this is predominately due to the Euro commercial paper borrowing facility which comprises short term borrowings that are in part funding marketable available-for-sale investments securities with a maturity of no longer than three years. The majority of the Euro commercial paper maturing ($520.1 million) in the next 3 months will be reissued which will cover any refinancing shortfall shown in the maturity profile.

Efic presents the fair value market to market of its derivative assets $170.6 million and derivative liabilities $136.2 million after netting. On a gross basis the derivative assets are $2,074.8 million and derivative liabilities are $2,040.4 million which is a movement on both assets and liabilities of $1,904.2 million. Efic has further legally enforceable master netting arrangements which apply on default and as such have not been taken into account. If these master netting arrangements were considered then the derivative assets would be $122.4 million and the derivative liabilities would be $88.0 million which is a movement on both assets and liabilities of $48.2 million.

As at 30 June 2014, Efic holds collateral of $4.2 million and Efic has not posted any collateral.

Note 18: Financial risk management *(continued)*

30 June 2013	Contractual undiscounted principal and interest 3 months or less $ m	3 months to 1 year $ m	1 year to 5 years $ m	Greater than 5 years $ m
Undiscounted financial assets				
Cash and liquid assets	0.6	-	-	-
Receivables from other financial institutions	92.3	37.5	-	-
Available-for-sale investment securities	28.6	370.4	373.5	-
Loans and receivables at amortised cost	-	6.9	27.8	3.4
Loans and receivables designated at fair value through profit or loss	53.8	60.4	330.2	456.5
Loans to National Interest Account designated at fair value through profit or loss	24.1	87.0	344.6	408.2
Derivative financial instruments				
- Contractual amounts receivable	161.3	645.2	826.0	1,529.5
Total undiscounted financial assets	360.7	1,207.4	1,902.1	2,397.6
Undiscounted financial liabilities				
Payables to other financial institutions	25.4	6.7	26.8	3.3
Borrowings designated at fair value through profit or loss				
- Euro commercial paper	436.5	26.9	-	-
- Non-structured borrowings	16.3	47.4	447.3	1,225.9
- Structured borrowings	61.5	177.6	31.6	124.4
Derivative financial instruments				
- Contractual amounts payable	148.4	593.6	728.4	1,533.3
Total undiscounted financial liabilities	688.1	852.2	1,234.1	2,886.9
Net undiscounted financial assets/(liabilities)	(327.4)	355.2	668.0	(489.3)

Note 18: Financial risk management *(continued)*

(iv) Market risk

(a) Interest rate risk

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

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

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

Movement in cash flow hedge reserve:

	30 June 2014 $ m	30 June 2013 $ m
Cash flow hedge reserve		
Opening balance cash flow hedge reserve	**1.5**	1.9
Transferred to interest expense	**(0.7)**	(0.7)
Transferred to interest income	**0.8**	1.2
Net unrealised change in cash flow hedges	**(0.6)**	(0.9)
Closing balance cash flow hedge reserve	**1.0**	1.5

Fair value hedges are intended to hedge the exposure to variability in fair value movements that are attributable to future interest cash flows only. The financial instruments hedged for interest rate risk are available-for-sale investments. Interest rate swaps are used to hedge the interest rate risk. For the year ended June 2014, a $0.6 million ($0.4 million for 2013) loss was recognised on hedging instruments. The total gain on hedged items attributable to the hedged risks for June 2014 was $0.6 million ($0.4 million for 2013). A table is not shown for fair value hedges as unlike the cash flow hedge where amounts go through equity, on a fair value hedge all amounts go through the profit and loss.

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

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

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

Note 18: Financial risk management *(continued)*

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

	Contractual undiscounted principal exposure					
30 June 2014	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	1.2	-	-	-	-	-
Receivables from other financial institutions	150.8	-	-	-	-	-
Available-for-sale investment securities	443.7	-	57.0	167.5	-	224.5
Loans and receivables designated at amortised cost	30.4	-	-	-	-	-
Loans and receivables designated at fair value through profit or loss	809.7	-	15.9	38.1	-	54.0
Loans to National Interest Account designated at fair value through profit or loss	431.0	-	49.8	134.0	28.6	212.4
Total financial assets	1,866.8	-	122.7	339.6	28.6	490.9
Financial liabilities						
Payables to other financial institutions	45.1	-	-	-	-	-
Derivative financial instruments						
- Cross-currency swaps	551.6	-	(6.3)	-	(568.3)	(574.6)
- Interest rate swaps*	277.7	-	23.2	170.2	(471.1)	(277.7)
Borrowings designated at fair value through profit or loss	956.3	-	81.6	-	1,068.3	1,149.9
Other monetary liabilities	11.9	-	-	-	-	-
Total financial liabilities	1,842.6	-	98.5	170.2	28.9	297.6
Interest exposures	24.2	-	24.2	169.4	(0.3)	193.3
Capital and reserves portfolio	14.2	-	26.2	167.5	-	193.7
Net interest exposures	10.0	-	(2.0)	1.9	(0.3)	(0.4)

* Notional principal amounts.

The capital and reserves portfolio is the investment of Efic's cash equity. The investment of these funds is exposed to interest rate movements and the tables on page 104 in the interest margin (duration) section show the sensitivity analysis of these investments to interest rate movements. The net interest exposure after these investments show that there is insignificant interest rate exposure in the rest of Efic's assets and liabilities.

Note 18: Financial risk management *(continued)*

30 June 2013	Floating interest rate $ m	Non-interest bearing $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed total $ m
		Contractual undiscounted principal exposure				
Undiscounted principal exposures						
Financial assets						
Cash and liquid assets	0.6	-	-	-	-	-
Receivables from other financial institutions	129.4	-	-	-	-	-
Available-for-sale investment securities	516.5	-	-	215.0	-	215.0
Loans and receivables designated at amortised cost	36.8	-	-	-	-	-
Loans and receivables designated at fair value through profit or loss	728.1	-	16.2	54.8	-	71.0
Loans to National Interest Account designated at fair value through profit or loss	427.7	-	60.2	158.0	56.6	274.8
Total financial assets	1,839.1	-	76.4	427.8	56.6	560.8
Financial liabilities						
Payables to other financial institutions	62.2	-	-	-	-	-
Derivative financial instruments						
- Cross-currency swaps	535.7	-	1.4	(6.6)	(554.0)	(559.2)
- Interest rate swaps*	215.3	-	59.8	167.5	(442.6)	(215.3)
Borrowings designated at fair value through profit or loss	993.3	-	15.3	82.8	1,054.0	1,152.1
Other monetary liabilities	8.0	-	-	-	-	-
Total financial liabilities	1,814.5	-	76.5	243.7	57.4	377.6
Interest exposures	24.6	-	(0.1)	184.1	(0.8)	183.2
Capital and reserves portfolio	24.1	-	-	183.8	-	183.8
Net interest exposures	0.5	-	(0.1)	0.3	(0.8)	(0.6)

* Notional principal amounts.

> Interest margin (duration)

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

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

	Exposure at risk 2014 $ m	Increase in basis points Effect on profit 2014 $ m	Decrease in basis points Effect on profit 2014 $ m	Increase in basis points Effect on equity 2014 $ m	Decrease in basis points Effect on equity 2014 $ m
Capital and reserve portfolio					
Fixed rate investments	193.7				
Change of 60 basis points interest margin		-	-	(1.7)	1.7
Floating rate investments	14.2				
Change of 60 basis points interest margin		0.1	(0.1)	(0.1)	0.1

	Exposure at risk 2013 $ m	Increase in basis points Effect on profit 2013 $ m	Decrease in basis points Effect on profit 2013 $ m	Increase in basis points Effect on equity 2013 $ m	Decrease in basis points Effect on equity 2013 $ m
Capital and reserve portfolio					
Fixed rate investments	183.8				
Change of 60 basis points interest margin		-	-	(2.1)	2.1
Floating rate investments	24.1				
Change of 60 basis points interest margin		0.1	(0.1)	(0.1)	0.1

> Credit margin (term to maturity)

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

As at 30 June 2014, Efic's investment approval is from the CAC Act under section 18(3)(d). This authority is replicated in the PGPA Act. This approval requires Efic to only invest its surplus money in Australian Commonwealth and state or territory government securities, on deposit with or in securities issued by Authorised Deposit-taking Institutions rated at least BBB- and on deposit with or in securities of entities with credit ratings the equivalent of AA- or better. However, if after purchase a counterparty subsequently falls below the minimum credit rating, management evaluates the risk and will decide on the applicable action, which may include selling the asset, holding the asset to maturity, or obtaining security through credit support annexures (CSA's).

Not-withstanding such a high level of credit quality required in Efic's investments, the portfolio is exposed to movements in credit spreads.

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

Note 18: Financial risk management *(continued)*

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

	Exposure at risk 2014 $ m	Exposure at risk 2013 $ m	Increase in basis points Effect on equity 2014 $ m	Decrease in basis points Effect on equity 2014 $ m	Increase in basis points Effect on equity 2013 $ m	Decrease in basis points Effect on equity 2013 $ m
Investment portfolio						
Fixed rate investments	**224.5**	215.1				
Change of 50 basis points credit margin			**(1.5)**	**1.5**	(2.0)	2.0
Change of 120 basis points credit margin			**(3.5)**	**3.6**	(4.7)	4.8
Change of 200 basis points credit margin			**(5.8)**	**6.0**	(7.7)	8.1
Floating rate investments	**594.5**	645.9				
Change of 50 basis points credit margin			**(2.5)**	**2.5**	(2.6)	2.6
Change of 120 basis points credit margin			**(6.0)**	**6.0**	(6.1)	6.1
Change of 200 basis points credit margin			**(9.9)**	**9.9**	(10.2)	10.2

(b) Foreign exchange risk

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

Note 18: Financial risk management *(continued)*

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

	Foreign currency fair value exposures			
30 June 2014	**USD A$ m**	**EUR A$ m**	**JPY A$ m**	**Other A$ m**
Financial assets exposure in foreign currencies				
Cash and liquid assets	-	-	-	**0.4**
Receivables from other financial institutions	**132.0**	-	-	-
Available-for-sale investment securities	**84.7**	**44.4**	-	-
Loans at amortised cost	**29.7**	-	-	-
Loans and receivables designated at fair value through profit or loss	**778.0**	**59.0**	-	-
Loans to National Interest Account designated at fair value through profit or loss	**551.2**	**105.0**	-	-
Derivative financial instruments	**691.2**	-	**156.8**	**122.4**
Other assets	**0.1**	**1.5**	-	-
Total financial assets exposure in foreign currencies	**2,266.9**	**209.9**	**156.8**	**122.8**
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	**33.9**	**11.2**	-	-
Borrowings designated at fair value through profit or loss	**698.3**	**6.7**	**146.1**	**122.4**
Guarantees designated at fair value through profit or loss	**16.5**	**3.2**	**0.1**	-
Derivative financial instruments	**1,534.3**	**191.6**	**12.9**	**0.2**
Other liabilities	**0.7**	-	-	-
Total financial liabilities exposure in foreign currencies	**2,283.7**	**212.7**	**159.1**	**122.6**
Net foreign exchange exposures in foreign currencies	**(16.8)**	**(2.8)**	**(2.3)**	**0.2**

As shown by the above table the net foreign exchange exposure as at 30 June 2014 is minimal in value for all currencies other than USD of $16.8m. The variance in these currencies is largely due to credit risk.

Note 18: Financial risk management *(continued)*

30 June 2013	Foreign currency fair value exposures USD A$ m	 EUR A$ m	 JPY A$ m	 Other A$ m
Financial assets exposure in foreign currencies				
Cash and liquid assets	-	-	-	0.3
Receivables from other financial institutions	108.0	-	-	0.3
Available-for-sale investment securities	65.3	115.9	-	-
Loans at amortised cost	36.9	-	-	-
Loans and receivables designated at fair value through profit or loss	662.5	63.0	-	-
Loans to National Interest Account designated at fair value through profit or loss	586.7	132.4	-	-
Derivative financial instruments	894.2	-	314.5	110.1
Total financial assets exposure in foreign currencies	2,353.6	311.3	314.5	110.7
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	49.1	13.1	-	-
Borrowings designated at fair value through profit or loss	591.0	17.4	303.1	110.1
Guarantees designated at fair value through profit or loss	15.3	12.4	0.3	0.1
Derivative financial instruments	1,711.7	288.3	11.5	-
Other liabilities	0.4	-	-	0.3
Total financial liabilities exposure in foreign currencies	2,367.5	331.2	314.9	110.5
Net foreign exchange exposures in foreign currencies	(13.9)	(19.9)	(0.4)	0.2

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 currency.

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

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

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

Note 18: Financial risk management *(continued)*

Sensitivity analysis for foreign exchange on the Commercial Account:

	Change in foreign exchange (FX) rate %	Exposure at risk 2014 A$ m	Increase in FX rate Effect on profit 2014 A$ m	Decrease in FX rate Effect on profit 2014 A$ m	Exposure at risk 2013 A$ m	Increase in FX rate Effect on profit 2013 A$ m	Decrease in FX rate Effect on profit 2013 A$ m
Exposure to USD	11.5	(16.8)	1.7	(2.2)	(13.9)	1.4	(1.8)
Exposure to EUR	11.5	(2.8)	0.3	(0.4)	(19.9)	2.1	(2.6)
Exposure to JPY	11.5	(2.3)	0.2	(0.3)	(0.4)	-	(0.1)

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

	USD 30 June 2014 A$ m	EUR 30 June 2014 A$ m	USD 30 June 2013 A$ m	EUR 30 June 2013 A$ m
Financial assets exposure				
Loans and receivables	510.3	95.6	530.8	120.5
Total financial assets exposure	510.3	95.6	530.8	120.5
Financial liabilities exposure				
Borrowings from Commercial Account	511.5	95.6	533.0	120.5
Total financial liabilities exposure	511.5	95.6	533.0	120.5
Net foreign exchange exposures	(1.2)	-	(2.2)	-

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

Sensitivity analysis for foreign exchange on the National Interest Account:

	Change in foreign exchange (FX) rate %	Exposure at risk 2014 A$ m	Increase in FX rate Effect on profit 2014 A$ m	Decrease in FX rate Effect on profit 2014 A$ m	Exposure at risk 2013 A$ m	Increase in FX rate Effect on profit 2013 A$ m	Decrease in FX rate Effect on profit 2013 A$ m
Exposure to USD	11.5	(1.2)	0.1	(0.2)	(2.2)	0.2	(0.3)

Note 19: Fair value of financial instruments

(i) Determination of fair value hierarchy

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, Efic determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

	Fair value exposures by hierarchy			
30 June 2014	**Level 1 $ m**	**Level 2 $ m**	**Level 3 $ m**	**Total $ m**
Financial assets				
Loans and receivables designated at fair value through profit or loss	**-**	**-**	**855.5**	**855.5**
Loans to National Interest Account designated at fair value through profit or loss	**-**	**692.9**	**-**	**692.9**
Interest rate swaps	**-**	**72.1**	**-**	**72.1**
Cross-currency swaps	**-**	**66.8**	**31.0**	**97.8**
Forward foreign exchange contracts	**-**	**0.7**	**-**	**0.7**
Available-for-sale financial assets				
Discount securities	**-**	**194.3**	**-**	**194.3**
Floating rate notes	**-**	**86.1**	**163.2**	**249.3**
Fixed rate bonds	**-**	**238.0**	**-**	**238.0**
Total	**-**	**1,350.9**	**1,049.7**	**2,400.6**
Financial liabilities				
Borrowings designated at fair value through profit or loss	**-**	**(1,951.2)**	**(223.8)**	**(2,175.0)**
Guarantees designated at fair value through profit or loss	**-**	**-**	**(23.3)**	**(23.3)**
Interest rate swaps	**-**	**(48.4)**	**-**	**(48.4)**
Cross-currency swaps	**-**	**(81.2)**	**(3.6)**	**(84.8)**
Forward foreign exchange contracts	**-**	**(3.0)**	**-**	**(3.0)**
Total	**-**	**(2,083.8)**	**(250.7)**	**(2,334.5)**

Note 19: Fair value of financial instruments *(continued)*

	Fair value exposures by hierarchy			
30 June 2013	**Level 1 $ m**	**Level 2 $ m**	**Level 3 $ m**	**Total $ m**
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	783.2	783.2
Loans to National Interest Account designated at fair value through profit or loss	-	768.8	-	768.8
Interest rate swaps	-	66.2	-	66.2
Cross-currency swaps	-	69.7	44.2	113.9
Forward foreign exchange contracts	-	13.2	-	13.2
Available-for-sale financial assets				
Discount securities	-	265.5	-	265.5
Floating rate notes	-	100.8	148.5	249.3
Fixed rate bonds	-	230.4	-	230.4
Total	-	1,514.6	975.9	2,490.5
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	(1,813.6)	(380.2)	(2,193.8)
Guarantees designated at fair value through profit or loss	-	-	(32.1)	(32.1)
Interest rate swaps	-	(64.0)	-	(64.0)
Cross-currency swaps	-	(107.6)	(6.6)	(114.2)
Forward foreign exchange contracts	-	(0.8)	-	(0.8)
Total	-	(1,986.0)	(418.9)	(2,404.9)

Note 19: Fair value of financial instruments *(continued)*

The following table shows an analysis of movement in level 3 fair value hierarchy on the Commercial Account:

Movement in level 3 fair value exposures

	At 1 July 2013 $ m	New Deals $ m	Repayments $ m	Foreign Exchange $ m	Gain/(loss) through equity $ m	Profit/ (loss) deals matured $ m	Profit/ (loss) deals existing $ m	At 30 June 2014 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	783.2	222.7	(150.2)	(15.0)	-	-	14.8	855.5
Cross-currency swaps	44.2	-	(2.2)	(6.8)	-	(4.6)	0.4	31.0
Available-for-sale financial assets								
Floating rate notes	148.5	86.4	(77.2)	5.6	-	(0.4)	0.3	163.2
	975.9	309.1	(229.6)	(16.2)	-	(5.0)	15.5	1,049.7
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(380.2)	-	145.5	8.5	-	4.9	(2.5)	(223.8)
Guarantees designated at fair value through profit or loss*	(32.1)	-	-	-	-	-	8.8	(23.3)
Cross-currency swaps	(6.6)	-	-	0.3	-	-	2.7	(3.6)
	(418.9)	-	145.5	8.8	-	4.9	9.0	(250.7)
Total net level 3	557.0	309.1	(84.1)	(7.4)	-	(0.1)	24.5	799.0

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

Movement in level 3 fair value exposures

	At 1 July 2012 $ m	New Deals $ m	Repayments $ m	Foreign Exchange $ m	Gain/(loss) through equity $ m	Profit/ (loss) deals matured $ m	Profit/ (loss) deals existing $ m	At 30 June 2013 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	626.7	152.9	(66.9)	73.0	-	-	(2.5)	783.2
Cross-currency swaps	150.3	-	(43.6)	(91.8)	-	12.4	16.9	44.2
Available-for-sale financial assets								
Floating rate notes	114.3	38.5	(21.0)	16.3	0.5	(0.2)	0.1	148.5
	891.3	191.4	(131.5)	(2.5)	0.5	12.2	14.5	975.9
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(568.3)	(76.9)	235.2	54.4	-	(13.3)	(11.3)	(380.2)
Guarantees designated at fair value through profit or loss*	(24.5)	-	-	-	-	-	(7.6)	(32.1)
Cross-currency swaps	(7.0)	-	-	2.2	-	-	(1.8)	(6.6)
	(599.8)	(76.9)	235.2	56.6	-	(13.3)	(20.7)	(418.9)
Total net level 3	291.5	114.5	103.7	54.1	0.5	(1.1)	(6.2)	557.0

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

Note 19: Fair value of financial instruments *(continued)*

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

The following table shows the quantitative information of significant unobservable inputs for Level 3 fair value exposures on the Commercial Account:

Sensitivity of level 3 Fair value exposures

	At 30 June 2014 $ m	Effect of reasonable alternative assumptions $ m	At 30 June 2013 $ m	Effect of reasonable alternative assumptions $ m
Level 3 Financial assets				
Loans and receivables designated at fair value through profit or loss	855.5	(10.5)	783.2	(9.2)
Cross-currency swaps	31.0	0.1	44.2	0.1
Available-for-sale financial assets				
Floating rate notes	163.2	0.2	148.5	(0.2)
Level 3 Financial liabilities				
Borrowings designated at fair value through profit or loss	(223.8)	(0.7)	(380.2)	(0.8)
Guarantees designated at fair value through profit or loss	(23.3)	(6.3)	(32.1)	(8.0)
Cross-currency swaps	(3.6)	-	(6.6)	-

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

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

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

For borrowings designated at fair value through profit and loss and cross currency swaps, the discount rate assumption was adjusted by 10 basis points which is considered a reasonable alternative assumption.

(ii) Determination of fair value

The process for determination of fair value is regularly reviewed, and any changes recommended to the inputs used in the valuations are documented and submitted to the Audit Committee and then to the Board for approval if necessary. A summary paper is submitted to the Audit Committee and Board every year to coincide with the approval of the financial statements which documents the accounting estimates used in fair value calculations including level 3 unobservable inputs.

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

Available-for-sale investment securities

The fair value is the market value, and is determined using published revaluation rates provided by market price-makers and this is classified as a level 2 hierarchy. If a revaluation rate is not available for an investment then it is classified as a level 3 hierarchy, and the market rate is determined by calculating a yield. The yield is made up of the base yield (determined by straight-line interpolation of swap yields), and credit spreads (determined by comparison to public issues of similar entities).

Note 19: Fair value of financial instruments *(continued)*

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

The fair value on day one is the transaction price, and subsequent fair value is determined by applying market interest rates and using the valuation technique of discounted cash flows through an external valuation system. These are classified as level 3 as the credit risk component is included in the valuation through an internal model to reflect the impact of expected loss on the fair value of each loan or receivable. A residual margin covering prepayment risks, other risks and servicing costs is also included in the fair value of each loan or receivable. When it is likely that a loan or debt will not be recovered in full, a specific event is recognised and recorded using the discounted cash flow method. All individual facilities are reviewed regularly.

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

Fair value is determined by applying market interest rates and using the valuation techniques of discounted cash flows through an external valuation system.

Derivative financial instruments

The fair value of derivative financial instruments is determined using market interest rates and valuation techniques which incorporate discounted cash flows. For derivatives that are associated to borrowings, an Efic curve is derived from the LIBOR or risk-free curve and then adjusted to calculate a margin based on Efic's current ability to issue debt at a margin to LIBOR. These valuations before the allowance for derivative risk are being obtained from an external valuation system. In the calculation of the allowance for derivative risk, a credit risk component is included through the use of published credit default spreads and a valuation risk component is included through an internal model. Vanilla derivatives are classified as level 2 whereas non-vanilla structured derivatives are classified as level 3 hierarchy. The structured derivatives are level 3 as they have either complex interest rate formula that include foreign exchange rates or the Nikkei index or they have a knockout or callable features.

Commercial Account borrowings designated at fair value through profit or loss

The fair value of borrowings is determined using market interest rates and valuation techniques which incorporate discounted cash flows. An Efic curve is derived from the LIBOR or risk-free curve and then adjusted to calculate a margin based on Efic's current ability to issue debt at a margin to LIBOR. These valuations are being obtained from an external valuation system. Non-structured borrowings are classified as level 2 whereas structured borrowings are classified as level 3 hierarchy. The structured borrowings are level 3 as they have either complex interest rate formula that include foreign exchange rates or the Nikkei index or they have knockout or callable features.

Guarantees designated at fair value through profit or loss

The fair value on day one is the transaction price, and subsequent fair value is determined by applying market rates and using the valuation technique of discounted cash flows through an external valuation system. These are classified as level 3 as the credit risk component is included in the valuation through an internal model to reflect the impact of expected loss on the fair value of each guarantee. A residual margin covering prepayment risks, other risks and servicing costs is also included in the fair value of the guarantee. When it is likely that a guarantee will be called, a specific event is recognised and recorded using the discounted cash flow method. All individual facilities are reviewed regularly.

Note 20: Capital equivalent

	Commercial Account		National Interest Account	
	30 June 2014 $ m	30 June 2013 $ m	**30 June 2014 $ m**	30 June 2013 $ m
Capital available				
Equity at start of period	**216.3**	418.1	**-**	-
Profit	**24.2**	22.6	**-**	-
Net gain on cash flow hedges	**(0.5)**	(0.4)	**-**	-
Net gain/(loss) on available-for-sale investments	**(2.8)**	2.8	**-**	-
Special dividend paid	**-**	(200.0)	**-**	-
Dividend payable/paid	**(11.3)**	(26.8)	**-**	-
Equity at end of period	**225.9**	216.3	**-**	-
Eligible allowance for credit risk in capital	**11.7**	12.1	**-**	-
Efic capital	**237.6**	228.4	**-**	-
Callable capital	**200.0**	200.0	**-**	-
Capital available (including callable capital)	**437.6**	428.4	**-**	-
Capital required				
Export finance	**109.4**	112.5	**-**	-
Treasury	**26.3**	30.9	**-**	-
Other assets	**3.8**	3.9	**-**	-
Operational capital	**7.7**	6.1	**-**	-
Capital before concentration capital	**147.2**	153.4	**-**	-
Concentration capital	**169.1**	185.7	**-**	-
Total capital required	**316.3**	339.1	**-**	-
Capital ratios				
Risk weighted assets	**1,941.8**	2,024.6	**-**	-
Capital adequacy ratio (excluding callable capital)	**12.2%**	11.3%	**-**	-
Capital adequacy ratio (including callable capital)	**22.5%**	21.2%	**-**	-

Note 20: Capital equivalent *(continued)*

Commercial Account

Capital Injection

On May 13 2014, the Treasurer announced in the Federal Budget a capital injection of $200 million to restore Efic's capital base following a $200 million special dividend paid in June 2013. The restoration of Efic's capital base was contained in Appropriation Bill (No. 2) and received Royal Assent (Act No. 64) on 30 June 2014. The actual payment of the $200 million in cash capital occurred on 23 July 2014 and therefore does not form part of the capital base of Efic as at 30 June 2014. The capital injection will bring Efic back into compliance with its own internal capital-based limits for large exposures and country risk. Exposures are shown in Note 18.

Capital management

Efic currently considers capital from two perspectives.

- The amount of regulatory capital required calculated under APRA/Basel prudential standards, and adding to regulatory capital an allowance for concentration risk to give a proxy for economic capital, compared to the actual capital available (cash and callable).
- A capital adequacy ratio (CAR) assessing actual capital available against risk weighted assets (RWA), of which cash capital to RWA must be higher than 8% and including callable capital must be higher than 16%.

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

Efic is unusual in that over 90% of Efic's exposures are denominated in foreign currency but actual capital available is denominated in AUD. This gives rise to a currency mismatch in that the numerator for capital adequacy purposes is fixed in AUD but the denominator is in a foreign currency. Substantial movements in the exchange rate can therefore impact on capital adequacy and large exposure and country limits even though the underlying credit exposure in foreign currency is unchanged.

Similarly, Efic needs a substantial amount of capital for concentration risk. Concentration risk is the 'spread' of outstanding obligors or specifically the level of diversity that exists across a bank's loan portfolios and is not captured in typical capital adequacy calculations.

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

In this context, it is imperative that given Efic's mandate, the Board looks beyond capital adequacy ratios to determine the amount of capital required to prudently manage Efic's business. Large exposures, concentration risks and potential currency movements all impact on Efic's business and capital is required as a buffer to these risks.

Efic's Model for assessing Capital Adequacy

Under section 56 of the Efic Act the Board is required 'to ensure, according to sound commercial principles, that the capital and reserves of Efic at any time are sufficient'. This requirement relates only to our Commercial Account activities. Efic guides itself in fulfilling this obligation by setting its own regulatory standards drawing upon both the standards of APRA and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision.

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

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

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

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

Efic requires a minimum capital adequacy ratio of 16% as set by the Board, which includes its callable capital of $200 million, and a ratio of 8% excluding the callable capital.

At 30 June 2014, Efic's capital requirement based on risk weighted assets of $1.9 billion (2013 - $2.0 billion) is $316.3 million (2013 - $339.1 million) compared with available capital of $437.6 million (2013: $428.4 million). The capital adequacy ratio is 12.2% excluding callable capital and 22.5% including callable capital (2013: 11.3% and 21.2% respectively).

Efic's Risk Based Capital Framework

Efic's approach to risk management and capital management is based around assessing the level of, and appetite for risk, and ensuring that the level and quality of capital is appropriate to that risk profile. Prudent practice also requires that capital management be forward-looking, having regard to changes in strategy, business plans and the operating environment as well as changes in the type, amount and concentration of risk that might impact on the capital resources available.

Capital also supports Efic's operations by providing a buffer to absorb unanticipated losses from its normal business activities. In the event cash capital is insufficient, the Board, in consultation with Government, may call additional cash capital up to a prescribed amount. Efic is also supported by a Commonwealth guarantee that protects third parties from any financial loss in the event Efic cannot meet its obligations. This guarantee has never been called.

The Board treats Efic's capital as equivalent to the regulatory capital under Basel and APRA guidelines and uses this as the basis for setting risk tolerances with regard to large exposures and capital adequacy. Changes to the Efic Act in 2013 which gave the Minister power under Section 55A(2) to direct Efic to pay specified dividends within a specific period means Efic's capital base may not meet the regulatory definition of capital.

When making this assessment, the Board is required to include as equity the $200 million of callable capital that is available from the Commonwealth in accordance with the provisions of section 54(8)(a) of the Efic Act.

Efic's Model for assessing Large Exposures

Efic has modelled its large exposure policy on Basel and APRA guidelines and has limited large exposures to 25% of eligible capital for ERS grades 1 and 2 (A- and above) and adopted a more conservative guideline of 15% of eligible capital for ERS grades 3 and worse (below A-), with exceptions subject to Board approval. In addition the Board allows a small tolerance above these limits for foreign exchange movements given the majority of Efic's large exposures are in foreign currency against an AUD capital base.

National Interest Account

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

Note 21: Remuneration of external auditors

	Commercial Account		National Interest Account	
	30 June 2014 $	30 June 2013 $	**30 June 2014 $**	30 June 2013 $
Auditor's remuneration				
Amounts received or due and receivable by the corporation's auditors for:				
An audit or review of the financial report of the corporation	**240,000**	238,845	**-**	-
Other services in relation to the entity	**-**	-	**-**	-
Total audit remuneration	**240,000**	238,845	**-**	-

The corporation's auditor is the Australian National Audit Office who has retained Ernst & Young (Australia) to assist with the assignment.

Note 22: Related party disclosures

Total remuneration received and receivable by Senior Executive personnel for the year. Remuneration includes all cash remuneration, superannuation and any non-cash benefits (including applicable fringe benefits tax).

	Commercial Account		National Interest Account	
	30 June 2014 $	30 June 2013 $	**30 June 2014 $**	30 June 2013 $
Senior Executive Remuneration Expenses for the Reporting Period				
Short-term employee benefits	**2,815,166**	2,357,446	**-**	-
Post-employment benefits	**173,043**	173,312	**-**	-
Termination benefits	**180,144**	-	**-**	-
Total remuneration	**3,168,353**	2,530,758	**-**	-

2014	Senior Executives No.	Reportable Salary	Contributed Super	Bonus Paid	Total Reportable Remuneration
Average Annual Reportable Remuneration Paid to Substantive Senior Executives During the Reportable Period					
Commercial Account Total Remuneration					
Less than $195,000	**1**	**30,706**	**2,840**	**-**	**33,546**
$315,000 to $344,999	**1**	**189,833**	**14,494**	**131,779**	**336,106**
$345,000 to $374,999	**3**	**298,848**	**22,592**	**29,867**	**351,307**
$375,000 to $404,999	**2**	**349,040**	**24,000**	**22,555**	**395,595**
$435,000 to $464,999	**1**	**350,363**	**17,775**	**71,971**	**440,109**
$465,000 to $494,999	**1**	**393,763**	**25,000**	**55,360**	**474,123**
Total	**9**				

Note 22: Related party disclosures *(continued)*

2013	Senior Executives No.	Reportable Salary	Contributed Super	Bonus Paid	Total Reportable Remuneration
Average Annual Reportable Remuneration Paid to Substantive Senior Executives During the Reportable Period					
Commercial Account Total Remuneration					
Less than $195,000	2	56,370	7,416	33,150	96,936
$285,000 to $314,999	1	274,117	16,470	6,500	297,087
$315,000 to $344,999	1	277,519	24,977	38,375	340,871
$375,000 to $404,999	1	306,084	24,951	48,323	379,358
$405,000 to $434,999	1	337,024	20,083	52,329	409,436
$465,000 to $494,999	1	382,975	25,000	69,575	477,550
$615,000 to $644,999	1	411,536	62,991	151,929	626,456
Total	8				

2014	Staff No.	Reportable Salary	Contributed Super	Bonus Paid	Total Reportable Remuneration
Average Annual Reportable Remuneration Paid to Other Highly Paid Staff					
Commercial Account Total Remuneration					
$195,000 to $224,999	**10**	**169,364**	**20,104**	**19,758**	**209,226**
$225,000 to $254,999	**12**	**186,093**	**31,939**	**22,193**	**240,225**
$255,000 to $284,999	**3**	**222,968**	**20,625**	**27,067**	**270,660**
$285,000 to $314,999	**1**	**230,757**	**17,775**	**37,125**	**285,657**
$315,000 to $344,999	**2**	**238,023**	**66,614**	**25,377**	**330,014**
Total	**28**				

2013	Staff No.	Reportable Salary	Contributed Super	Bonus Paid	Total Reportable Remuneration
Average Annual Reportable Remuneration Paid to Other Highly Paid Staff					
Commercial Account Total Remuneration					
$195,000 to $224,999	13	164,797	24,495	22,012	211,304
$225,000 to $254,999	4	183,563	26,124	26,794	236,481
$255,000 to $284,999	5	216,974	22,758	33,460	273,192
$285,000 to $314,999	2	239,721	24,846	29,425	293,992
$315,000 to $344,999	2	233,107	58,432	35,604	327,143
Total	26				

Note 22: Related party disclosures *(continued)*

	Commercial Account		National Interest Account	
	30 June 2014 No.	30 June 2013 No.	**30 June 2014 No.**	30 June 2013 No.
Non-executive Board Members				
$0 to $29,999	**2**	2	**-**	-
$30,000 to $59,999	**5**	4	**-**	-
$60,000 to $89,999	**1**	1	**-**	-
Total	**8**	7	**-**	-
Total remuneration received or receivable by Non-executive Board Members of Efic	**306,887**	293,505	**-**	-

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

Mr A Mohl, Dr S Pitkin, Ms D Shiff, Mr A Armour, Ms J Adams, Mr B Brook, Mr D Evans, Mr B Gosper, Mr N Minogue, Mr D Richardson, Ms J Seabrook, and Mr P Varghese.

Changes in Board membership during the year:		
31 July 2013	Dr S Pitkin	Appointment Ended
1 August 2013	Ms A Chaplain	Appointed
30 August 2013	Mr A Armour	Appointment Ended
1 September 2013	Mr A Hunter	Appointed
4 April 2014	Ms J Seabrook	Appointment Ended

Transactions with Board Members and Board Member related entities

Efic has not entered into any transactions with a Board Member.

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

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

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

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

	Commercial Account		National Interest Account	
	30 June 2014 $ m	30 June 2013 $ m	**30 June 2014 $ m**	30 June 2013 $ m
Operating profit from ordinary activities	**24.2**	22.6	**16.0**	14.0
Reclassification on non-cash items				
Depreciation	**3.4**	3.2	**-**	-
Employee entitlements	**0.3**	0.4	**-**	-
Amortisation of deferred income	**(0.7)**	(0.9)	**(12.6)**	(14.7)
Credit risk movement	**(1.2)**	6.8	**-**	-
Foreign exchange (gains)/losses	**(0.2)**	(0.6)	**0.2**	0.1
Unearned premium	**-**	-	**(1.4)**	(1.6)
Fair value movement of third-party loans and guarantees	**(3.4)**	0.1	**-**	-
Fair value movement of other financial instruments	**2.0**	3.0	**-**	-
Specific provision	**(3.1)**	3.4	**9.6**	8.3
Other	**(3.9)**	(0.2)	**0.1**	(0.4)
Reclassification on cash items				
Net movement in receivables/payables	**3.9**	0.4	0.3	(0.6)
Net repayments of loan balances	**(34.5)**	(90.4)	38.4	(17.6)
Rescheduled debt repayments	**4.3**	4.0	19.0	16.9
Net cash inflows/(outflows) from operating activities	**(8.9)**	(48.2)	**69.6**	4.4
Reconciliation of cash				
Cash at end of financial year is reconciled to the related items in the Balance Sheet as follows:				
Receivables from other financial institutions				
Cash	**1.2**	0.6	**-**	-
Receivables from other financial institutions	**150.9**	129.6	**-**	-
Cash (including liquid funds) at end of financial year	**152.1**	130.2	**-**	-
Financing facilities				
Borrowing facilities available to Efic at end of financial year				
Overdraft facilities	**0.3**	0.3	**-**	-
Amount of facilities used	**-**	-	**-**	-
Amount of facilities unused	**0.3**	0.3	**-**	-

Index of statutory reporting requirements

Index of statutory reporting requirements

We report in accordance with the requirements of the various acts and statutory instruments as set out in Table 10.

Table 10: Index of statutory reporting requirements

Section	Subject	Location	Page
Part A: CAC Act, Commonwealth Authorities (Annual Reporting) Orders 2011			
Commonwealth Authorities and Companies Act 1997			
s.9(1)	Directors must prepare annual report in accordance with Schedule 1	Report of operations - Chairman's report - Managing Director's report - Our clients	 6-7 8-10 12-25
sch.1(a)	Report of operations	Report of operations	2-61
sch.1(b)	Financial statements	Financial statements	63-121
sch.1(c)	Auditor-General's report on financial statements	Financial statements - Independent auditor's report	65-66
sch.2(3)	Directors' statement	Financial statements - Statement by Board members and Chief Financial Officer	64
Commonwealth Authorities (Annual Reporting) Orders 2011			
6	Report of operations must be signed by a director and include details of how and when approval was given	Report of operations - Summary and statement by the Board	6-7
10	Enabling legislation, objectives and functions	Report of operations - About us - Efic Act	 26 27
11	Responsible Minister	Report of operations - About us (Accountability)	26
12a	Ministerial directions	Report of operations - Particulars of directions from the Minister	48-49
12b	General policies notified under section 28 of the CAC Act (as in force before 1 July 2008)	Not applicable	n.a.
12c	General Policy Orders issued under section 48A of the CAC Act	Not applicable	n.a.
12	Other legislation	Refer to Part B of this table	125
13	Information about directors	Report of operations - Our Board	30-35
14	Organisational structure	Report of operations - Our organisation structure	37
14	Statement on governance	Report of operations - Corporate governance - Our Board - Risk Management Framework	 29 30-35 50-59
15	Related entity transactions	Not applicable	n.a.

Section	Subject	Location	Page
16	Key activities and changes affecting the authority	Report of operations - Performance against principal objectives - Chairman's report - Managing Director's report - Our clients	 4-5 6-7 8-10 12-25
17	Judicial decisions and reviews by outside bodies	Report of operations - Judicial and administrative decisions and reviews	47
18	Obtaining information from subsidiaries	Not applicable	n.a.
19	Indemnities and insurance premiums for officers	Report of operations - Indemnities and insurance	47
20	Disclosure requirements for government business enterprises	Not applicable	n.a.
21	Index of annual report requirements	Index of statutory reporting requirements	122-125

Part B: Other legislation

Section	Subject	Location	Page
Environment Protection and Biodiversity Conservation Act 1999			
s.516A (3) (6)	Ecologically sustainable development and environmental performance	Report of operations - Corporate responsibility	42-47
Export Finance and Insurance Corporation Act 1991			
s.9(4)	Particulars of Ministerial directions issued under section 9(2)	Report of operations - Particulars of directions by the Minister	48-49
s.70(2)	Financial effect on the operations of Efic of each Ministerial direction issued under section 9(2)	Report of operations - Particulars of directions by the Minister	48-49
s.85(2(a)	Particulars of Ministerial directions issued under section 9(2)	Report of operations - Particulars of directions by the Minister	48-49
s.85(2)(b)	Statement of principal objectives	Report of operations - Purpose and principles - Performance against principal objectives	 11 4-5
s.85(2)(c)	Assessment of principal objectives achieved	Report of operations - Performance against principal objectives	4-5
Equal Employment Opportunity (Commonwealth Authorities) Act 1987			
s.9(4)	Report on Equal Employment Opportunity program	Report of Operations - Our people	38-42
Work Health and Safety Act 2011			
Sch2, Pt 4, Clause 4(2)	Work health and safety initiatives, outcomes, statistics and investigations	Report of operations - Our people	38-42

Abbreviations and acronyms

Abbreviations and acronyms

Table 11: Abbreviations and acronyms

ASX	Australian Securities Exchange
CAC Act	Commonwealth Authorities and Companies Act 1997
CEDA	Committee for Economic Development of Australia
CRP	Corporate Responsibility Policy
DFAT	Department of Foreign Affairs and Trade
DPRK	Democratic People's Republic of Korea
ECA	Export Credit Agency
EFG	Export Finance Guarantee
Efic	Export Finance and Insurance Corporation
Efic Act	Export Finance and Insurance Corporation Act 1991
ERS	Efic Risk Score
EWCG	Export Working Capital Guarantee
FXG	Foreign Exchange Facility Guarantee
IMF	International Monetary Fund
IPS	Information Publication Scheme
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
OECD	Organisation for Economic Co-Operation and Development
PGPA Act	Public Governance, Performance and Accountability Act 2013
PNG	Papua New Guinea
RPA	Risk Participation Agreement
SME	Small or Medium-Sized Enterprise
WHS Act	Work Health and Safety Act 2011
WHSC	Work Health and Safety Committee

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