Efic

Finance for
Australian
Exporters

ANNUAL REPORT 2015 | 2016

Efic is a specialist financier delivering simple and creative solutions to Australian exporters when their bank is unable to help. We help them win business, grow internationally and achieve export success.

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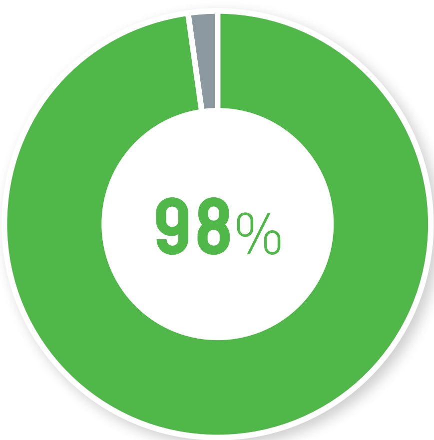
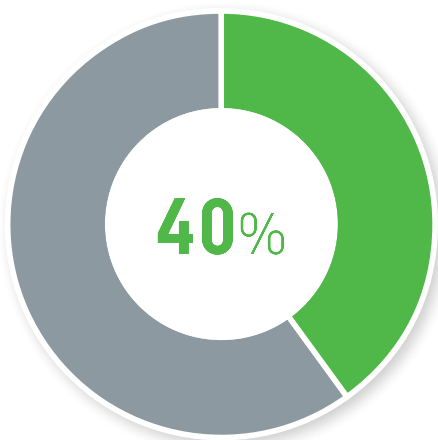
HIGHLIGHTS FOR 2016:
A FOCUS ON SMEs

SME transactions by number



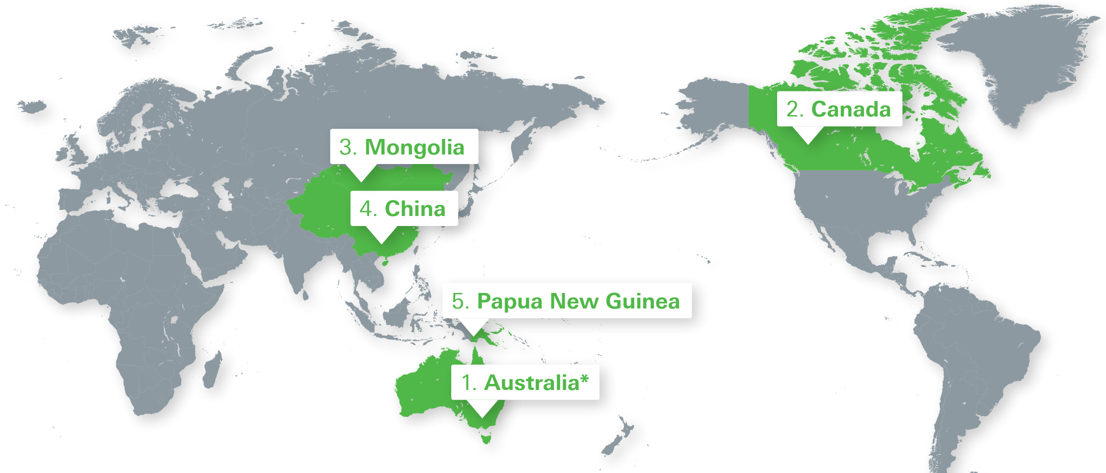
of transactions by
number were for SMEs

SME transactions by value



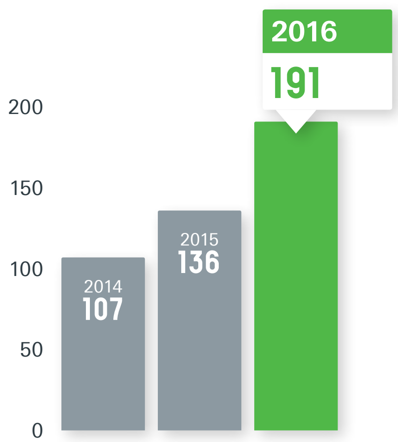
of transactions by
value were for SMEs

Top 5 country exposures in 2015 – 2016



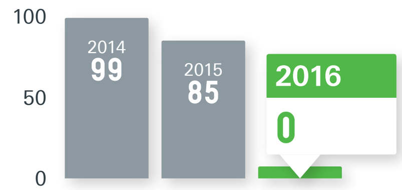
*in the export supply chain

SME transactions – direct



Transactions provided for
SMEs – Direct Channels

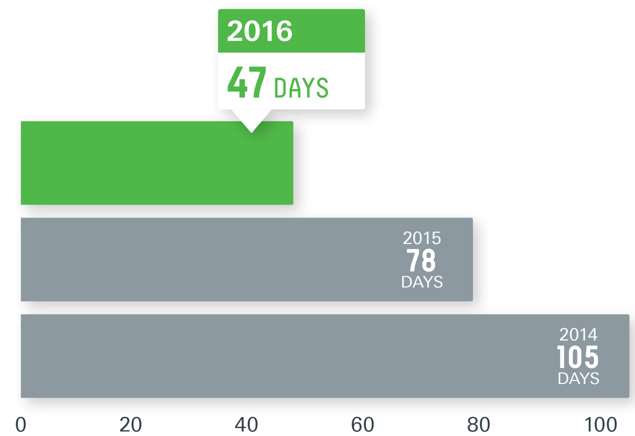
SME transactions – alliance



Transactions provided for
SMEs – Alliance Channels*

*principal alliance channel was
Asian Development Bank (ADB)

Average turnaround time for SME transactions



HIGHLIGHTS FOR 2016:
A FOCUS ON SMEs

98%
of Australian exporters we supported were small to medium businesses

$390m
in transactions – an increase of 493% from 2014

We helped
111
businesses this year – 95% more than in 2012

We supported
149
export contracts totalling over $1.4 billion in value

$155m
in SME transactions

Our support travelled to
41
countries worldwide

SMEs contributed to
40%
of total transaction value

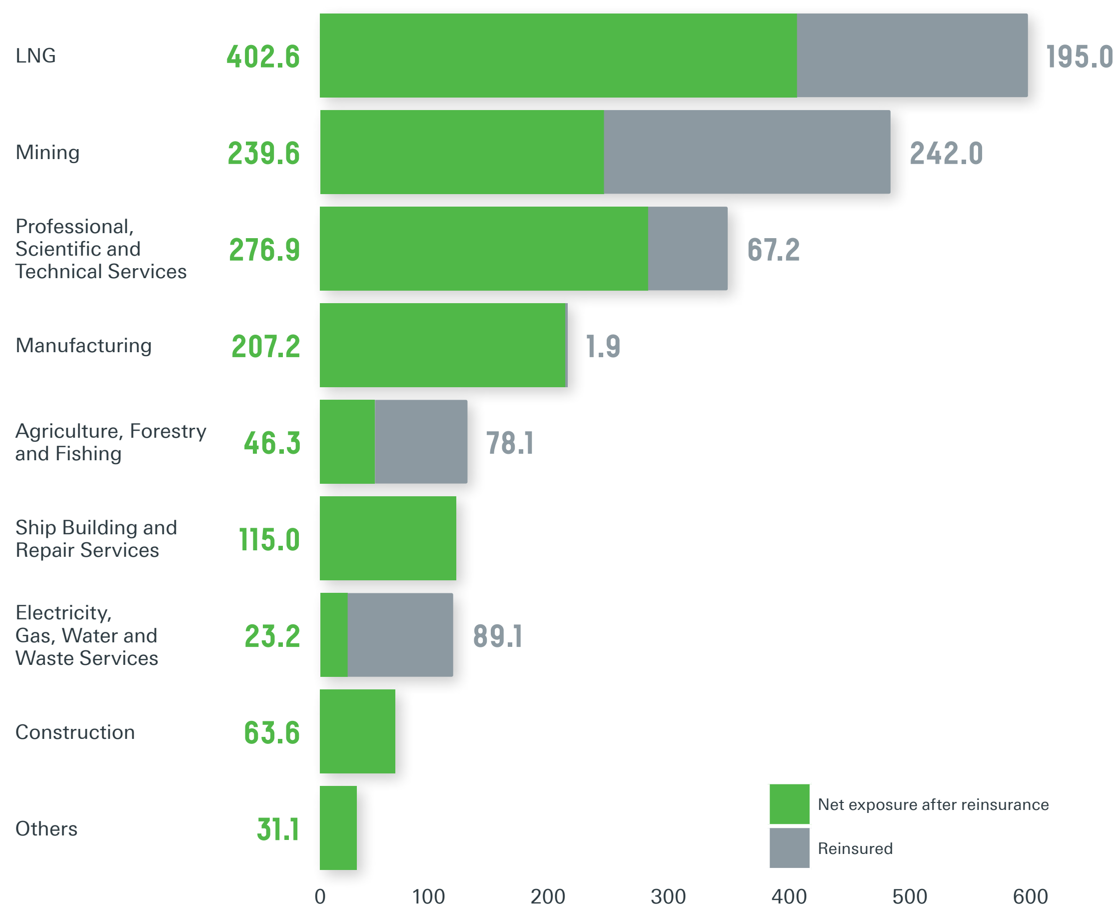
We provided Australian SMEs with
122
facilities helping their businesses grow

194
total transactions – up 40% from last year

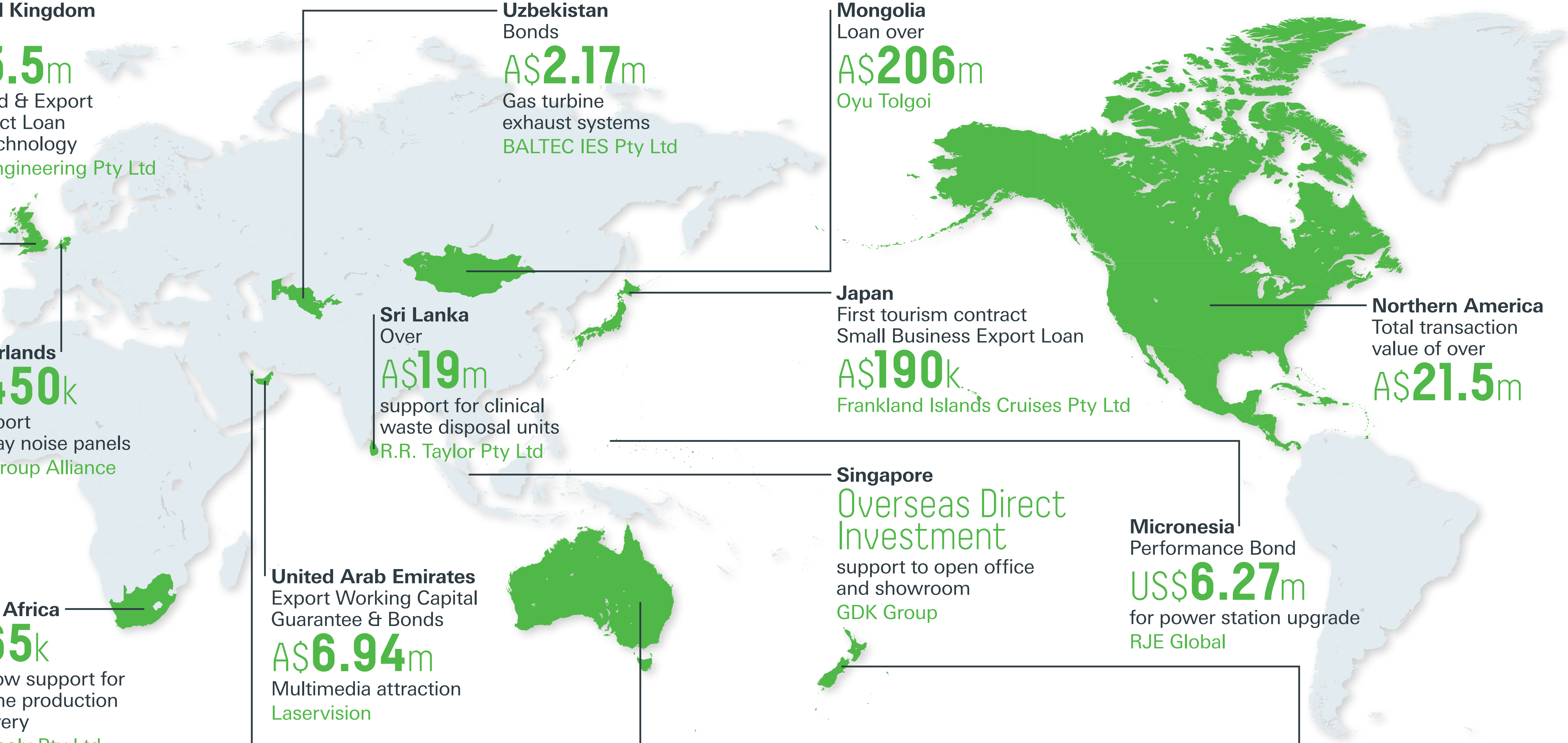
New online Small Business Export Loan – unsecured loans of up to
$250k

EficDirect.

Exposure by industry of exporters (A$m)



HIGHLIGHTS FOR 2016:
A FOCUS ON SMEs



United Kingdom
Over
A$**3.5**m
in Bond & Export Contract Loan
Rail technology
JRB Engineering Pty Ltd

Uzbekistan
Bonds
A$**2.17**m
Gas turbine exhaust systems
BALTEC IES Pty Ltd

Mongolia
Loan over
A$**206**m
Oyu Tolgoi

Netherlands
A$**450**k
in support
Freeway noise panels
AUS Group Alliance

Sri Lanka
Over
A$**19**m
support for clinical waste disposal units
R.R. Taylor Pty Ltd

Japan
First tourism contract
Small Business Export Loan
A$**190**k
Frankland Islands Cruises Pty Ltd

Northern America
Total transaction value of over
A$**21.5**m

Singapore
Overseas Direct Investment
support to open office and showroom
GDK Group

Micronesia
Performance Bond
US$**6.27**m
for power station upgrade
RJE Global

United Arab Emirates
Export Working Capital Guarantee & Bonds
A$**6.94**m
Multimedia attraction
Laservision

South Africa
A$**65**k
cashflow support for machine production & delivery
Worldpoly Pty Ltd

Qatar
Bonds & Export Working Capital Guarantee
A$**6.9**m
for tunnelling machines
Bothar Boring & Tunnelling Pty Ltd

Australia
Export supply chain Bond
A$**5.02**m
solar power
EMC Solar Construction Pty Ltd

New Zealand
Bond & Export Contract Loan
A$**1.56**m
infrastructure maintenance
Services South East Pty Ltd

ANNUAL PERFORMANCE STATEMENT

for the year ended 30 June 2016

Introductory Statement

I, James M Millar, Chairman of the accountable authority, the Board of the Export Finance and Insurance Corporation (Efic), present the 2015-2016 Annual Performance Statement of Efic, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, these Annual Performance Statements are based on properly maintained records, accurately reflect the performance of the entity, and comply with subsection 39(2) of the PGPA Act.

Purpose

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

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

Results

Table 1: We increased the number and value of export transactions that directly supported SMEs during the year.

Performance criterion	Result against performance criterion	Source
Number and value of facilities		
New Signings SME – Direct		
150 to 180 in number of transactions	**191 transactions**	
116 to 144 in number of facilities	**119 facilities**	
$135 to $145 million in value of facilities	**$155.0 million in value of deals**	
$740 to $770 million in value supporting export contracts	**$660.2 million in value supporting export contracts**	
New Signings SME – Alliances		
50 to 70 in number of transactions	**0 transactions**	
4 to 6 in number of facilities	**0 facilities**	
$5 to $15 million in value of facilities	**$0 million in value of deals**	
$10 to $30 million in value supporting export contracts	**$0 million in value supporting export contracts**	
New Signings SME – Total		
200 to 250 in number of transactions	191 transactions	1
120 to 150 in number of facilities	119 facilities	2
$140 to $160 million in value of facilities	$155.0 million in value of deals	3
$750 to $800 million in value supporting export contracts	$660.2 million in value supporting export contracts	4

1: 2015-16 Corporate Plan, Page 10, Column 2, Line 2 of Table
2: 2015-16 Corporate Plan, Page 10, Column 2, Line 5 of Table
3: 2015-16 Corporate Plan, Page 10, Column 2, Line 8 of Table
4: 2015-16 Corporate Plan, Page 10, Column 2, Line 11 of Table

Explanation

The Corporate Plan (Plan) on page 10 shows aggregate data, totalling both the number and value of our direct and alliance businesses. However, for greater clarity, as illustrated in Table 1, we have disaggregated the data to show the direct business separately from the alliance business. As can be seen in the table, not signing any transactions with our key alliance partner, the Asian Development Bank (ADB), has impacted our total level of signings, although SME signings still account for over 98 per cent of all transactions by number.

We provided 191 SME transactions through direct relationships with our exporters during the year, compared to 136 in 2014-15, which exceeded the upper end of the range of 180 transactions set out in the Plan. These 191 transactions equated to 119 facilities which was within the range set out in the Plan. The growth in transaction volume was driven by the success of our Export Contract Loan (ECL) that was introduced in 2015 and the recent introduction of the Small Business Export Loan (SBEL) that is delivered via our new online portal EficDirect. Both the ECL and SBEL were specifically designed to support SMEs and followed amendments to the Efic Act in 2015 that enabled us to offer these type of products which better met the needs of smaller exporters. Similarly, the value of facilities amounting to $155 million exceeded the upper end of the range of $145 million as set out in the Plan, although export contracts supported was below the range. The growth in the value of facilities was driven primarily by the increase in the number of transactions, however, there was one larger SME transaction for US$13.8 million that contributed to the higher values.

We did not sign any SME transactions under our alliance arrangements during the year, compared to 85 in 2014-15. The Plan was between 50 to 70 transactions equating to between four to six facilities valued at between $5-$15 million. Our principal alliance arrangement is with the ADB whereby we support Australian SMEs exporting to Bangladesh, Pakistan, Sri Lanka and Vietnam. However, we have very little control over the number of transactions and the fall this year in transaction numbers reflects lower commodity prices, which has increased the lending capacity of local Asian banks and ADB and hence reduced the requirement for our support.

Table 2: We continued to support larger exporters and overseas projects with Australian content, including those with a significant contribution from Australian SME exporters.

Performance criterion	Result against performance criterion	Source
Number and value of facilities		
New Signings Corporate, Sovereign and Project Finance – Direct		
2 to 8 in number of transactions	**2 transactions**	
3 to 6 in number of facilities	**2 facilities**	
$255 to $275 million in value of facilities	**$235.3 million in value of deals**	
$1,035 to $1,115 million in value supporting export contracts	**$816.3 million in value supporting export contracts**	
New Signings Corporate, Sovereign and Project Finance – Alliances		
3 to 7 in number of transactions	**1 transaction**	
2 to 4 in number of facilities	**1 facility**	
$5 to $15 million in value of facilities	**$0.1 million in value of deals**	
$15 to $35 million in value supporting export contracts	**$0.3 million in value supporting export contracts**	
New Signings Corporate, Sovereign and Project Finance – Total		
5 to 15 in number of transactions	3 transactions	1
5 to 10 in number of facilities	3 facilities	2
$260 to $290 million in value of facilities	$235.4 million in value of deals	3
$1,050 to $1,150 million in value supporting export contracts	$816.6 million in value supporting export contracts	4

1: 2015-16 Corporate Plan, Page 10, Column 2, Line 3 of Table
2: 2015-16 Corporate Plan, Page 10, Column 2, Line 6 of Table
3: 2015-16 Corporate Plan, Page 10, Column 2, Line 9 of Table
4: 2015-16 Corporate Plan, Page 10, Column 2, Line 12 of Table

Explanation

The Corporate Plan (Plan) on page 10 shows aggregate data, totalling both the number and value of our direct and alliance businesses. However, for greater clarity, as illustrated in Table 2, we have disaggregated the data to show the direct business separately from the alliance business. As can be seen in the table, unlike the SME business, not signing any transactions with ADB has not materially impacted our aggregate level of signings. Corporate, sovereign and project finance signings account for less than 2 per cent of all transactions by number.

In total, we provided two corporate, sovereign and project finance transactions during the year, compared to five in 2014-15, which was within the range of between two to eight transactions set out in the Plan. These two transactions equated to two facilities which was below the range set out in the Plan, although the decline in transaction volume was not unexpected. Firstly, the number of large resource projects eligible for support has been curtailed by the fact that the project sponsor must demonstrate there is significant Australian content, including from Australian SMEs. Our support for Oyu Tolgoi in Mongolia (US$150 million), for example, was predicated on substantial Australian involvement in the project, including a significant contribution from Australian SME exporters. Secondly, the market outlook in frontier and emerging markets, where we traditionally have provided support is challenging, and the activities of other Asian Export Credit Agencies have steadily and significantly increased in these markets, reducing the need for our support. Similarly, the value of facilities amounting to $235 million was below the range of between $255 million to $275 million, as was the value of export contracts supported.

The decline in value was due primarily to the decrease in the number of transactions, but also reflects the episodic nature of these transactions and their size, and where transactions may take longer to close due to their increased complexity and the number of stakeholders involved, including foreign governments.

We signed only one corporate transaction under our alliance arrangements during the year, compared to eight in 2014-15. The Plan was between three to seven transactions equating to between two to four facilities valued at between $5-$15 million. As outlined in Table 2, our principal alliance arrangement is with the ADB whereby we support Australian companies exporting to Bangladesh, Pakistan, Sri Lanka and Vietnam. As a result, we have very little control over the number of transactions from ADB and the fall this year in transaction numbers reflects lower commodity prices which has increased the lending capacity of local Asian banks and ADB and hence the requirement for our support has not been necessary.

Table 3: Our support of exporters and the transactions undertaken was profitable (sustainable) over the period of the Plan.

Performance criterion	Result against performance criterion	Source
Financial Performance		
Achieve a pre-tax profit of $19.8 million	Commercial account pre-tax profit is $16.5 million	1
Achieve a post-tax profit of $13.9 million	Commercial account post-tax profit is $11.5 million	2

1: 2015-16 Corporate Plan, Page 10, Column 2, Line 13 of Table
2: 2015-16 Corporate Plan, Page 10, Column 2, Line 14 of Table

Explanation

Our annual profit was $16.5 million pre-tax and $11.5 million post-tax on the Commercial Account, down from $18.2 million pre-tax last year. During 2015-16, we became subject to competitive neutrality charges with effect from 1 July 2015 comprising a debt neutrality charge of $0.9 million, state-based payroll and land tax equivalents of $1.2 million as well as an income tax equivalent charge of $5.0 million. On a comparative basis, our restated annual profit in 2014-15 was $16.5 million pre-tax and $11.5 million post-tax, which is the same as the reported profit this year.

Profit, however, was below budget due to increased provisioning against SME exposures and larger corporate exposures that are impacted by lower commodity prices (coal, oil and gas). Unlike previous years, unrealised foreign exchange losses accounted for only $1.6 million of the overall result compared to $5.4 million in 2014-15. The average margin on the SME facilities signed during the year was around 5.2 per cent, with 75 per cent of all SME facilities signed being less than 12 months. The average margin on the corporate, sovereign and project finance facilities signed during the year was around 4.8 per cent, but the average tenor was 12.3 years.

Our financial results were helped by more than doubling the value of transactions provided relative to last year, including an increase for SME exporters and those SMEs integral to the domestic export supply chain. A steady flow of income from previous long tenor corporate, sovereign and project finance facilities also helped to underpin our profit.

Table 4: We met the minimum capital adequacy requirements set by the Board, including our capital adequacy ratio being above 16 per cent.

Performance criterion	Result against performance criterion	Source
Capital Adequacy		
Capital Available at $650.1 million	Capital Available is $660.0 million	1
Risk Weighted Assets at $2,388.2 million	Risk Weighted Assets are $2,528 million	2
Capital Adequacy Ratio of 27.2% including callable capital	Capital Adequacy Ratio of 26.1% including callable capital	3

1: 2015-16 Corporate Plan, Page 10, Column 2, Line 15 of Table
2: 2015-16 Corporate Plan, Page 10, Column 2, Line 16 of Table
3: 2015-16 Corporate Plan, Page 10, Column 2, Line 17 of Table

Explanation

Our Capital Adequacy Ratio is a function of both Risk Weighted Assets and the capital available to support the business. Risk Weighted Assets grew during the year to $2,528 million which was higher than the Plan, principally from growth in foreign currency denominated exposures. As our actual capital available is denominated in AUD, but our larger loans are typically in 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. So for example, when the AUD/USD exchange rate falls, the AUD equivalent of our USD assets increases and conversely decrease when the AUD/USD exchange rate rises. Approximately 92 per cent (2015: 96 per cent) of our Commercial Account facilities are denominated in foreign currencies (USD 88 per cent, Euro 3 per cent, other 1 per cent).

Capital Available grew to $660 million which was higher than the Plan due to retained earnings and a revaluation of land and buildings of $12.3 million. The lower Capital Adequacy Ratio of 26.1 per cent than forecast in the Plan simply reflects this growth in assets relative to the growth in capital. The ratio is above the minimum set by the Board of 16 per cent.

ANNUAL PERFORMANCE STATEMENT

for the year ended 30 June 2016

Analysis of overall performance against purpose

During the year, Efic has successfully achieved its purpose of facilitating and encouraging Australian export trade on a commercial basis. In particular, our support for SMEs has increased and we have ensured that small businesses now have access to the finance they need to win business, grow internationally and achieve export success. The analysis of our overall performance below should be read in conjunction with the rest of the Annual Report, and in particular, the Chairman's and Managing Director's report.

In total, we provided 194 transactions during the year, valued at $390 million, supporting 149 export contracts, which supported over $1.4 billion of export contracts and overseas investments. We made a post-tax profit of $11.5 million and had a capital adequacy ratio of 26.1 per cent.

It's important to note that our success is not always reflected by an increase in profitability or the number and value of facilities signed. Our success is often influenced by events outside our control. In particular, we cannot provide financial services or solutions to companies unless we are satisfied that private sector providers are unable or unwilling to do so – what Efic terms the 'market gap'.

In a practical sense, it means we cannot compete with the banks and, as such, we apply procedures to ensure that we notify the banks of our transactions before proceeding. When we step forward, our intended participation often encourages the participation of other financiers. This catalytic role is consistent with our mandate to 'crowd in' the private sector and in many cases may require Efic to step away from the transaction. 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 have been successful, even though this is not reflected in our performance against objectives.

We supported more SMEs than last year and were successful in developing our Small Business Export Loan (SBEL) that is available via our new online portal called EficDirect. The SBEL meets the specific needs of smaller SME exporters with a turnover of between $250,000 and $5 million, by bringing together convenience, accelerated approvals and flexibility. Most small business owners are often time poor, need high levels of flexibility and often do not have traditional assets to secure a loan with a bank. The SBEL loan size is typically between $50,000 and $250,000 and whilst unsecured, is based on prior export history and a specific export contract or purchase order.

We also supported larger SMEs through our Export Contract Loan (ECL). The ECL meets the specific needs of larger SME exporters with a turnover of greater than $5 million. Loan amounts are typically greater than $100,000 and are available in multiple currencies with tailored repayment terms to support a specific export contract.

Both the SBEL and ECL were recently developed in response to a key challenge for many small businesses of securing finance to help with cashflow and build growth in international markets. Both the SBEL and ECL work within Efic's 'market gap' mandate which means that these products target small businesses that are not able to secure financing through their bank.

Our new EficDirect online portal will transform the way we deal with our SME exporters into the future. The portal provides an easy way for exporters to complete their application form and upload the required documentation. This is supported by an experienced team of dedicated staff on the ground to assist exporters every step of the way. EficDirect only currently supports one product, the SBEL, but the platform is capable of supporting more products to help even more SMEs. Over time, the EficDirect platform will also reduce Efic's operating costs in servicing SME exporters.

We have streamlined the application, credit assessment, credit decision and documentation processes for small exporters. We continue to refine our standard form documentation and accelerated execution process to improve our average turnaround on SME transactions. The average turnaround time for SME transactions has reduced from 180 days in 2013 to less than 47 days today. We have also simplified the legal documentation for our two most used products, the Export Working Capital Guarantee and Performance Bond, and continuously revaluate our products to ensure we are receiving an adequate return for risk undertaken.

We continue to invest in our continuous improvement program to further improve Efic's operations. This initiative involves a project team with representatives from various departments across the business to drive efficiencies, eliminate redundant processes and find innovative solutions.

The mantra of efficiency, simplicity and creativity permeates throughout the corporation and helps focus management's attention on delivering processes that create a positive exporter experience at a lower cost. Helping exporters more efficiently is at the centre of our continuous improvement program.

We have upgraded our technology platforms and infrastructure enabling more flexible work practices in addition to web enabled applications for mobile use. Supporting this infrastructure is a substantial network upgrade, including both internet and private network. These upgrades will improve general performance by enabling staff to work just as effectively on the road, in the office or at home. It will also allow for use of new technologies, including our digital online offering, to make it easier for SMEs to engage with us through the use of mobile and tablet devices.

We continue to invest in our staff and promote diversity across the organisation. A diverse and inclusive workplace is critical to strengthening our employee retention and reputation, and also contributes significantly to talent attraction and employee engagement.

We engaged KPMG to provide a limited assurance engagement in relation to this, our first Annual Performance Statement, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

KPMG concluded: *"Based on our limited assurance engagement, which is not a reasonable assurance engagement or an audit, we have not become aware of any matter that would lead us to believe that Export Finance and Insurance Corporation has not complied, in all material respects, in presenting the Annual Performance Statement for the year ended 30 June 2016 fairly and in all material respects as required by the PGPA Act."*

The independent limited assurance report from KPMG is available on our website.

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

"Our exporters are amongst Australia's best companies – they are creative, confident and optimistic."

Andrew Hunter
Managing Director and CEO

"The role Efic plays for Australian SMEs is critical – access to finance is an important ingredient for export success."

James M. Millar AM
Chairman

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

Australia is home to many highly successful small to medium (SME) size export businesses across a diverse range of industries including agriculture, premium food and beverage and advanced manufacturing, as well as services including education, tourism and the METS (mining, equipment and technology services). Our research shows that these businesses are optimistic about the future, with over 40 per cent planning to establish subsidiaries overseas from 2017. But gaining access to finance is still a barrier to their international expansion and export success.

With the depreciation of the Australian dollar from mid-2013 to mid-2015, we are now seeing more businesses looking to international markets. Last year's China-Australia Free Trade Agreement (ChAFTA) has no doubt played its part in China continuing to rank highly as a key market for Australian exporters to enter and grow. We are also seeing broader interest in frontier and emerging markets as businesses become confident in trading with developing economies, including in the Middle East and South East Asia.

Many Australian small businesses recognise that to be successful in an increasingly competitive global market they need to be innovative and agile. Some even need the potential to disrupt. Efic's role in providing access to finance is a further requisite ingredient for export success.

We are responding to the market

Our focus on helping SMEs is starting to pay dividends. This year we have helped over 110 SME exporters and those integral to export related supply chains with 191 transactions totalling $155 million. Total exports supported were valued at $660 million. This is substantial growth from the 57 SME exporters and $42 million in transactions in FY12. In the last three years Efic has provided 262 SME exporters with in excess of $350 million of financial support.

In March 2015 the Efic Act was amended to provide Efic with direct lending flexibility. Efic responded immediately with the launch of our Export Contract Loan (ECL) targeted at SMEs in need of short term finance. In its first full year the ECL has supported 58 SMEs with a total of $40 million in funding, up from 18 SMEs and $4.8 million in financial support last year.

On the first anniversary of our new lending flexibility we launched an online working capital solution for SMEs, the Small Business Export Loan (SBEL).

Our SBEL provides businesses with an annual turnover between $250,000 and $5 million access to unsecured financing of up to $250,000, within as little as seven business days and on flexible repayment terms of 3, 6, 9 or 12 months.

The online portal, EficDirect, provides accessibility, flexibility and fast approval times, giving Australian small businesses the ability to become effective competitors in a dynamic global export market. As at 30 June 2016, this digital solution has provided over $1 million in funding to 10 small business exporters with an average loan size of $147,000.

The first to access the SBEL was Worldpoly, a third generation family business with a long history in Victoria. Exports account for 70 per cent of the business, to over 108 countries worldwide. Worldpoly had previously contacted Efic for financial support, however loan limits were too high for their requirements. With the introduction of EficDirect, small businesses like Worldpoly are able to access smaller, unsecured loans with flexible repayment terms.

Working in the market gap

We continue to evaluate the market gap, collaborating with banks to ensure we are providing the right financial solutions for Australian SMEs. Typically, Efic's clients require creative financial solutions that fit within an existing financing arrangement, consistent with our non-compete market gap mandate.

We continue to improve transparency between Efic and the private market by bringing export opportunities we assess as being low risk to the attention of banks.

A recent example of where this process has worked effectively was with Australian shipbuilder, Incat. Renowned globally for the construction of high speed lightweight catamarans, Tasmanian-based Incat won a contract worth over €70 million for the construction of a vessel for export to Europe. The buyer of the vessel required both construction and long term debt finance, which on delivery of the vessel, would be supported by a long term charter of the vessel to a highly experienced operator in Europe. Incat mandated Efic to assist it arrange the necessary funding (for both construction and term debt) and participate as may be required in each facility, depending on the commercial market's appetite for the transaction. We worked collaboratively with Incat to source the necessary funding, and aided by our willingness to support and participate in the financing if required, Incat was able to raise the funding via commercial financiers to fully fund the construction contract and the subsequent long term debt requirement of the buyer.

As a further example of crowding in the private market, Efic helped innovative Gold Coast small business Evolve Skateboards to secure the finance they needed to deliver on an export contract. After an initial request to their bank for finance was unsuccessful, Efic's review of the transaction enabled all the required funding to be sourced from the private market, allowing the business to grow its international presence.

We have a strong and unique skill set in evaluating SME exporting risk. This is evident in the low default rate of SMEs we have supported over the years. Efic's approach is to efficiently target the credit factors that matter most: contractual certainty of the export, management's technical capability and export experience, as well as sound cash flow.

We continue to work with SMEs that are looking to new emerging markets where the perceived risk is too great for the private market.

One such example is Agri Direct Australia (ADA), a Victorian-based exporter of a range of agricultural products. ADA's experienced management team secured a A$660,000 contract to export Australian chickpeas and lentils to a reliable counterparty in Bangladesh, a country with increasing demand for high quality Australian produce. Despite the contractual certainty of the export cash flows, the country risk was such that ADA's bank referred them to Efic to provide working capital support, allowing ADA to continue on its path to export growth.

A second example is the Ramu Gateway Joint Venture, a partnership between two specialist Western Australian engineering firms. Formed to complete a full road scoping and design study for the design and construction of the Ramu Highway, they are paving the way for critical infrastructure in Papua New Guinea. The partners' banks were unable to provide an Advance Payment Bond of A$280,500 without 100 per cent cash security, which was not possible given the companies' available equity. Efic stepped in to help to ensure the delivery of the contract in a country that the Australian banking sector perceive as extremely high risk.

Large projects require an SME focus

We continue to provide funding to large-scale projects where Australian SMEs will benefit from export contracts. This year we contributed to financing the expansion of the Oyu Tolgoi gold and copper mine in Mongolia, with a direct loan of US$150 million.

This project represents a substantial business opportunity for Australian SME exporters who provide services to the mining sector. Approximately 200 Australian SMEs have already been involved in the project's initial development phase, with contracts totalling more than US$83 million. This includes companies such as Gears Mining, a Queensland-based company that provides maintenance and repair work for the mine's relining equipment, and Marcus Punch, a New South Wales business managing risk and safety protocols.

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

Greater efficiencies and effectiveness

Investigating and assessing where we can improve our delivery of services is a continuing process at Efic. In the last three years Efic has sought to eliminate tasks and processes that deliver negligible benefits to clients without compromising on credit standards.

For SMEs, our turnaround times through the accelerated execution process have fallen to an average of just 47 days, down from an average of 78 days last year and 180 days when it was introduced three years ago.

Our Small Business Export Loan is a further opportunity to reduce our turnaround time and improve the client experience. The Small Business Export Loan uses efficient digital capabilities to evaluate the financial condition and technical experience of the SME exporter, achieving funds available in as little as nine business days.

Other initiatives to increase staff efficiency and effectiveness include moving to a more agile work environment and implementing new IT systems across the organisation, further committing ourselves to a reduction in printing costs and reducing our environmental footprint.

With an increasingly diverse workforce, we are implementing flexible work arrangements where staff have the opportunity to work from home, and agree working hours to allow for work-life balance.

Assisting Government with the delivery of policy initiatives

In May 2015, the Australian Government passed legislation to establish the Northern Australia Infrastructure Facility (NAIF). NAIF is a major long term initiative of the Government's White Paper on Developing Northern Australia (Our North, Our Future), and integral to the Government's strategy to promote economic and employment growth in Northern Australia.

NAIF will manage $5 billion in concessional finance to encourage and complement private sector investment in economic infrastructure in the region.

Headquartered in Cairns, NAIF is being supported by Efic. We have worked with the Department of Industry, Innovation and Science to ensure projects are ready for consideration by the NAIF from 1 July 2016. Efic will continue to provide support services to NAIF in an effort to improve efficiencies across Government departments. As experts in financing, we identified an alignment with the Department of Industry, Innovation and Science, and an opportunity to be an effective partner in this initiative.

Marketing and client initiatives

We are actively building awareness of Efic across all SME industries where there is an export capability. Based on last year's success, we again ran the national SME roadshow presenting to almost 850 attendees across five states, with a keynote speaker and panel of SMEs at each venue.

We received excellent feedback and we continue to be impressed by the SMEs taking part. In Sydney we were pleased to hear from Lindsay Lyon, CEO of Shark Shield, an innovative and scientifically-proven invention that is protecting surfers and divers, while also supporting the conservation of sharks. And Ulli Spranz from B.-d. Farms Paris Creek in Adelaide, whose dream of running an organic dairy farm now sees her exporting her award-winning dairy products to the United Arab Emirates and Asia.

We have continued to build on our client case studies, in particular video testimonials, which provide real insight into what our clients are achieving. Our clients are our focus. Their stories are at the core of what we aim to achieve at Efic, and their success is a real measure of our effectiveness.

Our social media channels are gaining strong traction and engagement with the online community. Our followers on Twitter have increased by 312 per cent this financial year, and our LinkedIn account has gained over 3,000 followers, which is an increase of 123 per cent.

We launched the first of our whitepapers focusing on innovation. Based on the positive feedback we have received, we will be producing a series of whitepapers focusing on the issues Australian SMEs face when exporting.

More client successes

Once again we have seen Efic clients recognised for their hard work with some major award wins.

Efic continues to support the Australian Export Awards as they provide a great opportunity for Australian exporters of all sizes to be recognised for the outstanding work they do in building Australia's economy.

We were extremely pleased that Efic client ANCA was named Australian Exporter of the Year, as well as winning the manufacturing category. Established in 1974, ANCA specialises in the design and manufacture of high-end precision grinders, tool design software and machines that produce complex tools.

We had many other clients win State-based awards, including Aspen Medical who won the ACT Health and Biotechnology Award, and Steriline Racing who won the SA Regional Exporter of the Year Award.

It is rewarding to see clients we have helped achieve export success. The acknowledgement they receive through these awards shows not only their dedication to their business, but is further affirmation that the work we are doing at Efic is critical for Australian SME success.

Our People

Our success would not be possible without a dedicated team of professionals who are passionate about providing Australian exporters with creative solutions.

The diversity of our people is a key strength that forges innovation through the sharing of different skills, experiences and backgrounds. As experts in our field, our people continue to challenge the status quo and work collaboratively, including with our banking and alliance partners, to ensure the best possible outcomes for our clients. We thank our team for their hard work and commitment to helping our clients grow and succeed internationally.

The year ahead

We would like to take this opportunity to thank Board member Bruce Brook, who was a member of the Efic Board and Chairman of the Board Audit Committee for the past six years. His contribution and insights have been invaluable. We wish him all the best.

We welcome Lynda Cheng, Director of Corporate Development and Mergers and Acquisitions at Pratt Holdings. Lynda brings a broad commercial and international corporate finance perspective to the Efic Board and we look forward to working with her.

We would also like to welcome Justin Brown PSM as Alternate Government member of the Board, following the departure of Jan Adams, whom we wish well in her role as Australia's ambassador to China.

We look forward to a year of working with Australian SMEs, further improving our efficiencies to make it easier for our clients to do business with us, building our level of engagement with the government and industry associations, and helping Australia's best achieve export success.

Signed for and on behalf of the members of the Board, as the accountable authority of Efic, and being responsible for preparing and giving the Annual Report to Efic's Minister in accordance with section 46 of the PGPA Act.

James M. Millar AM
Chairman

25 August 2016

Andrew Hunter
Managing Director and CEO

25 August 2016

OUR CLIENTS

Our two accounts

Commercial Account

Our Commercial Account exposures of $2.1 billion comprises loans, export finance guarantees (EFGs) including funded EFGs, medium-term insurances, bonds and rescheduled credit insurance debts.

The average maturity of all facilities outstanding at 30 June 2016 was 2.1 years although it was 1.2 years for SME exposures and 6.2 years for our larger corporate exposures. On a weighted basis, the average maturity for all facilities lengthens to 7.2 years with SME exposures at 3.0 years and larger corporate exposures at 7.5 years.

Figure 1: Commercial Account at 30 June 2016 – exposures by region

Region	Value ($m)	Value (%)
Australia	711.4	34%
Asia	501.1	24%
Northern America	305.9	15%
Europe	286.1	14%
South America	143.0	7%
Pacific	128.1	6%
Middle East	3.3	0%

Figure 2: Commercial Account at 30 June 2016 – exposures by industry sector

Sector	Value ($m)	Value (%)
Reinsurance	673.3	32%
Mining LNG	402.6	19%
Public Administration and Safety	261.8	13%
Mining Commodities	235.3	11%
Financial and Insurance Services	166.5	8%
Transport, Postal and Warehousing	158.8	8%
Other	65.2	3%
Manufacturing	62.2	3%
Construction	53.2	3%

National Interest Account

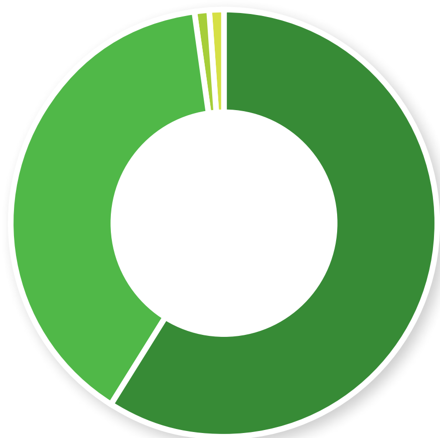
The National Interest Account (NIA) exposure of $822.4 million largely comprises loans to sovereign countries or their agencies, and loans to natural resource projects in emerging markets.

The largest exposure at present is to the PNG LNG project, with exposure of US$238.1 million at 30 June 2016. The initial funding of US$250 million has reduced following loan repayments that commenced in June 2015.

Figure 3: National Interest Account at 30 June 2016 – exposures by region

Region	Value ($m)	Value (%)
Pacific	320.2	39%
Asia	276.3	34%
Middle East	204.8	25%
Australia	11.4	1%
South America	9.7	1%

Figure 4: National Interest Account at 30 June 2016 – exposures by industry sector



Sector	Value ($m)	Value (%)
Public Administration and Safety	481.2	59%
Mining LNG	320.1	39%
Manufacturing	11.4	1%
Financial and Insurance Services	9.7	1%

CASE STUDY

Intersective

"Thanks to Efic's Small Business Export Loan, Intersective's experiential learning software is building new connections in Asia."

Suzy Watson, Chief Financial Officer
Intersective

Efic's Small Business Export Loan is helping Intersective deliver its experiential learning software to a client in Vietnam.

NSW-based Intersective is an education technology company that builds software products and tools to help bridge the gap between learning and work, allowing universities to deliver work-integrated learning for their students and employers.

With a successful and growing domestic market, Intersective looked to expand overseas. Securing a long term licensing contract with a university located in Vietnam, the business faced the challenge of securing finance to support project delivery.

Efic's Small Business Export Loan provided Intersective with a quick online solution. A fast application process and quick funds approval provided the business with the cashflow they needed to hire critical new staff.

Industry:
Education and Training

Country:
Vietnam

Product:
Small Business Export Loan

Efic support:
A$200,000

CASE
STUDY

HEGS Australia

"HEGS is pegged for global growth with export contracts to six continents."

Scott Boocock, Founder and CEO
HEGS Australia

Efic provided South Australian-based manufacturer of 'HEGS', the innovative pegs with hooks, an Export Working Capital Guarantee to deliver on three new contracts.

Sold throughout major Australian retailers, the company has distributors in the US, Canada, Mexico, South Africa, England, Scotland, Ireland and China.

HEGS Australia needed to increase its production capacity after winning three large export contracts into South Africa, China and the US. With its bank unable to approve the additional working capital needed due to insufficient tangible security, we provided HEGS Australia's bank with a A$250,000 Export Working Capital Guarantee. This provided HEGS Australia with the funds needed to cover the upfront manufacturing and pre-shipment costs for the three new export contracts.

Industry:
Manufacturing

Country:
Worldwide

Product:
Export Working Capital Guarantee

Efic support:
A$250,000

OUR CLIENTS

Facilities signed

Table 5: Our transactions for 2015-16

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
A W Bell Pty Ltd	Manufacturing	Specialised metal-casted parts (F35 JSF Program)	United States of America	ECL	1	0.53	Low potential - note 1
A&M Drilling & Blasting Services Pty Ltd	Construction	Dewatering systems	Malaysia	ECL	1	0.34	Low potential - note 1
AgriFoods Australia	Wholesale Trade	Mung beans	Australia - integral to ESC	EWCG	1	1.00	Low potential - note 1
Air Affairs (Australia) Pty Ltd	Manufacturing	Targets	Korea	Bond x 2	1	0.99	Low potential - note 1
Atkins Family Vineyards Pty Ltd	Manufacturing	Wine	United Kingdom	SBEL	1	0.07	Low potential - note 3
Audio Visual Imagenation Pty Ltd	Manufacturing	Wireless router systems	United States of America	ECL	1	2.13	Low potential - note 1
AUS Group Alliance Pty Ltd	Manufacturing	Noise insulation	Netherlands	ECL x 2	2	0.45	Low potential - note 1
Aussie Fluid Power Pty Ltd	Electricity, Gas, Water and Waste Services	Lube oil flushing	Australia - integral to ESC	ECL	1	0.50	Category C
Australia Made Shop (China) Pty Ltd	Wholesale Trade	Health products	China	ECL	1	0.25	Low potential - note 1
Australian Bauxite Ltd	Mining	Bauxite	India	ECL	1	0.50	Category C
Australian Mustard Oil Pty Ltd	Manufacturing	Mustard essence and oil	Japan	ECL	1	0.65	Low potential - note 1
AVT Paints Pty Ltd	Manufacturing	Milling equipment	United States of America	ODI	1	0.14	Low potential - note 1
BALTEC IES Pty Ltd	Professional, Scientific and Technical Services	Gas turbine exhaust systems	Uzbekistan, Egypt	Bond x 8	1	2.17	Low potential - note 1
Bausele Pty Ltd	Manufacturing	Watches	Various	ECL	1	0.10	Low potential - note 3
Bio Processing Australia Pty Ltd	Manufacturing	Yeast product	China	EWCG	1	0.50	Low potential - note 1
BJP Laboratories Pty Ltd	Manufacturing	Pharmaceuticals	Various	EWCG, ECL	2	1.82	Low potential - note 1
Boost Media Holdings Pty Ltd	Information Media and Telecommunications	Media brokerage services	Various	EWCG	1	1.50	Low potential - note 1
Bothar Boring and Tunnelling Pty Ltd	Construction	Tunnelling machines	Qatar	Bond, EWCG x 2	1	6.90	Low potential - note 1
Camatic Pty Ltd	Manufacturing	Seating	United States of America	ECL x 3, Bond x 2	1	9.11	Low potential - note 1
CarePlus Australia Pty Ltd	Retail Trade	Health products	China	ECL	1	0.70	Low potential - note 1
Cassegrain Wines Pty Ltd	Manufacturing	Wine	China, Japan	EWCG	Existing Facility	0.50	Low potential - note 1
Cherry Blooms Group Pty Ltd	Wholesale Trade	Cosmetics and fashion products	Various	ECL x 2	2	0.64	Low potential - note 1
Choice M Pty Ltd	Wholesale Trade	Meat products	Korea	EWCG	1	0.65	Low potential - note 1
Clinical Genomics Technologies Pty Ltd	Health Care and Social Assistance	Cancer testing kits	United States of America	EWCG x 2	1	1.31	Low potential - note 1
Codan Ltd	Manufacturing	Radios	Bangladesh	DCG x 2	1	0.26	Low potential - note 2
Compumedics Ltd	Manufacturing	Sleep apnoea products	Various	EWCG	1	1.38	Low potential - note 1
Costello's of Australia Pty Ltd	Retail Trade	Opals	Australia - integral to ESC	ECL	1	0.10	Low potential - note 1
digEcor Pty Ltd	Manufacturing	Inflight entertainment	Portugal	EWCG	1	0.55	Low potential - note 1

OUR CLIENTS

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Down Under Enterprises International Pty Ltd	Wholesale Trade	Natural oils	United States of America	EWCG	Existing Facility	0.55	Low potential - note 1
DownUnder GeoSolutions Pty Ltd	Mining	Data processing services	Malaysia, United State of America	EWCG,ODI	1	11.16	Low potential - note 1
E.P.C. International Pty Ltd	Manufacturing	Electrical substation	Fiji	Bond x 2	1	0.14	Low potential - note 1
EMC Solar Construction Pty Ltd	Professional, Scientific and Technical Services	Solar power	Australia - integral to ESC	Bond x 2	1	5.02	Low potential - note 1
FCT ACTech Pty Ltd	Manufacturing	Mineral analyser	Brazil	Bond	1	0.19	Low potential - note 1
Finnigan Investments (Aust) Pty Ltd t/a Affiniti	Information Media and Telecommunications	Software	United States of America	ODI	1	0.50	Low potential - note 1
Frankland Island Cruises Pty Ltd	Wholesale Trade	Boat charters	Japan	SBEL	1	0.19	Low potential - note 3
Gasco Pty Ltd	Manufacturing	Engineering equipment	Australia - integral to ESC, United Arab Emirates	Bond	1	1.55	Low potential - note 1
GCo Electrical Pty Ltd	Mining	Electrical infrastructure	Australia - integral to ESC	Bond x 4	1	0.84	Low potential - note 1
GD Pork Pty Ltd	Agriculture, Forestry and Fishing	Pork	Singapore	ECL	1	2.30	Category A
GDK Group Pty Ltd	Manufacturing	Acoustic panels and other components	Singapore	ODI	1	1.50	Low potential - note 1
Gemtree Vineyards Pty Ltd	Manufacturing	Bulk wine	United States of America	EWCG	1	1.50	Low potential - note 1
Genix Ventures Pty Ltd	Information Media and Telecommunications	Education software	India	ECL	1	0.10	Low potential - note 1
Gourmet Lovers Pty Ltd	Manufacturing	Olive oil	United States of America	ECL x 2	1	0.70	Low potential - note 1
GP Graders Australia Pty Ltd	Manufacturing	Grading machine	Greece	ECL	1	0.70	Low potential - note 1

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Happy Bash Pty Ltd	Wholesale Trade	Pet products	United States of America	ECL	1	0.27	Low potential - note 1
Inflatable Packers International Pty Ltd	Manufacturing	Mining equipment	Chile	ECL	1	0.60	Low potential - note 1
Intersective Pty Ltd	Education and Training	Software	Vietnam	SBEL	1	0.20	Low potential - note 3
Isoloader Australia Pty Ltd	Manufacturing	Machinery	Various	Bond	1	0.24	Low potential - note 1
ITS Pipetech Pty Ltd	Other Services	Pipe/rail rehabilitation and construction	Fiji, Australia - integral ESC	Bond x 2	1	0.59	Low potential - note 1
J.R.B Engineering Pty Ltd	Professional, Scientific and Technical Services	Rail technology	United Kingdom	Bond, ECL	1	3.52	Category C
JPD Media & Design Pty Ltd	Wholesale Trade	Outdoor furniture	United States of America	ECL	1	0.15	Low potential - note 1
Kaiser Baas Pty Ltd	Wholesale Trade	Gliders/drones	Various	EWCG	1	0.40	Low potential - note 1
Lean Field Developments Pty Ltd	Mining	Gas pipeline	Australia - integral to ESC	Bond x 4	1	5.43	Low potential - note 1
Learn To Play Music.com Pty Ltd	Manufacturing	Music instructional content	United States of America	SBEL	1	0.25	Low potential - note 3
Leighton O'Brien Global Pty Ltd	Professional, Scientific and Technical Services	Tank testing and monitoring software	Various	ECL	1	1.00	Low potential - note 1
Liddy Design Pty Ltd	Wholesale Trade	Kitchenwares	United States of America	EWCG	1	0.28	Low potential - note 1
Limestone Coast Wines Pty Ltd	Manufacturing	Wine	United Kingdom	EWCG, ECL	1	3.88	Low potential - note 1
Linshank Vintners Pty Ltd	Manufacturing	Wine	China	SBEL	1	0.15	Low potential - note 3
Macaz Pty Ltd	Manufacturing	Processed macadamia nuts	Various	EWCG	1	0.50	Low potential - note 1

OUR CLIENTS

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Management Resource Solutions Pty Ltd	Professional, Scientific and Technical Services	Design and construction of access road and bridge	Papua New Guinea	ECL	1	1.50	Low potential - note 1
Martinus Rail Pty Ltd	Manufacturing	Rail infrastructure and turnout systems	Australia - integral to ESC	Bond x 7	2	0.93	Low potential - note 1
MCA Engineering Group Pty Ltd	Mining	Engineering and construction works	Australia - integral to ESC	Bond x 4	2	1.22	Low potential - note 1
McGeoch's Birkdale Nursery Pty Ltd	Construction	Plants and landscape services	Macau	ECL	1	0.97	Category C
MHR Constructions Pty Ltd	Manufacturing	Engineering services and boiler refurbishment	Australia - integral to ESC	Bond x 6	1	0.72	Low potential - note 1
Microtec Engineering Group Pty Ltd	Manufacturing	Equipment and related services	Pakistan	ECL	1	0.08	Low potential - note 1
Mobicon Systems Pty Ltd	Manufacturing	Mobile container carriers	United States of America	ECL x 2	2	0.80	Low potential - note 1
Modelco Pty Ltd	Manufacturing	Beauty products	United States of America	ECL x 2	1	0.90	Low potential - note 1
Naturally Australian Tea Tree Oil Pty Ltd	Agriculture, Forestry and Fishing	Tea tree oil	United States of America	ECL	1	0.50	Low potential - note 1
Nyrstar Hobart Pty Ltd	Manufacturing	Zinc exports	Various	Loan	1	29.00	Low potential - note 1
Ocean & Earth Australia Pty Ltd	Wholesale Trade	Surf related products and clothing	Various	EWCG	1	0.81	Low potential - note 1
Oceania Bodycare Natural Nutrition Group Pty Ltd	Wholesale Trade	Supplements	Hong Kong, Singapore	SBEL	1	0.05	Low potential - note 3
OneSaas Integrations Pty Ltd	Information Media and Telecommunications	Software	United States of America	ECL	1	0.21	Low potential - note 1
Oyu Tolgoi	Professional, Scientific and Technical Services	Mining equipment and services	Mongolia	Loan	1	206.30	Category A
Oz Nature Pty Ltd	Wholesale Trade	Meat exports	Korea	EWCG, ECL	2	0.65	Low potential - note 1

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
Pasture Genetics Pty Ltd	Agriculture, Forestry and Fishing	Lucerne seed	Argentina	DCG	1	0.17	Low potential - note 3
PDC Global Pty Ltd	Construction	Design, detailing and 3D building information modelling	United States of America	ECL	1	0.60	Low potential - note 1
Plasma Hardfacing Pty Ltd	Manufacturing	Hard coating of mining equipment	Various	ECL	1	0.10	Low potential - note 3
Primal Foods Group Pty Ltd	Wholesale Trade	Grains and flour	Korea	ECL	1	0.40	Low potential - note 1
Prior Industries Australia Pty Ltd	Manufacturing	Refractory bricks for nickel smelter	Cuba	EWCG	1	0.60	Low potential - note 1
R.R. Taylor Pty Ltd	Manufacturing	Clinical waste disposal units	Sri Lanka	Loan	1	19.17	Category C
RA Cosmetics Pty Ltd	Manufacturing	Cosmetic products	Various	ECL	1	0.15	Low potential - note 1
Reed Pacific Media Pty Ltd	Manufacturing	Scented advertising material	Various	ECL	1	0.45	Low potential - note 1
Reeves International Pty Ltd	Construction	Construction airport	Tuvalu	Bond x 2	1	1.52	Potential impacts - note 1
Refractech (Aust) Pty Ltd	Manufacturing	Refractory products and installation	New Zealand	ECL	1	0.30	Low potential - note 1
Refrigeration Engineering Pty Ltd	Manufacturing	Refrigeration equipment	Saudi Arabia, United Arab Emirates, Kuwait	Bond x 9	1	4.31	Low potential - note 1
Rhodes Project Services Pty Ltd	Construction	Building construction services	Papua New Guinea	Bond x 13	3	3.86	Low potential - note 1
Rimslow Global Pty Ltd	Manufacturing	Textile machinery	Bulgaria	SBEL	1	0.06	Low potential - note 3
RJE Global Pty Ltd	Manufacturing	Mobile power stations	Indonesia	EWCG, Bond	1	11.55	Low potential - note 1
SBI Global Pty Ltd	Manufacturing	Hegs (pegs with hooks)	North America, China, Africa	EWCG	1	0.13	Low potential - note 3

OUR CLIENTS

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
SC Creative Australia Pty Ltd	Manufacturing	Toys	United States of America	EWCG	1	0.22	Low potential - note 1
Services South East Pty Ltd	Construction	Infrastructure maintenance	New Zealand	ECL, Bond x 2	1	1.56	Category C
SGL Systems International Pty Ltd	Manufacturing	Heating ventilation and air-conditioning systems	France	Bond	Existing Facility	1.34	Low potential - note 1
Shanghai Donghong (Aust) Pty Ltd	Wholesale Trade	Wood	China	EWCG	1	0.60	Low potential - note 1
Shark Shield Pty Ltd	Manufacturing	Shark repellent	United States of America	ECL	1	0.30	Low potential - note 1
Skilled Materials Handling Pty Ltd	Manufacturing	Chain conveyors	Mozambique	ECL	1	0.41	Category C
Skin B5 Pty Ltd	Manufacturing	Skin care products	Korea, Philippines	EWCG	1	0.15	Low potential - note 1
Sonic Essentials Pty Ltd	Manufacturing	Crop nutrition products	Brazil	ECL	1	0.35	Low potential - note 1
Stackla Pty Ltd	Information Media and Telecommunications	Online marketing services	Various	ECL	1	0.50	Low potential - note 1
STI Engineering Pty Ltd	Information Media and Telecommunications	Radio communication	Netherlands	ECL	1	0.80	Low potential - note 1
Studio Agency Pty Ltd	Manufacturing	Women's garments	United States of America	ECL	1	0.18	Low potential - note 1
Subcon Technologies Pty Ltd	Construction	Oil and gas extraction equipment	Australia - integral to ESC	Bond	1	0.10	Low potential - note 1
TE Services Pty Ltd ("Laservision")	Arts and Recreation Services	Multimedia attraction	United Arab Emirates	EWCG, Bond	1	6.94	Low potential - note 1
Tectonica Australia Pty Ltd	Manufacturing	Portable battery/ power systems	United Kingdom	ECL	1	1.00	Low potential - note 1

Exporter / investor / client	Industry of export	Goods / services	Export destination	Products / transactions	Number of facilities	Amount (A$ million equivalent)	Environmental / social impact category (a)
TelSoft Pty Ltd	Information Media and Telecommunications	Software	Malaysia, Indonesia	ECL x 2	2	0.35	Low potential - note 1
Tiwi Plantations Corporation Pty Ltd	Agriculture, Forestry and Fishing	Woodchip	Asia	ECL	1	2.50	Low potential - note 1
Tritium Pty Ltd	Manufacturing	Electric car chargers	United States of America	ECL	1	1.00	Low potential - note 1
TTG Transportation Technology Pty Ltd	Professional, Scientific and Technical Services	Energy optimisation solutions	Spain	Bond	1	0.11	Low potential - note 1
United Wool Company Pty Ltd	Wholesale Trade	Wool	Various	EWCG	1	1.00	Low potential - note 1
Wax Converters Textiles Pty Ltd	Manufacturing	Textiles	United States of America	ECL	1	0.90	Low potential - note 1
Worldpoly Pty Ltd	Manufacturing	Welding equipment	South Africa, Mexico	SBEL x 2	2	0.25	Low potential - note 1
Zonte's Footstep Pty Ltd	Manufacturing	Wine	Canada	SBEL	1	0.25	Low potential - note 3
ADB - National Bank of Pakistan	Wholesale Trade	Various	Pakistan	RPA	1	0.13	Low potential - note 2
Producer Offset Loans clients	Information Media and Telecommunications	Film and television producers	Various	POL x 4	3	1.30	Low potential - note 2
Total (to 30 June 2016)				**194**	**122**	**390.39**	

DCG: documentary credit guarantee
ECL: export contract loan
EFG: export finance guarantee
ESC: export supply chain
EWCG: export working capital guarantee
FEFG: funded export finance guarantee
ODI: overseas direct investment
POL: producer offset loan (product discontinued)
RPA: risk participation agreement
SBEL: small business export loan

Notes 1: Transaction associated with either a non-project or bond. Under a facility there may be more than one destination project.
Notes 2: Assessed under a general facility review.
Notes 3: Assessed under a screen.

(a) An explanation of our three categories (A, B, C) for classifying potential environmental and/or social impacts associated with new projects is on page 62.

CASE
STUDY

Studio Agency

"Studio Agency's world-class fashions are gaining a global following in the US and UK."

Zoi Safiya Vafias, Founder and Director
Studio Agency

Efic helped Brisbane-based fashion designer and wholesaler, Studio Agency, deliver on an increase in contracts to the US and UK.

Studio Agency started exporting in 2014 and is enjoying promising growth overseas with increasing demand for its products from its buyers in the US and UK. However, when a wholesale buyer places a large order, it can often be 60 to 90 days before Studio Agency receives payment.

With increasing cashflow pressure and a bank unable to help, Studio Agency contacted Efic to see if we had a solution. We provided the company with an Export Contract Loan, which it used to fund the manufacturing costs associated with its US and UK export contracts.

Industry:
Manufacturing

Country:
United Kingdom & United States

Product:
Export Contract Loan

Efic support:
A$180,000

CASE
STUDY

Frankland Islands Cruises

“Efic’s Small Business Export Loan has enabled us to customise our packages, securing a contract with one of Japan’s leading travel providers.”

Ron Cusick, Director
Frankland Islands Cruises

Efic’s Small Business Export Loan helped QLD-based tourism company Frankland Islands Cruises increase its Japanese exports.

Frankland Islands Cruises offers a unique cruise and dive experience on the Great Barrier Reef. The business had an opportunity to enter into a charter program with a Japanese travel provider that would represent 30 per cent of their revenue.

Frankland Islands Cruises needed new equipment to ensure successful contract delivery. With their bank unable to help, they needed alternative financial support.

Efic’s Small Business Export Loan allowed Frankland Islands Cruises to apply online and tailor the repayment term to meet their needs. With new equipment and successful contract delivery, Frankland Islands Cruises has now secured an extra year with their Japanese client.

Industry:
Transport, Postal and Warehousing

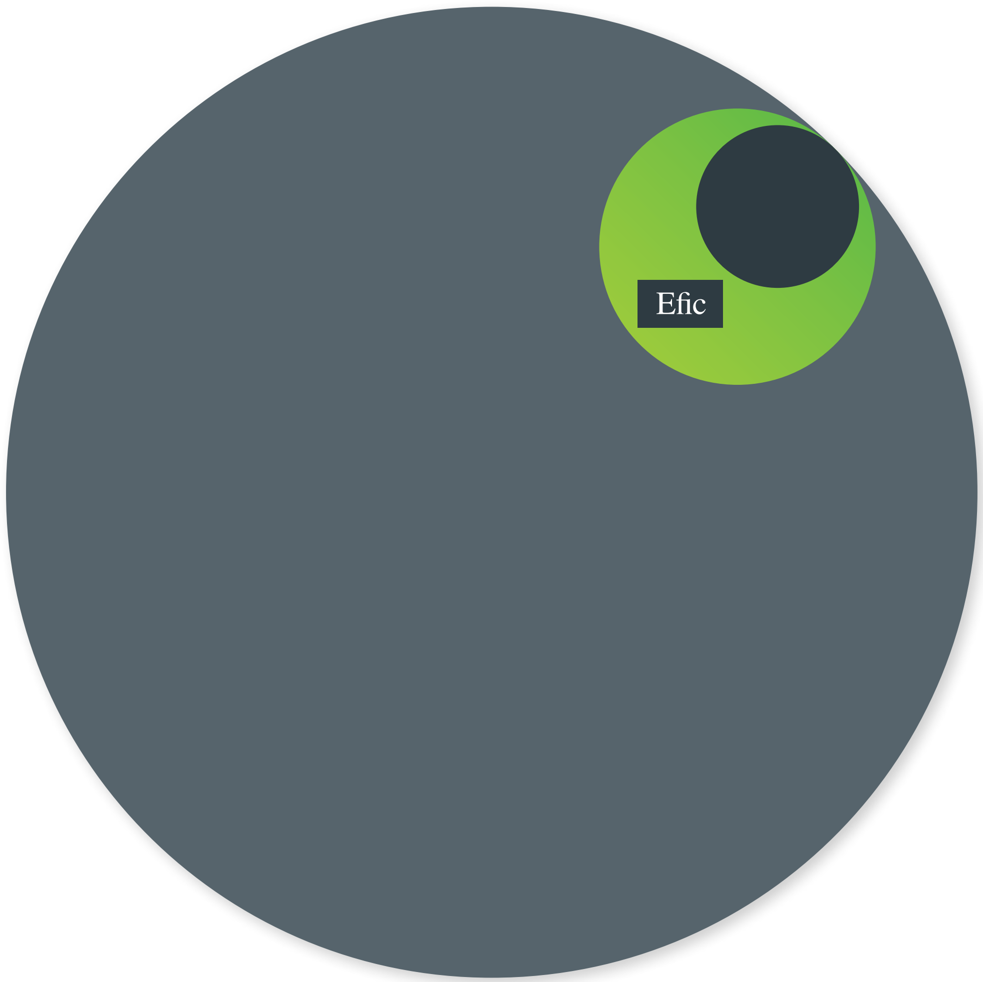
Country:
Japan

Product:
Small Business Export Loan

Efic support:
A$190,000

PURPOSE AND PRINCIPLES

Australian export finance environment



Commercial market
Most exporters receive finance from the commercial market such as banks, insurers and other financial institutions.

Non-viable
Exporters' finance needs are not always viable, due to risk, environmental, social or governance issues.

Market gap
This is where Efic provides finance to viable exporters when the commercial market is unable or unwilling to do so.

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 assist clients such as:

- Small and medium enterprises (SMEs) that are exporters.
- Australian companies integral to a domestic export supply chain.
- Australian companies looking to expand their business operations overseas to better service their clients.
- Australian companies operating in emerging and frontier markets.

We assist these clients specifically 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 assists the Federal 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 determining our policies 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 Commonwealth Government and key departments. Regular and effective communication enables Efic to understand the priorities of Government across trade and investment, treasury, finance, industry, innovation, science, agriculture, small business and employment.

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 when their bank can't help. We help them win business, grow internationally and achieve export success.

As Australia's export credit agency, we operate on a commercial basis and partner with banks to provide financial solutions for:

- Small and medium enterprises (SMEs) that are exporters.
- Australian companies integral to an export supply chain.
- Australian companies looking to expand their business operations overseas to better service their clients.
- Australian companies operating in emerging and frontier markets.

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 and Efic is the responsibility of the Minister for Trade, Tourism and Investment (Minister). The current Minister is the Hon Mr Steven Ciobo MP, who was appointed on 18 February 2016. The previous Minister, the Hon Mr Andrew Robb AO, held the position between 18 September 2013 and 17 February 2016.

The Minister has a number of powers in relation to Efic, as set out in the Efic Act. The Minister may give written directions to Efic relating to how we perform our functions or exercise our powers, if satisfied these directions are in the public interest.

The Minister may also approve or direct entry into transactions on the National Interest Account (see page 66). We are not required to obtain such approval or direction for transactions on the Commercial Account. Details of Ministerial directions for the financial year ended 30 June 2016 are set out on pages 66-68.

We 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. Both are available on the Efic website.

As a corporate Commonwealth entity under the PGPA Act, 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 must also keep the Minister informed about our operations and provide any information required by the Minister or the Minister for Finance.

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

Our senior management attend Senate Estimates to answer questions on the affairs of Efic, including transactions undertaken or particular policies in relation to those transactions.

Efic Act

Efic, as Australia's export credit agency, has performed its 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 outstanding under it).
- to provide information and advice regarding insurance and financial arrangements to support Australian exports.

In addition to the above functions, Efic is also authorised to:

- assist the Northern Australian Infrastructure Facility in the performance of its functions; and
- provide incidental assistance to the States and Territories in respect of their dealings with the Northern Australian Infrastructure Facility.

Regulations under the Efic Act set upper limits on Efic's aggregate liabilities under facilities, guarantees and insurance contracts that it may enter into on the Commercial Account, and Efic operates within these limits.

Efic's legislation provides for two distinct platforms from which Australian exports can be supported, the Commercial Account (under Part 4 of the Efic Act) and the National Interest Account (under Part 5 of the Efic Act).

Commercial Account

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

We have accumulated profits of $566.2 million since 1991, with normal dividends paid to the Australian Government of $289.1 million. In addition to dividend payments, this year we will pay State equivalent taxes of $1.2 million, a debt neutrality charge of $0.9 million and an income tax equivalent payment of $5.0 million under competitive neutrality arrangements that became effective 1 July 2015.

National Interest Account

In the case of the 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. If a transaction is written on the National Interest Account, the Commonwealth receives the net income from Efic and must reimburse Efic for any losses.

National interest transactions tend to involve:

- financial commitments which are too large for our balance sheet.
- risks which we consider are too high for us to prudently 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.

OUR BUSINESS

PGPA Act

Efic is a corporate Commonwealth entity and is subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and to the rules and other instruments made under it.

The PGPA Act sets out the requirements in relation to Efic's corporate governance, reporting and accountability, which are additional to those in the Efic Act.

Whole of government support

In line with a 'whole of Government' approach, we work closely with the Department of Foreign Affairs and Trade (DFAT), Austrade and other Government departments and agencies to help us support exporters more efficiently and effectively.

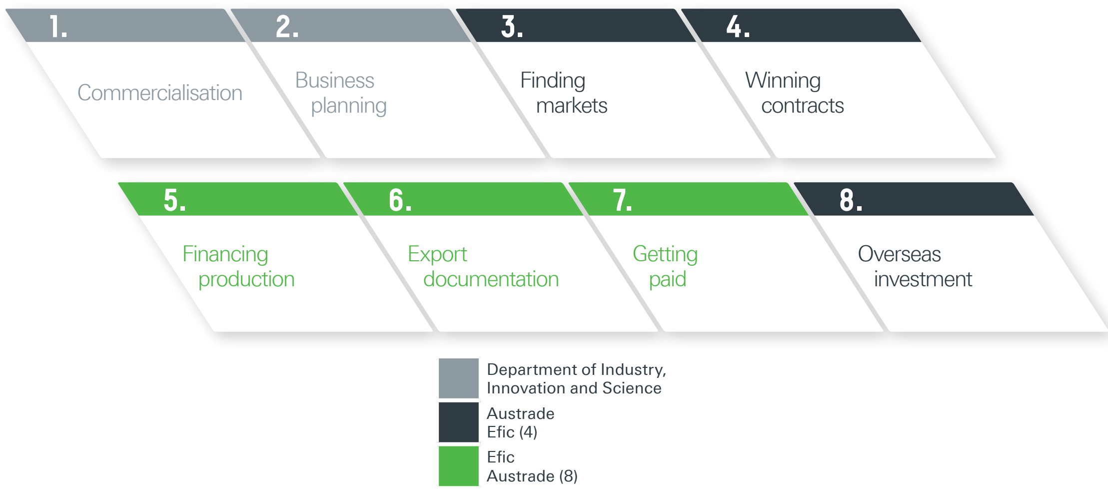
Information on overseas markets, export opportunities and activities is regularly shared between agencies and departments.

We partnered with Austrade and DFAT to conduct educational and information events to support exporters. This included our support for the North Asia Free Trade Agreements (FTAs) Information Seminars, which are designed to educate Australian businesses on how to take advantage of the practical benefits FTAs offer.

We also supported the Australian International Business Survey, conducted by the Export Council of Australia and the University of Sydney, and continued our SME Exporter Sentiment Index.

With Efic staff located in Austrade interstate offices, we continued to build our 'on-the-ground' presence in all parts of the country. This helped us reach more SMEs and ensured a steady flow of information with Austrade, state-based trade agencies and other business support providers.

The client journey



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.

However, services provided to the Northern Australian Infrastructure Facility are reimbursed on a cost recovery basis, similar to the arrangements established for transactions on the National Interest Account.

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

A debt neutrality charge of 10 basis points and an income tax equivalent charge of 30 per cent on accounting profit, in addition to equivalent 'State taxes' that covers payroll and land tax, has been operational since 1 July 2015 under competitive neutrality arrangements. The financial impact of these charges is disclosed in the financial statements.

Corporate governance

Our Board is responsible for our corporate governance, managing our affairs and overseeing our operations. This includes establishing our corporate governance strategy, defining our risk appetite, monitoring our performance, making decisions on capital usage and dividend recommendations to the Minister.

The Government is represented on the Board by the Secretary of the Department of Foreign Affairs and Trade (or their alternate).

Also sitting on the Board are seven Non-executive Directors, appointed by the Minister and our Managing Director – who is a full-time employee at Efic.

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

As a corporate Commonwealth entity, our Board and our employees are governed by the Efic Act and the PGPA Act. We are required to produce a four-year corporate plan that must be published by 31 August and an Annual Report for each financial year, which must be tabled in Federal Parliament. Both the Corporate Plan and Annual Report are public documents.

Efic is 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 we obtain from Australian exporters and investors.

Our employees are subject to a Code of Conduct and are required to keep information about clients confidential. This requirement of confidentiality also applies to Board members.

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

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

Our Board met seven times in 2015-16 and its membership is set out on pages 44-49.

OUR BOARD

Peter Varghese | Laura McBain | Denise Goldsworthy | Nicholas Minogue | James M. Millar AM | Andrew Hunter | Annabelle Chaplain | Rick Sawers | Lynda Cheng | Justin Brown

OUR BOARD

James M. Millar AM

BCom, FCA, FAICD
Chairman
Term of appointment: 09/12/2014 to 08/12/2017
Board attendance: 7 of 7
Independent, Non-executive member

James Millar is the former CEO and Area Managing Partner of Ernst & Young in the Oceania region, and was a Director of the Ernst & Young Global Board. His career prior to his leadership roles at Ernst & Young was as a corporate reconstruction professional for large and small businesses both within Australia and globally. James is Chairman of the Forestry Corporation of NSW and is a Director of Mirvac Limited, Mirvac Funds Limited, Fairfax Media Limited, Macquarie Media Limited and Slater and Gordon Limited. He is a member of the Advisory Boards of both Grant Samuel and the University of NSW School of Business, and a trustee of the Australian Cancer Research Foundation and the Vincent Fairfax Foundation.

Nicholas Minogue

MA, MBA
Deputy Chairman, Audit Committee member
Terms of appointment: 09/12/2011 to 08/12/2014 and 09/12/2014 to 08/12/2017
Board attendance: 7 of 7
Audit Committee attendance: 4 of 4
Independent, 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 nine 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.

Andrew Hunter

BEc
Managing Director and Chief Executive Officer
Appointed: 01/09/2013
Board attendance: 7 of 7
Executive member

Andrew Hunter has had a career of more than 25 years in financial services. Before joining Efic, Andrew held senior positions within Macquarie Group Limited. From 2008 to 2010, he was Macquarie Group London Office Head and Head of Macquarie Group Europe, following a move to London in 2003 as Head of Macquarie's corporate advisory business. From 2011 to mid-2012, Andrew was Co-Head of Macquarie's Financial Institutions Group in Australia. Andrew originally joined Macquarie as part of the bank's acquisition of Bankers Trust Australia in 1999 and focused on debt financings, including arranging finance for infrastructure assets. In his 10 years at BT, Andrew worked in Australia and Hong Kong in credit and risk management, structured finance and debt origination.

Annabelle Chaplain

BA, MBA, FAICD
Board member, Audit Committee Chair
Terms of appointment: 01/8/2013 to 31/7/2016 and 01/08/2016 to 31/07/2019
Board attendance: 5 of 7
Audit Committee attendance: 3 of 4
Independent, 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. Annabelle is the Chairman of Queensland Airports Ltd and Canstar Pty Ltd, a financial services research and ratings company. She is Non-executive Director of Downer-EDI Ltd and Seven Group Holdings Limited. She serves as a Councillor of the Australian Institute of Company Directors, Qld Division and is a member of the Griffith University Business School Strategic Advisory Board.

Lynda Cheng

BCom, LLB (Hons), GAICD
Board member
Term of appointment: 13/05/2016 to 12/05/2019
Board attendance: 1 of 1
Independent, Non-executive member

Lynda Cheng is currently Director of Corporate Development and Mergers and Acquisitions at Pratt Holdings and has held other senior executive roles for the Pratt Group since 2005 including CFO of Visy Industries. Previously, Lynda was in investment banking for a decade and worked for JPMorgan in their New York, San Francisco, Sydney and Melbourne offices. She brings a broad commercial and international corporate finance perspective. Lynda was Deputy Chair of South East Water and Chair of their Finance Audit and Risk Management Committee and is a current member of the Wesley College Council. Lynda holds a Bachelor of Law (Honours) and Commerce degree majoring in actuarial studies and economics from the University of Melbourne.

Denise Goldsworthy

BMet (Hons + Uni medal), FTSE, FAIM, GAICD
Board member
Term of appointment: 05/11/2014 to 04/11/2017
Board attendance: 6 of 7
Independent, Non-executive member

Denise Goldsworthy is the founder of Alternate Futures Pty Ltd, a company that connects solutions to problems by addressing knowledge, cultural and system barriers. In practice this means connecting Australia's research organisations, tech start-ups and industry. Prior to this, Denise worked as an executive for Rio Tinto, with roles including CCO Autonomous Haul Trucks, Managing Director of Dampier Salt and Managing Director HIsmelt. Denise started her career at BHP Steel Newcastle. Denise is Chairman of ChemCentre WA, a Non-executive Director for Arrium (ASX) and Minerals Research Institute WA, a member of Council and Chair of the Quality, Audit and Risk Committee of Edith Cowan University, a member of the Commercialisation Advisory Board for Curtin University and a trustee for the Navy Clearance Diver's Trust. Among Denise's honours is being named the 2010 Telstra Australian Business Woman of the Year.

OUR BOARD

Laura McBain

BCom
Board member
Term of appointment: 09/12/2014 to 08/12/2017
Board attendance: 6 of 7
Independent, Non-executive member

Laura McBain has overseen significant change, innovation and business growth since her appointment as General Manager of Bellamy's in 2006, and subsequent appointment as Chief Executive Officer (CEO) in 2011 and Managing Director and CEO in 2014. Laura has been a driving force in the company's substantial growth and subsequent listing on the Australian Securities Exchange in August 2014. Laura's time at the helm has overseen expansion into Asia via the setup of offices in Shanghai and Singapore. Prior to joining Bellamy's, Laura practised as an accountant and specialised in the areas of providing business advisory and taxation services. Laura was named the Telstra Tasmanian Business Woman of the Year 2013 and she went on to be named the Telstra Australian Business Woman of the Year 2013 (Private and Corporate).

Rick Sawers

Board member
Term of appointment: 09/12/2014 to 08/12/2017
Board attendance: 6 of 7
Audit Committee attendance: 1 of 1
Independent, Non-executive member

Rick Sawers retired from National Australia Bank in July 2016 after a banking career spanning 45 years. Rick specialised in International Banking, Trade Finance and Financial Markets and worked in London, New York and Japan, in addition to Australia. In recent years, Rick has completed senior roles at both ANZ and NAB, including Group Treasurer at both, and at NAB, Group Executive of both the Wholesale Banking Division and the Products and Markets Division, where he was also a member of the Executive Committee and Group Risk Committee for seven years. Rick is a past Executive Chairman of Great Western Bank Inc and Executive Director of Clydesdale Bank PLC and a past Chairman and Director of the Australian Financial Markets Association. He is currently a Director of the Australian Rural Leadership Foundation and is a life member of the Financial Markets Foundation for Children, a fellow of Financial Services Institute of Australia and is a graduate member of the Australian Institute of Company Directors.

Government member

Peter Varghese, AO

BA (Hons)
Government Board member
Appointed: 11/02/2013 to 1/07/2016
Board attendance: 0 of 7 (see alternate government member)
Represents the Australian Government
Non-executive Director

Peter Varghese was Secretary of the Department of Foreign Affairs and Trade (DFAT) until 1 July 2016. 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. Peter 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. Peter 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

Justin Brown PSM

BEc
Appointed: 22/09/2015
Board attendance (as alternate): 2 of 6
Represents the Australian Government as alternate government Board member
Non-executive member

Justin Brown is a career foreign service officer in the Australian Department of Foreign Affairs and Trade. In his current position, he has overall responsibility for Australia's trade negotiations and policy agenda. Justin has held a number of positions in the Department over the course of his career, including Chief Negotiator in free trade negotiations with Thailand and parallel trade and investment framework negotiations with China and Japan. Justin has also held positions in the Department dealing with multilateral trade negotiations, trade disputes and trade law, economic policy/analysis, bilateral relations with the countries of the Americas and Europe, and consular and crisis management. Overseas, his most recent posting was to Canada as High Commissioner. He has also had postings in Brussels, Los Angeles and Copenhagen.

Members whose term ended in 2015-16

Bruce Brook

BCom, BAcc
Board member, Audit Committee Chair
Appointed: 01/03/2010 to 28/02/2013 and 01/03/2013 to 29/02/2016
Board attendance: 4 of 4
Audit Committee attendance: 3 of 3

Jan Adams

BEc (Hons), LLB (Hons)
Represents the Australian Government as alternate government Board member, Non-executive member
Appointed: 07/05/2013 to 21/09/2015
Board attendance: 0 of 1

Board and Audit Committee

During the year, Ms Cheng was appointed to the Board on 13 May 2016 following the retirement of Mr Brook on 29 February 2016.

Ms Chaplain was reappointed to the Board for a second term (effective 1 August 2016) and appointed as Chair of the Audit Committee (effective 1 March 2016). Mr Sawers was appointed to the Audit Committee on 25 February 2016.

Mr Brown was appointed to the Board on 22 September 2015, as Alternate Government member, replacing Ms Adams.

Transactions with Board members and related entities of Board members

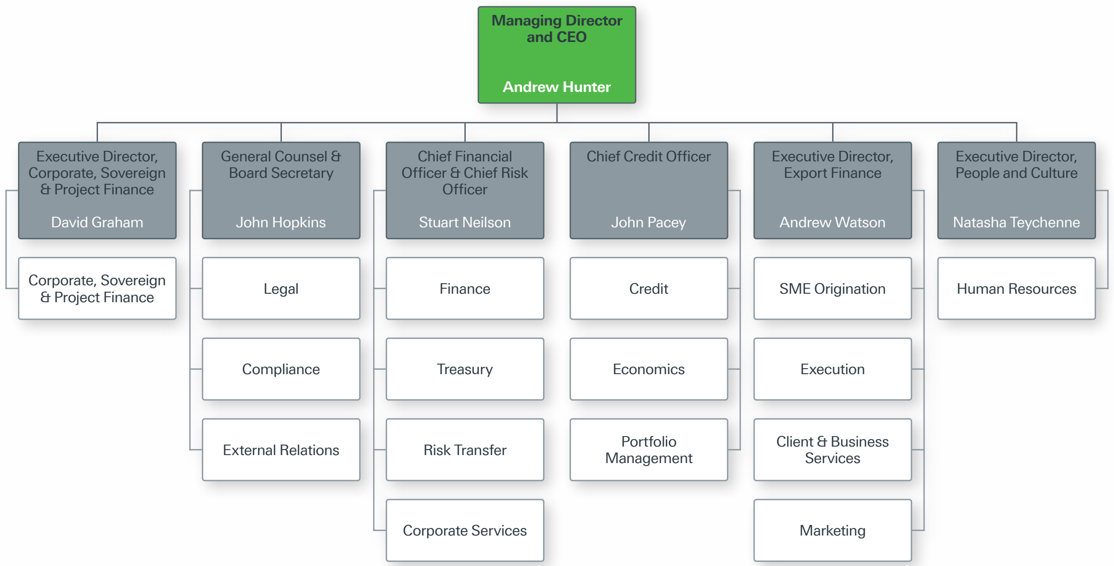
During the course of the year, Directors have made appropriate disclosures in respect of transactions that Efic has undertaken where they may have, or it may be perceived to have, a material personal interest.

Declared conflicts and potential conflicts of interest

Our Board always ensures that a Board member does not participate in discussions where there is, or may be, a conflict between their own interests, those of Efic or one of our clients. We maintain a register updated with the disclosed interests of all Board members.

OUR EXECUTIVE TEAM

Figure 5: Our organisational structure



David Graham | John Hopkins | Stuart Neilson | Andrew Hunter | John Pacey | Andrew Watson | Natasha Teychenne

OUR GOVERNING PRINCIPLES

Our people

The future of Efic's business is heavily reliant on the quality of our people and their ability to deliver the right outcomes for our clients and stakeholders.

We are committed to providing a learning and performance culture where our people have the freedom to create their own success and are provided with the support to achieve their career aspirations.

Our People and Culture team partners with our leaders to drive culture change, strengthen employee engagement and build the capability that will deliver better business outcomes for Efic. We continue to attract and retain the best talent by valuing a culture of reward and recognition, learning and development, diversity and inclusion, and health and wellbeing.

Workforce demographics

The number of our employees (as full-time equivalents) increased during the year, predominantly in response to the growth of our SME business (see Table 6).

Table 6: Number of full-time equivalent employees (as at 30 June 2016)

	30 June 2016	30 June 2015	30 June 2014
Employees (excluding short-term)	**98.5**	94.8	91.6
Short-term contract employees	**6.6**	4.6	1.0
Total	**105.1**	**99.4**	**92.6**

Diversity and inclusion

Building and maintaining a diverse workforce is a strategic priority for Efic. We believe that diversity helps us to build employee engagement, be more innovative, and respond better to the diverse needs of our clients.

We champion a constructive and inclusive culture that embraces the different perspectives, identities and experiences of our people.

We provide equal opportunity in all aspects of employment, including conditions of employment, recruitment and selection, remuneration, learning and development, and promotion. These are supported by formal policies, and education and training of all employees and leaders on workplace behaviour, diversity and inclusion, and work health and safety.

Over the past 12 months we have reviewed our policies and practices to further enhance diversity and inclusion at Efic, and prioritised our mandate to increase female representation in senior positions. This has included:

- Setting of gender diversity targets for senior leadership roles.
- Reporting against targets to our Board on a bi-annual basis.
- Ensuring a 50 per cent gender split on all recruitment shortlists.
- Memberships with diversity peak bodies and networks, including Diversity Council of Australia and Women in Banking and Finance.
- Providing flexible work practices, including the ability to work from home.

OUR GOVERNING PRINCIPLES

Gender diversity

Efic continues to implement a range of initiatives to ensure its recruitment, talent, and learning and development processes align to its strategic objective of improving the representation of women in senior leadership positions.

We are making steady progress against this objective and outcomes over the past 12 months include:

- 60 per cent of senior leadership vacancies (existing and new) were filled by women.
- 75 per cent of middle management vacancies were filled by women, strengthening our female pipeline for senior leadership positions.
- 50 per cent of promotions to senior leadership positions were made to women.
- 100 per cent of females returned from parental leave and remained with the organisation.
- 40 per cent of our female population work flexibly; this includes part-time and formal working from home arrangements.

Workforce diversity profile

We continue to have a diverse workforce with 49 per cent of employees being female and 47 per cent of employees from a non-English speaking background or with parents of a non-English speaking background.

In accordance with the reporting requirements of the *Equal Employment Opportunity (Commonwealth Authorities) Act 1987 (Cth)*, our diversity profile is reported by broad job classification against designated groups, as shown in Table 7.

Table 7: Workforce diversity profile at 30 June 2016

Classification	Female		Male		NESB		ATSI		PWD		Total staff	
Support	17	85%	3	15%	10	50%	0	nil	0	nil	20	**18%**
Technical	13	68%	6	32%	13	68%	0	nil	0	nil	19	**17%**
Middle Management	15	36%	27	64%	25	60%	0	nil	0	nil	42	**38%**
Leadership	9	31%	20	69%	4	14%	0	nil	0	nil	29	**26%**
Totals	**54**	**49%**	**56**	**51%**	**52**	**47%**	**0**	**nil**	**0**	**nil**	**110**	**(105.1 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

Learning and development

We are committed to investing in our people and striving for continual improvement. We recognise that the best learning provides diversity and offers our employees a range of development opportunities, including internal transfers, secondments, mentoring, formal education and on the job training, to build the necessary skills and capabilities for them to succeed.

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

We also encourage our employees to attend thought leadership seminars and conferences, and share their insights and learnings through our intranet and internal forums.

Additionally, we support our employees to undertake further studies relevant to their area of expertise through our study assistance program, which provides financial support and paid leave to those undertaking approved postgraduate courses.

Health and wellbeing

Flexible working

We offer an agile working environment to provide our people with options that best suit their preferred way of working, and assist them to better manage their family and other personal commitments.

22 per cent of our people have formal flexible working arrangements in place. Additionally, we continue to support other forms of flexible work practices including working from different locations, job sharing, altering start and finish times, and providing access to a range of flexible leave options.

Wellbeing initiatives – Happy Body at Work

In support of Efic's transition to an agile work environment, we implemented the 'Happy Body at Work' wellbeing program to enhance employee engagement, increase productivity and improve the customer experience. The program provided a strategic platform from which we have built a curriculum of initiatives and resources that will continue to engage our employees in healthy work practices. These initiatives are focused on managing stress by building resilience and assisting employees to better meet the needs of our clients.

The program helped raise awareness of, and reduce risks associated with, sedentary work. This highly successful program provided employees with behavioural change strategies that supported Efic's transition to an agile work environment.

Program outcomes included reduced risks associated with sedentary work through positive behavioural change whereby 64 per cent of employees are sitting less and 73 per cent moving more. 65 per cent of employees are also more aware of their stress signals. 82 per cent of employees indicated that the strategies they have put in place are beneficial to their health and wellbeing.

Employee assistance program

Our employee assistance program continues to provide support to all employees and their immediate families when needed, through access to a free confidential counselling service. Our people leaders also have 24/7 access to a Manager Assist program.

Employee benefits

We provide a range of employee benefits designed to assist our people to meet the needs of their individual circumstances. These include paid special leave, comprehensive family/carers leave provisions, the ability to purchase additional annual leave, and a corporate income protection insurance policy.

CASE
STUDY

Zonte's Footstep

"Efic's Small Business Export Loan has given us the flexibility to manage our cashflow and export more wine to Canada."

Anna Fisher, Director and Chairperson
Zonte's Footstep

Efic's Small Business Export Loan helped wine company Zonte's Footstep increase its wine exports into Canada.

South Australian wine brand Zonte's Footstep is exporting a variety of wines to Canada, the UK, US, Singapore, Thailand and China. An increase in orders from the Liquor Control Board of Ontario has made Zonte's the second largest imported brand in the "vintages" segment.

Increased orders, cashflow pressure, and with its bank unable to provide further assistance, Zonte's needed an alternative source of financial support.

Efic provided Zonte's with a A$250,000 Small Business Export Loan. With the flexibility to apply online and set up a payment term suitable for their business, Zonte's had the confidence to move forward on its path of export growth.

Industry:
Manufacturing

Country:
Canada

Product:
Small Business Export Loan

Efic support:
A$250,000

CASE STUDY

Epichem

> "Our new lab has allowed us to develop new products and services while pursuing new export opportunities."
>
> Wayne Best, MD and CEO
> Epichem

With an Export Contract Loan, Efic helped Western Australian-based pharmaceuticals company Epichem fit-out a new laboratory.

Epichem provides a range of products and services to the drug discovery and pharmaceutical industries, enabling the discovery and development of new drugs and ensuring the quality of existing ones. With strong growth opportunities but limited laboratory space to grow, Epichem needed a new laboratory and equipment to allow international expansion.

With its bank unable to help due to a limited risk appetite, Epichem contact Efic. We were able to provide a A$750,000 Export Contract Loan to help Epichem fit out its new laboratory. With a lab now three times the size of its old laboratory, Epichem can focus on developing more products and services for export.

Industry:
Professional, Scientific and Technical Services

Country:
Europe and United States

Product:
Export Contract Loan

Efic support:
A$750,000

OUR GOVERNING PRINCIPLES

Work health and safety

Consultation

We regularly engage with our employees on all work health and safety matters, including the adequacy of our facilities and take steps to ensure a positive, risk-free work environment.

Our Work Health and Safety Management Arrangements set out our work health and safety management framework, which is reviewed annually.

Our primary mechanism for consultation is through our Work Health and Safety Committee (WHSC), represented by both management and employees.

Our Board Charter describes our due diligence requirements under the *Work Health and Safety Act 2011 (Cth)* (WHS Act).

To assist our Board in meeting its due diligence requirements, the WHSC holds a meeting prior to each Board meeting (seven meetings in the 2015-16 financial year).

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

Our Health and Safety Representative undertakes a workplace inspection prior to each WHSC meeting. The findings are reviewed by the Committee and an action plan is put in place to address any issues.

Workplace hazards are prioritised according to the risk they pose to health and safety and are promptly dealt with.

Risk management

We take a pragmatic, risk based approach to our WHS compliance framework and management practices to ensure our interventions are practical and assist our employees to make positive behavioural changes that enhance safety and wellbeing.

As part of the implementation of our agile work environment, we engaged specialist consultants to review concept plans and ensure designs optimised safety and best practice. The sit/stand workspaces are frequently used by employees as a result of increased awareness of the health impact of excessive sitting.

Efic has in place a risk and control matrix to record and monitor hazards and controls, which is formally reviewed by the WHSC on an annual basis. Given the nature of our operations, we have identified travel as a risk that requires specialised monitoring. In response we have a certified traveller program that all business travellers are required to complete on an annual basis before travelling overseas. Frequent travellers have access to an annual medical check and those travelling to remote locations have the option of taking a satellite phone.

Our travellers are also supported by international travel specialists, International SOS, who provides extensive cultural, security and medical information, and assistance before and during international business trips.

The Travel Coordinator is also a member of the WHSC and ensures all important travel-related issues are discussed, and employees have an opportunity to raise any concerns regarding travel through this forum.

As part of our annual risk management practice, we engaged specialist consultants to complete a property risk assessment. A key outcome is the streamlining of our contractor induction process through the purchase of an electronic contractor induction management system, to ensure best practice.

We have a strong culture of incident notification and investigation, which includes reporting of 'near misses'. Incidents and near misses are discussed at the WHSC to ensure appropriate responses are put in place, including proactive measures to reduce any potential risks identified through 'near misses'.

We provide an in-depth induction program which includes work health and safety specific to Efic's operating environment, and we provide training on workplace behaviour as part of our compliance program. New and existing first aid officers are provided with ongoing training.

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 low workers' compensation claim history.

We have not been investigated, or received any notices, and there were no 'notifiable incidents', under the WHS Act during 2015-16.

Corporate responsibility

Our approach to corporate responsibility

At Efic we are committed to supporting the growth of Australian businesses internationally – in a way that is ethically, environmentally and socially responsible.

We are committed to our stakeholders: our clients, employees, the Australian Government as our shareholder and the wider community. We take our responsibilities to these stakeholders seriously.

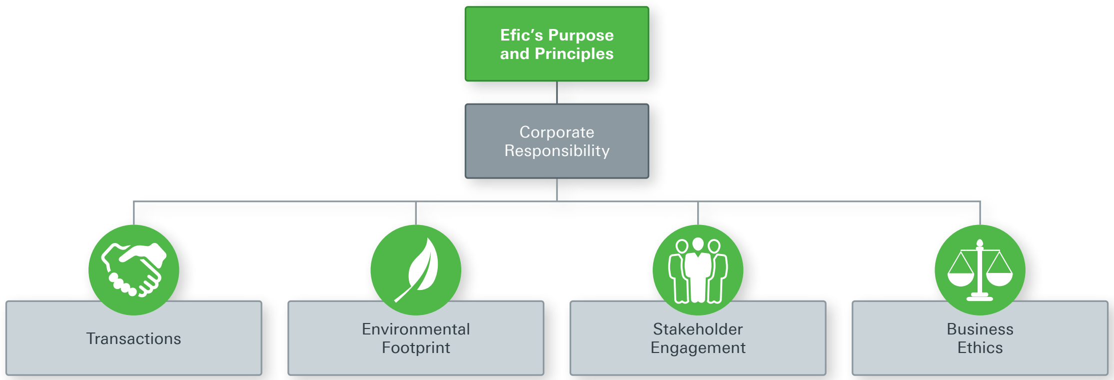
Our corporate responsibility strategy outlines the ways in which we fulfill these responsibilities.

The key components of our corporate responsibility strategy are:

- environment and social responsibility – we practise responsible lending in the transactions we support.
- minimising the environmental footprint of our operations.
- stakeholder engagement – we endeavour to interact with our stakeholders in ways that are relevant to their needs.
- business ethics – we conduct our operations fairly, transparently and with integrity.

OUR GOVERNING PRINCIPLES

Figure 6: Efic's approach to corporate responsibility



Employees from across our operations make up our corporate responsibility working group.

The working group advises the Executive team and the Board on the development and implementation of our corporate responsibility strategy.

As external sustainability benchmarks evolve, our working group will recommend improvements in the way we manage our business.

One development over the past year was the adoption by the Efic Board of a Statement on Human Rights in December 2015. The Statement is confirmation to our stakeholders that Efic considers and manages potential human rights risks relevant to its business.

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)* (EPBC Act) 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.

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 and type of environmental assessments completed during 2015-16, 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 always have low potential for environmental and social impact.

OUR GOVERNING PRINCIPLES

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	Existing project and non-project potential impact No
2015-16					
All facilities	2	0	7	1	100
Project finance	1	0	0	Not applicable	Not applicable
Project related corporate loans	0	0	0	Not applicable	Not applicable
2014-15					
All facilities	0	2	5	5	80
Project finance	0	0	0	Not applicable	Not applicable
Project related corporate loans	0	0	0	Not applicable	Not applicable
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

Table 5 on pages 26-33 has more information about our transactions in 2015-16, including location, industry type, sector and results of screening and classification.

Efic entered into two transactions associated with Category A projects this financial year. These were:

- an Export Contract Loan provided to a West Australian pork producer to support the expansion of two existing piggeries. Efic's facility was A$2.3 million and did not require disclosure under Efic's Policy. The projects also had relevant Australian government approvals.
- project finance to support the expansion of the Oyu Tolgoi copper and gold mine in Mongolia. Efic's potential involvement in this project was publicly disclosed, including details of the project and the significant risk factors considered by Efic.

You can find more information about the submissions received in the transaction disclosure section on our website.

One transaction associated with a bond was identified to have a potential for environmental and/or social impacts. This was a bond provided to an SME client for works at an existing airport in Tuvalu.

The potential environmental and social issues associated with this transaction was examined as described in section 2.3 of our Procedure. You can find more information about this transaction on our website.

Our overall conclusion is 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 most recent audit was completed by Net Balance Management Group Pty Ltd in September 2014 and you can read its report 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. Our next audit is scheduled to be completed during the second half of 2016.

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 and the project-related corporate loans signed over the past three years.

Efic's involvement in the Oyu Tolgoi Project was subject to the Equator Principles and is discussed in the previous section.

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 2016, 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 2015-16 and includes comparative data for the previous two financial years.

OUR GOVERNING PRINCIPLES

Table 9: Our environmental footprint

Parameter	2013-14	2014-15	2015-16
Energy use, megajoules/m²			
Efic occupancy[(a)], electricity	445	389	396
Building services[(b)], electricity	294	351	391
Building services[(b)], gas	75	94	196
Water (sewage data not available)			
Water, kilolitres[(c)] data for the 12 months May 2014 to April 2015	Not available	4,516	5,749
Solid waste, tonnes	(6 months data only)		
Co-mingle (recycled)	5.1	16.2	3.5
Cardboard (recycled)	5.0	9.9	14.2
Waste to landfill	38.5	48.5	53.4
Business travel by our employees			
Total domestic (km)	0.89 million	0.82 million	1.02 million
Total international (km)	1.89 million	1.71 million	1.43 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, air conditioning and hot water. Energy use per square meter is the building average. Due to timing differences, the building services gas data is reported for the year May to April.
(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 2013-14 due to a low recording meter and figures for 2014-15 have been updated this year for comparative purposes. Due to timing differences, water data is reported for the year May to April.

Following renovations to Export House in 2013, energy use by Efic initially declined significantly but has levelled out in the last two years. However, building services energy consumption has increased over the past three years due to increased occupancy of previous vacant space in Export House.

It should also be noted that whilst building services gas use more than doubled between 2014-15 and 2015-16, this can be explained by gas boilers used in the air conditioning system being out of commission for several months during 2014-15.

Water data has only been available for two years. There has been an increase between 2014-15 and 2015-16 that, as above, can be explained by increased occupancy.

We will continue to monitor gas, electricity and water use and identify any trends that can help to minimise future use including the use of alternate energy sources.

Since 2014, Efic has been sourcing a proportion of its electricity supply from green energy sources, such as mini hydro, wind power, solar, biogas and biomass. As at 30 December 2015, green energy sources account for 30 per cent of Efic's electricity supply.

Data on solid waste generation has been collected since January 2014. Waste generation amount and type has fluctuated over the 30 months of record. Efic is considering how to decrease waste generation and how to increase the proportion recycled.

Our employees flew 2.45 million kilometres during 2015-16. The majority of this travel was associated with either due diligence for new transactions or the management of existing transactions. Travel miles, more particularly international travel, have decreased over the past three years, although domestic travel increased during the past 12 months. Increased domestic travel is a result of Efic's increased emphasis on assisting Australian SMEs.

Country risks are inherent in Efic's 'market gap' mandate and we consider travel to be essential in managing those risks appropriately.

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 2015-16, 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 PGPA 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 $134,453 were paid for the financial year 2015-16.

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 2016.

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 89-147.

Freedom of information

We are partially exempt from aspects of the 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.

OUR GOVERNING PRINCIPLES

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 2015-16. It is not possible to assess the financial effect of these directions on us.

During the year ended 30 June 2016, 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 section 9 direction dated 18 June 2014 was in effect during the year ended 30 June 2016 in relation to uranium. The 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 February 2016 was in effect during the year ended 30 June 2016 in relation to trade with Iran. The direction revoked a previous section 9 direction dated 15 October 2008.

The direction states that we shall resume facilitating and encouraging Australian export trade to Iran, but shall not provide services or perform functions in circumstances where the service or function is in relation to a prohibited activity under the Autonomous Sanctions Regulations 2011 and the Charter of the United Nations (Sanctions – Iran) Regulations 2008 or where the service is provided to any entity engaged in such prohibited activities.

Zimbabwe

A section 9 direction dated 27 May 2009 was in effect during the year ended 30 June 2016 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 the Department of Foreign Affairs and Trade (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 2016 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 2016 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.

Cuba

A section 9 direction dated 22 March 2016 was in effect during the year ended 30 June 2016 in relation to the 12 December 2015 Agreed Minutes between the Republic of Cuba and the Group of Creditors to Cuba.

The direction states that we are to exercise our powers and perform our functions in accordance with and to give effect to, the agreement between the Republic of Cuba and the Group of Creditors to Cuba recorded in the Agreed Minutes of 12 December 2015.

OUR GOVERNING PRINCIPLES

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 2016, 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.

A dividend of $13.6 million was paid on 21 December 2015 based on a direction from the Minister for Trade and Investment dated 22 November 2015 that 75 per cent of the 2014-15 Commercial Account profit be paid as a dividend.

At the date of publication, the dividend for the year ended 30 June 2016 had not been determined.

Section 61A Efic Act directions

Section 61A of the Efic Act permits the Minister to issue directions to us regarding the payment of a debt neutrality charge.

During the year ended 30 June 2016, a direction dated 18 June 2015 was in effect from 1 July 2015 that required Efic to pay a debt neutrality charge of 10 basis points on its cost of borrowing. The charge applies to new borrowings on all portfolios and existing debt that is rolled over or refinanced. The amount payable is $0.9 million.

Section 63A Efic Act directions

Section 63A of the Efic Act permits the Minister to issue directions to us regarding tax equivalent payments.

During the year ended 30 June 2016, a direction dated 18 June 2015 was in effect from 1 July 2015 that required Efic to pay a tax equivalent payment comprising:

- a payment in lieu of Commonwealth income tax at 30 per cent of accounting profits, and realised capital gains, with a capacity to carry tax losses forward;
- a payment in lieu of New South Wales payroll tax levied on wages, allowance, bonuses, fringe benefits and superannuation, at rates and thresholds specified in the 2015-16 NSW Budget; and
- a payment in lieu of New South Wales land tax, at rates and thresholds specified in the 2015-16 NSW Budget.

The amount payable in lieu of Commonwealth income tax is $5.0 million, the amount payable in lieu of New South Wales payroll tax is $1.0 million and the amount payable in lieu of New South Wales land tax is $0.2 million.

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 more information about 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.

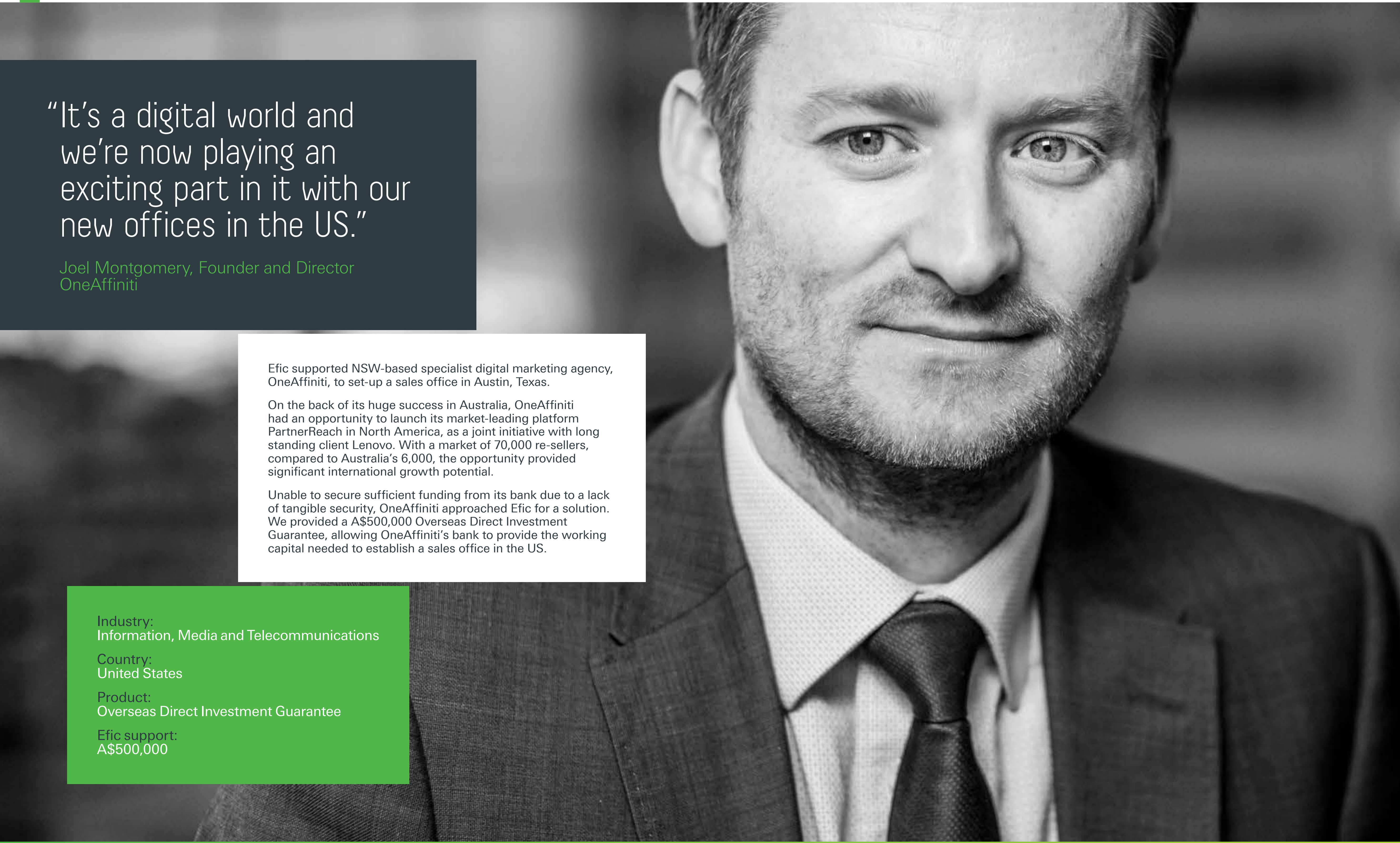
Core principles

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 and processes.
- 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.

CASE
STUDY

OneAffiniti



"It's a digital world and we're now playing an exciting part in it with our new offices in the US."

Joel Montgomery, Founder and Director
OneAffiniti

Efic supported NSW-based specialist digital marketing agency, OneAffiniti, to set-up a sales office in Austin, Texas.

On the back of its huge success in Australia, OneAffiniti had an opportunity to launch its market-leading platform PartnerReach in North America, as a joint initiative with long standing client Lenovo. With a market of 70,000 re-sellers, compared to Australia's 6,000, the opportunity provided significant international growth potential.

Unable to secure sufficient funding from its bank due to a lack of tangible security, OneAffiniti approached Efic for a solution. We provided a A$500,000 Overseas Direct Investment Guarantee, allowing OneAffiniti's bank to provide the working capital needed to establish a sales office in the US.

Industry:
Information, Media and Telecommunications

Country:
United States

Product:
Overseas Direct Investment Guarantee

Efic support:
A$500,000

CASE
STUDY

Worldpoly

"With Efic's Small Business Export Loan, we could move quickly to open the door to new opportunities for Worldpoly in South Africa."

Rob Hall, CEO
Worldpoly

Efic's Small Business Export Loan helped Worldpoly expand its distributor network into South Africa in record time.

Third-generation small family business Worldpoly has world domination in its sights. An opportunity to establish a new distributor of their butt-welding machinery in South Africa would mean further opening up the Sub-Saharan Africa market.

With their bank unable to help, Worldpoly turned to Efic's online Small Business Export Loan portal, EficDirect. An easy online application and quick turnaround time, with funds available in as little as 9 business days, EficDirect provided the financial solution Worldpoly needed.

Efic's funding helped Worldpoly increase their stock in South Africa. World domination is one step closer.

Industry:
Manufacturing

Country:
South Africa

Product:
Small Business Export Loan

Efic support:
A$65,000

OUR RISK MANAGEMENT FRAMEWORK

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.

To assist with risk management, there are several committees that perform specific functions:

- the Credit Committee, chaired by Efic's Chief Credit Officer, examines credit policy and practices in relation to all exposures and potential transactions.
- the Risk and Compliance Committee, chaired by the Compliance Counsel, examines, monitors and regulates compliance risks.
- the Treasury Risk Review Committee, chaired by the Treasurer, examines treasury activities, limits, noteworthy transactions and current issues.
- The Work Health and Safety Committee, chaired by the Chief Financial Officer, examines all risks in the workplace (including in an agile environment) and reports any hazards or safety problems that may cause harm or injury to employees, contractors and visitors.

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 KPMG, perform an independent review of our financial statements.

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, competitive neutrality policies 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 regarding our business practices, whether true or not.
- Credit and Country risk – the risk that counterparties will default on obligations resulting in an expected or actual 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 foreign 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:

- meet our likely liabilities.
- 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 standards drawing upon both the prudential standards of the Australian Prudential Regulation Authority (APRA) and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision (Basel).

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 21 of the Financial Statements on pages 143-145.

Capital adequacy

We consider capital adequacy from a number of perspectives.

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

- 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 the Board requires cash capital to RWA to be higher than 8 per cent and including callable capital to be higher than 16 per cent.

Our capital base has increased from $649.6 million to $660 million from growth in earnings, less the normal dividend paid to the Commonwealth based last year on 75 per cent of prior year profits.

OUR RISK MANAGEMENT FRAMEWORK

Our capital base includes $200 million of callable (non-cash) capital with the balance of $460 million comprising retained earnings, reserves and contributed equity as cash capital.

Risk weighted assets increased over the year from $2.1 billion to $2.5 billion. Our capital adequacy ratio including callable capital is 26.1 per cent (30.5 per cent in 2015) and 18.2 per cent (21.1 per cent in 2015) on a cash capital basis. We have always maintained a buffer above the minimum 8 per cent to reflect the countercyclical nature of our business and the risk concentrations we have.

When assessing capital adequacy, the Board takes into account several factors.

The first consideration when assessing capital adequacy is the actual capital available (cash and callable). 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.

A second consideration when assessing our capital adequacy is the management of large exposures or concentrations in our portfolio (see 'Large exposures' section below). 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.

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.

Large exposures

We have also modelled our large exposure policy on Basel and APRA guidelines. Australian banks are required to consult with APRA prior to committing to any aggregate exposures to non-government, 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 has endorsed a limit of 25 per cent of eligible capital to apply to exposures graded with an Efic Risk Score (ERS) 1 (AAA/AA– or Aaa/Aa3) or ERS 2 (A+/A– or A1/A3), and adopted a more conservative target of 15 per cent for risks graded ERS 3 (BBB+/BBB– or Baa1/Baa3) or worse within the general limit of 25 per cent.

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 approved exposure limits to single counterparties under risk transfer arrangements of:

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

For bank counterparties, APRA has indicated a maximum exposure of 50 per cent of capital. 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 refer to such losses as 'expected losses'.

The Basel Committee's belief, shared by APRA, 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' accounting standards, 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.

OUR RISK MANAGEMENT FRAMEWORK

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 3.6.

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 Credit Default Swap (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 PGPA Act 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 2016, taking both the National Interest Account and Commercial Account into consideration, 92 per cent were denominated in US dollars and 3 per cent in Euro.

We do not 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 forward rate agreements to substantially 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 19 of the Financial Statements on pages 118-137 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.

OUR RISK MANAGEMENT FRAMEWORK

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 2015-16 included the issue of short-term Euro-commercial paper in USD, and short-term direct loans from banks. We were consistently able to borrow USD at sub-LIBOR margins.

A debt neutrality charge of 10 basis points applies applies to new borrowings on all portfolios and existing debt that is rolled over or refinanced.

Investments and liquidity

At 30 June 2016, the face value of our investment and liquidity holdings on the Commercial Account was $1,159.2 million, comprising cash, bank deposits and investment securities.

Of this amount, $434.5 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 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 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 was a new Paris Club rescheduling during 2015-16 for Cuba. At 30 June 2016, all previously rescheduled amounts had been paid on time as per the rescheduling agreements.

Indonesia

At 30 June 2016, our rescheduled loans to the Indonesian Government were $122.2 million on the National Interest Account and $4.4 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 2016, all rescheduled amounts had been paid on time as per the rescheduling agreements.

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 2015-16, $19.7 million was cancelled under this program.

Egypt

At 30 June 2016, we were owed $10.4 million and US$3.4 million by the Egyptian Government ($2.6 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 final repayment was received on 1 July 2016. At 30 June 2016, 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.

The rescheduled debt balance at 30 June 2016 is US$0.5 million on the Commercial Account and US$143.2 million on the National Interest Account. At 30 June 2016, all rescheduled amounts have been paid on time as per the rescheduling agreements.

However, the current situation in Iraq and the continuing 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, Efic retains 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 $19.4 million taken up as income during 2015-16 on the National Interest Account.

Cuba

In the mid-1980s, Efic issued four National Interest Account loans to Banco Nacional de Cuba to support the sale of sugar cultivation and harvesting equipment. No repayments have been received on these loans since the late 1990s. In December 2015, the Paris Club's 'Group of Creditors of Cuba', which included Australia, agreed with Havana the terms upon which Cuba's outstanding debt would be rescheduled. Efic executed a bilateral agreement with Cuba in late May 2016 on terms consistent with those established by the Paris Club creditors. The debt is to be repaid over 18 years. No repayments have commenced under the rescheduling agreement. The loans have had a 100 per cent provision in place since the payments ceased and this is maintained at 30 June 2016.

Dividends

Section 55 of the Efic Act requires our Board to make a written recommendation to the Minister for Trade and Investment (the 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.

A dividend of $13.6 million was paid in December 2015, based on a recommendation from the Board that 75 per cent of the 2014-15 Commercial Account profit be paid as a dividend.

At the date of publication, the dividend for the year ended 30 June 2016 had not been determined.

CASE
STUDY

AUS Group Alliance

"We're building a reputation for innovation; now we're on track to expand into Europe."

Nick Marandos, Owner and CEO
AUS Group Alliance

Efic helped Melbourne-based specialist construction company, AUS Group Alliance (AGA), with additional funding to set up a Dutch distributor and grow its global operation.

With an opportunity to distribute their innovative freeway noise walls into the lucrative European market, but their bank unable to help, AGA needed an alternative financial solution.

AGA's bank manager referred the company to Efic. With an Efic Export Contract Loan, AGA was able to fulfil its European contract and build its export business overseas.

Industry:
Manufacturing

Country:
Netherlands

Product:
Export Contract Loan

Efic support:
A$150,000

CASE
STUDY

Oyu Tolgoi

> "Efic is delighted to support the Oyu Tolgoi mine expansion, which provides a fantastic opportunity for Australian SMEs to showcase their world class mining expertise and services."

David Graham, Executive Director
Efic

Efic is contributing to the financing of the expansion of the Oyu Tolgoi gold and copper mine, which will create a number of opportunities in the project's supply chain, many of which are expected to be awarded to Australian SMEs. Consistent with its mandate, Efic's participation in the financing is partly predicated on this expectation.

The project represents a significant business opportunity for Australian SME exporters across a wide range of industries who provide services to the mining sector. Around 200 Australian SMEs have already been involved in the initial development phase (with contracts worth more than US$83 million). This includes companies such as Gears Mining, a Queensland company which provides maintenance and repair work for the mine's relining equipment, and Marcus Punch, a New South Wales company managing risk and safety protocols.

Efic joined the International Finance Corporation, export credit agencies from the US and Canada, and the European Bank for Reconstruction and Development in contributing to the financing for this project. The World Bank's Multilateral Investment Guarantee Agency (MIGA) is also providing political risk insurance cover for the commercial banks to encourage their participation.

Industry:
Mining and Mining Services

Country:
Mongolia

Product:
Direct Loan

Efic support:
US$150 million

TEN-YEAR SUMMARY

Commercial Account

Years ended 30 June: $ million	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Signings	**390**	179	577	514	990	593	697	377	365	545
Export contracts and overseas investments supported	**1,475**	823	2,138	2,075	4,278	3,473	3,561	817	2,219	1,367
Net interest income	**23.7**	26.5	22.6	32.8	38.1	39.6	38.3	44.5	32.2	23.4
Net premiums and fees	**26.7**	26.4	27.2	14.4	16.5	14.5	32.0	11.0	4.6	9.0
Fair value other financial instruments	**0.1**	(0.2)	(2.0)	(3.0)	(4.1)	(6.1)	(7.4)	(4.2)	(1.6)	21.0
Other income	**2.6**	2.5	4.1	4.7	3.1	3.0	2.6	3.0	2.9	2.4
Total revenue	**53.1**	55.2	51.9	48.9	53.6	51.0	65.5	54.3	38.1	55.8
Operating expenses	**(34.0)**	(31.5)	(27.9)	(26.9)	(26.7)	(24.5)	(23.8)	(20.6)	(18.8)	(15.5)
Tax equivalent charges	**(1.2)**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange profit / (loss)	**(1.6)**	(5.4)	0.2	0.6	0.0	0.0	0.0	(0.1)	0.0	0.1
(Charge) / credit for sundry allowances	**0.1**	(0.1)	0.0	0.0	0.1	3.6	(3.4)	(0.2)	0.0	0.0
Profit / (loss) from the discontinued credit insurance business	**0.1**	0.0	0.0	0.0	(0.2)	0.1	0.0	0.2	0.4	0.3
Operating profit before tax equivalent	**16.5**	18.2	24.2	22.6	26.8	30.2	38.3	33.6	19.7	40.7
Income tax equivalent	**(5.0)**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit for Efic	**11.5**	18.2	24.2	22.6	26.8	30.2	38.3	33.6	19.7	40.7
Dividend (paid in subsequent years)	**Not decided**	(13.6)	(18.2)	(11.3)	(26.8)	(30.2)	(28.7)	(16.8)	(9.8)	(20.4)
Dividend payout ratio	**Not decided**	75%	75%	50%	100%	100%	75%	50%	50%	50%
Special dividend / Capital injection	**0.0**	200.0	0	(200.0)	0	0	0	0	0	0
Equity	**444.8**	436.8	225.9	216.3	418.1	408.1	407.6	376.7	331.2	359.8
Return on average equity (% pa) before tax equivalent	**4%**	5%	11%	7%	6%	7%	10%	9%	6%	12%
Capital adequacy ratio including callable capital	**26.1%**	30.5%	22.5%	21.2%	31.0%	34.6%	37.3%	31.2%	34.5%	46.5%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	**867**	878	594	535	458	361	342	227	145	120
Funded EFG's	**99**	117	123	149	101	102	115	55	0	0
Guarantees and other off-balance-sheet exposures	**436**	438	663	654	513	362	403	514	510	408
Exposures reinsured	**673**	601	478	362	327	112	87	206	212	103
Rescheduled debts	**3**	8	13	16	20	24	22	24	25	26
Total Commercial Account facilities	**2,079**	**2,042**	**1,871**	**1,716**	**1,419**	**961**	**969**	**1,026**	**892**	**657**

National Interest Account

Years ended 30 June: $ million	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Signings	**0**	0	0	0	13	0	274	200	4	9
Export contracts and overseas investments supported	**0**	0	0	0	240	0	2,411	530	18	85
Exports supported by Australian content by drawdown	**6**	12	305	904	1,005	338	0	0	21	46
Net interest income (including grant amortised)	**1.4**	1.8	2.1	2.1	1.2	1.0	2.9	3.0	0.3	9.5
Net premiums and fees	**14.4**	12.2	9.8	7.7	5.3	5.0	6.9	2.2	2.4	2.6
Fair value other financial instruments	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	60.6
Total revenue	**15.8**	14.0	11.9	9.8	6.5	6.0	9.8	5.2	2.7	72.7
Operating expenses	**(1.2)**	(1.0)	(1.6)	(2.2)	(1.4)	(1.5)	(2.5)	(2.7)	(1.8)	(3.8)
Foreign exchange profit/(loss)	**(0.1)**	(0.3)	(0.2)	(0.1)	(0.2)	2.5	0.7	(2.9)	2.1	0.1
(Charge) / credit for specific provisions	**(19.7)**	(14.3)	(9.6)	(8.3)	(8.1)	(7.5)	0.1	0.2	1.8	1.4
Profit/ (loss) from the discontinued credit insurance business	**19.4**	17.6	15.5	14.8	19.8	8.2	1.3	0.0	0.0	0.0
Operating profit attributable to the Commonwealth	**14.2**	16.0	16.0	14.0	16.6	7.7	9.4	(0.2)	4.8	70.4
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	**597**	665	625	670	590	567	722	898	893	1,066
Guarantees and other off-balance-sheet exposures	**11**	12	11	11	6	0	1	4	8	11
Exposures reinsured	**0**	0	0	5	10	18	33	45	43	52
Rescheduled debts	**215**	238	232	72	87	101	101	111	111	121
Total National Interest facilities	**822**	**915**	**867**	**758**	**693**	**686**	**858**	**1,058**	**1,055**	**1,250**

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 (Efic or "the Corporation"):

(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 2016 and the financial position of the Corporation at 30 June 2016;

(b) the financial statements for the year ended 30 June 2016 comply with subsection 42(2) of the *Public Governance,Performance and Accountability Act 2013* (PGPA 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* (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.

James M Millar AM Chairman	Andrew Hunter Managing Director and CEO	Stuart Neilson Chief Financial Officer

25 August 2016

INDEPENDENT AUDITOR'S REPORT

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Trade, Tourism and Investment

I have audited the accompanying annual financial statements of the Export Finance and Insurance Corporation for the year ended 30 June 2016, which comprise the:

- Statement by Board Members and Chief Financial Officer;
- 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.

Opinion

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

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015;* and

(b) present fairly the financial position of the Export Finance and Insurance Corporation as at 30 June 2016 and its financial performance and cash flows for the year then ended.

Directors' Responsibility for the Financial Statements

The Directors of the Export Finance and Insurance Corporation are responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Directors are also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I 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.

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

INDEPENDENT AUDITOR'S REPORT

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 entity's preparation and fair presentation of the financial statements 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 entity'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 of the entity, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Australian National Audit Office

Clea Lewis
Executive Director

Delegate of the Auditor General

Canberra
25 August 2016

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

	Note	Commercial Account		National Interest Account	
		30 June 2016 $ m	30 June 2015 $ m	**30 June 2016 $ m**	30 June 2015 $ m
Interest income	3(i)	**135.2**	146.4	**20.3**	22.5
Interest expense	3(ii)	**(111.5)**	(119.9)	**(18.9)**	(20.7)
Net interest income		**23.7**	26.5	**1.4**	1.8
Fair value movement of third-party loans and guarantees	3(iii)	**26.7**	26.4	**-**	-
Fair value movement of other financial instruments	3(iv)	**0.1**	(0.2)	**-**	-
Foreign exchange loss		**(1.6)**	(5.4)	**(0.1)**	(0.3)
Other revenue	3(v)	**2.7**	2.5	**33.8**	29.8
Operating income		**51.6**	49.8	**35.1**	31.3
Operating expenses	3(vi)	**(34.0)**	(31.5)	**(1.2)**	(1.0)
State-tax equivalent charges	3(vii)	**(1.2)**	-	**-**	-
Net operating income		**16.4**	18.3	**33.9**	30.3
Credit/(charge) to sundry allowances	3(viii)	**0.1**	(0.1)	**-**	-
Net rescheduled loans and debt forgiveness	3(ix)	**-**	-	**(19.7)**	(14.3)
Profit before tax equivalent		**16.5**	18.2	**14.2**	16.0
Income tax-equivalent charge		**(5.0)**	-	**-**	-
Profit from ordinary activities		**11.5**	18.2	**14.2**	16.0
National Interest Account attributable directly to the Commonwealth		**-**	-	**(14.2)**	(16.0)
Net profit available to the Commonwealth		**11.5**	18.2	**-**	-
Other comprehensive income					
Items not subject to subsequent reclassification to profit or loss:					
Gain on revaluation of land and buildings		**12.3**	13.7	**-**	-
Items subject to subsequent reclassification to profit or loss:					
Net fair value loss taken to equity on cash flow hedge		**(0.4)**	(0.2)	**-**	-
Net fair value loss on available-for-sale investments		**(1.8)**	(2.6)	**-**	-
Total other comprehensive income for the period		**10.1**	10.9	**-**	-
Total comprehensive income for the period available to the Commonwealth		**21.6**	29.1	**-**	-

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

STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
Assets					
Cash and liquid assets	1(j)	**1.3**	0.9	**-**	-
Receivables from other financial institutions	4,1(k)	**290.1**	169.6	**-**	-
Available-for-sale investment securities	6,1(l)	**875.3**	842.6	**-**	-
Loans and receivables at amortised cost	7,1(m)	**20.9**	28.3	**588.7**	661.7
Loans and receivables designated at fair value through profit or loss	8,1(n)	**1,335.3**	1,172.1	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	1(o)	**627.3**	712.6	**-**	-
Derivative financial assets	9,1(p)	**185.9**	193.8	**-**	-
Property, plant and equipment	10,1(q)	**66.8**	57.1	**-**	-
Intangible assets and goodwill	11,1(r)	**1.4**	-		
Other assets	12	**1.6**	1.3	**19.8**	20.0
Total assets		**3,405.9**	3,178.3	**608.5**	681.7
Liabilities					
Payables to other financial institutions	13,1(s)	**44.0**	69.1	**-**	-
Amounts payable to the Commonwealth	5	**-**	-	**11.6**	8.3
Borrowings from Commercial Account	1(t)	**-**	-	**594.2**	669.9
Borrowings designated at fair value through profit or loss	14,1(u)	**2,491.2**	2,277.7	**-**	-
Guarantees designated at fair value through profit or loss	15,1(v)	**9.7**	10.5	**-**	-
Derivative financial liabilities	9,1(p)	**374.9**	352.8	**-**	-
Sundry provisions and allowances	16	**10.7**	3.4	**-**	-
Other liabilities	17	**30.6**	28.0	**2.7**	3.5
Total liabilities		**2,961.1**	2,741.5	**608.5**	681.7
Net assets		**444.8**	436.8	**-**	-
Equity					
Contributed equity		**206.0**	206.0	**-**	-
Reserves		**129.8**	119.7	**-**	-
Retained profits		**109.0**	111.1	**-**	-
Total equity		**444.8**	436.8	**-**	-

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

	Retained Profits $ m	Asset Revaluation Reserves $ m	Available-for-sale Investment Reserve $ m	Cash Flow Hedge Reserve (Note 19) $ m	Other Reserves $ m	Contributed Equity $ m	Total Equity $ m
Commercial Account							
Opening balance as at 30 June 2015	**111.1**	**50.3**	**2.4**	**0.8**	**66.2**	**206.0**	**436.8**
Comprehensive income							
Other comprehensive income	**-**	**12.3**	**(1.8)**	**(0.4)**	**-**	**-**	**10.1**
Profit for the period	**11.5**	**-**	**-**	**-**	**-**	**-**	**11.5**
Total comprehensive income	**11.5**	**12.3**	**(1.8)**	**(0.4)**	**-**	**-**	**21.6**
Transactions with the Commonwealth							
Dividends paid 75% of 2014-15 profit	**(13.6)**	**-**	**-**	**-**	**-**	**-**	**(13.6)**
Closing balance available to the Commonwealth 30 June 2016	**109.0**	**62.6**	**0.6**	**0.4**	**66.2**	**206.0**	**444.8**
Commercial Account							
Opening balance as at 30 June 2014	111.1	36.6	5.0	1.0	66.2	6.0	225.9
Comprehensive income							
Other comprehensive income	-	13.7	(2.6)	(0.2)	-	-	10.9
Profit for the period	18.2	-	-	-	-	-	18.2
Total comprehensive income	18.2	13.7	(2.6)	(0.2)	-	-	29.1
Transactions with the Commonwealth							
Dividends paid 75% of 2013-14 profit	(18.2)	-	-	-	-	-	(18.2)
Equity Injection	-	-	-	-	-	200.0	200.0
Closing balance available to the Commonwealth 30 June 2015	111.1	50.3	2.4	0.8	66.2	206.0	436.8

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

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

Contributed equity comprises of $6 million of capital advanced by the Commonwealth and an equity injection of $200 million paid in July 2014. The equity injection restored Efic's capital base following a $200 million special dividend paid in June 2013.

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.

As agreed with the Minister for Trade and Investment, Efic paid a dividend for the year ended 30 June 2015 based on the recommendation from the Board that 75% of the 2014-15 profit be paid as a dividend and accordingly a dividend of $13.6 million was paid in December 2015.

CASH FLOW STATEMENT

for the year ended 30 June 2016

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
Cash flows from operating activities					
Inflows:					
Premium and fees received*		**40.2**	31.1	**13.2**	10.7
Interest received		**132.0**	131.1	**11.2**	11.2
Insurance claim recoveries		**0.1**	0.3	**18.7**	15.9
Guarantees and associated costs recovered		**4.3**	2.1	**-**	-
Sundry income*		**2.9**	2.5	**-**	-
Rescheduled debt repayments		**4.9**	4.6	**23.4**	20.6
Net decrease/(increase) in other debtors and prepayments		**2.2**	7.9	**1.8**	(2.5)
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(5.1)**	(7.3)	**-**	-
Interest and other costs of finance paid		**(103.9)**	(107.4)	**(19.7)**	(21.3)
Guarantees called and associated costs		**(4.8)**	(0.6)	**-**	-
Net repayments/(disbursements) of loans		**(34.9)**	(62.8)	**59.4**	60.9
Payments to creditors and employees*		**(30.8)**	(31.7)	**-**	-
Net cash from/(used by) operating activities	24	**7.1**	(30.2)	**108.0**	95.5
Cash flows from investing activities					
Inflows:					
Proceeds from available-for-sale investments		**1,203.5**	1,001.0	**-**	-
Proceeds from sale of property, plant and equipment		**0.1**	0.1	**-**	-
Outflows:					
Payments for available-for-sale investments		**(1,243.0)**	(1,148.7)	**-**	-
Payments for property, plant and equipment		**(3.1)**	(1.0)	**-**	-
Net cash from/(used by) investing activities		**(42.5)**	(148.6)	**-**	-

* Grossed up for Goods and Services Tax

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		**-**	-	**21.4**	17.5
Receipts from National Interest Account		**1.1**	1.0	**-**	-
Capital Injection from the Commonwealth		**-**	200.0	**-**	-
Outflows:					
Net proceeds/(repayments) of borrowings		**162.1**	(10.9)	**(96.0)**	(86.3)
Dividend payments to the Commonwealth		**(13.6)**	(18.2)	**-**	-
Other payments to the Commonwealth		**-**	-	**(32.3)**	(25.7)
Payments to Commercial Account		**-**	-	**(1.1)**	(1.0)
Net cash from/(used by) financing activities		**149.6**	171.9	**(108.0)**	(95.5)
Net increase/(decrease) in cash equivalents held		**114.2**	(6.9)	**-**	-
Cash equivalents at beginning of financial year		**170.5**	152.1	**-**	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		**6.7**	25.3	**-**	-
Cash equivalents at end of financial year	24	**291.4**	170.5	**-**	-

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 (Efic Act).

Efic is a specialist financier delivering simple and creative finance solutions to Australian companies when their bank can't help. Efic helps small to medium Australian exporters win business, grow internationally and achieve export success.

As the Australian Government's export credit agency, Efic supports Australian export trade on a commercial basis. Efic works directly with businesses and their banks to provide financial support to Australian based companies that are exporting, are involved in a global supply chain or want to grow internationally. Through loans, guarantees, bonds and insurance products, Efic helps Australian exporters and subcontractors take advantage of new contract opportunities that may otherwise have been out of reach.

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

(a) Basis of preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

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
- Financial Reporting Rule (FRR) for reporting periods on or after 1 July 2015.

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 to be 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 effect for this financial year did not have a significant impact on the financial statements.

A number of new and revised Australian accounting standards apply to Efic's financial statements. Efic's assessment of the main effects of these standards on its financial statements is set out below.

AASB 9 – Financial Instruments

AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities. It will replace the corresponding AASB 139 Financial Instruments: Recognition and Measurement. Efic will apply the new standard in the 2018-19 financial year.

AASB 15 – Revenue from contracts with customer

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue. Efic will apply the new standard in the 2018-19 financial year.

(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, the New Zealand dollar and the Japanese Yen. The relevant exchange rates used are:

	2016	2015
Average rates during year		
US$ / A$	**0.7285**	0.8373
Euro / A$	**0.6564**	0.696
NZD / A$	**1.0909**	1.0753
JPY / A$	**84.968**	95.531
Rates at 30 June		
US$ / A$	**0.7437**	0.768
Euro / A$	**0.6700**	0.6865
NZD / A$	**1.0494**	1.1293
JPY / A$	**76.415**	95.995

(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) Competitive neutrality

The competitive neutrality arrangements impose a mandatory obligation on Efic to pay amounts as determined by the Minister each financial year.

Under section 61A of the Efic Act, Efic has been instructed by the Minister to pay a debt neutrality charge to the Commonwealth this financial year that consists of:

- a payment of 10 basis points on Efic's cost of borrowing, which applies to all new borrowings and to existing debt that is rolled over or refinanced.

Under section 63A of the Efic Act, Efic has been instructured by the Minister to pay to the Commonwealth a tax-equivalent payment this financial year that consists of:

- a payment in lieu of Commonwealth income tax at 30% of accounting profits, and realised capital gains;
- a payment in lieu of New South Wales payroll tax; and
- a payment in lieu of New South Wales land tax.

Note 1: Summary of significant accounting policies (continued)

(i) Taxation

Under section 63 of the Efic Act, Efic is not subject to income tax and a number of other taxes, however this year under section 63A, Efic is subject to tax-equivalent payments under competitive neutrality arrangements as outlined on previous page.

Efic continues to be 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.

(j) Cash and liquid assets

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

(k) 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.

(l) 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 20.

(m) 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.

(n) 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 20.

(o) 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 20.

Note 1: Summary of significant accounting policies (continued)

(p) 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 20.

(q) Property, plant and equipment

Property, plant and equipment are revalued periodically to fair value to ensure that the carrying amounts of assets do not differ materially from the assets fair value at the reporting date.

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.

(r) Intangible assets (software costs)

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by the Corporation, and where it is probable that the future economic benefits will flow from its use over more than one year. Costs associated with maintaining the software are recognised as an expense as incurred.

Computer software and other intangible assets are stated at cost less amortisation and impairment losses, if any.

Capitalised software costs are amortised on a systematic basis, using the straight-line method over its useful life of five years.

(s) 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.

(t) 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.

Note 1: Summary of significant accounting policies (continued)

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

Commercial paper, medium-term notes, bonds and structured 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 20.

(v) 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 20.

(w) 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.

(x) Sundry creditors

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

(y) 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.

(z) 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 probable, but not 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.

(aa) Events after the reporting period

There have been no material events occurring after the reporting period that impact these financial statements for the year ended 30 June 2016.

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 2016, and it has been determined that no investment is considered to be impaired. On a portfolio basis there has been an appreciation in the value of the available-for-sale investments since purchase.

Plant and equipment

The valuation of plant and equipment is based on 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 2016 by Mr Benjamin Masters AAPI, Registered Valuer No. 16930 and Mr Jonathan Petsalis AAPI, Registered Valuer No.12849 of CIVAS (NSW) Pty Limited. On an income approach and discounted cash flow analysis with reference to its highest and best use, the land and buildings were valued at $57,000,000.

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 20.

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 2016 $ m	30 June 2015 $ m	**30 June 2016 $ m**	30 June 2015 $ m
(i) Interest income				
Receivables from other financial institutions	**0.9**	1.0	**-**	-
Available-for-sale investment securities	**25.8**	27.0	**-**	-
Loans at amortised cost	**0.1**	0.1	**20.3**	22.5
Loans and receivables designated at fair value through profit or loss	**16.3**	11.5	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	**18.3**	20.1	**-**	-
Derivative financial instruments receivable	**73.8**	86.7	**-**	-
Total interest income	**135.2**	146.4	**20.3**	22.5
(ii) Interest expense				
Payables to other financial institutions	**(0.3)**	(0.4)	**-**	-
Borrowings from Commercial Account	**-**	-	**(18.9)**	(20.7)
Borrowings at amortised cost	**(0.1)**	(0.1)	**-**	-
Borrowings designated at fair value through profit or loss	**(64.0)**	(67.4)	**-**	-
Derivative financial instruments payable	**(46.2)**	(52.0)	**-**	-
Debt neutrality charge	**(0.9)**	-	**-**	-
Total interest expense	**(111.5)**	(119.9)	**(18.9)**	(20.7)
(iii) Fair value movement of third-party loans and guarantees				
Net premium and fees	**80.3**	26.2	**-**	-
Reinsurance	**(20.0)**	(6.1)	**-**	-
Interest	**0.3**	(0.7)	**-**	-
Credit risk	**(31.2)**	4.8	**-**	-
Claims paid	**(4.8)**	0.6	**-**	-
Claims recovered	**4.3**	(0.6)	**-**	-
Specific events	**(2.2)**	2.2	**-**	-
Total fair value movement of third-party loans and guarantees	**26.7**	26.4	**-**	-
(iv) Fair value movement of other financial instruments				
Available-for-sale investment securities	**-**	(0.5)	**-**	-
Loans to National Interest Account designated at fair value through profit or loss	**(10.3)**	(13.6)	**-**	-
Borrowings designated at fair value through profit or loss	**(27.2)**	(30.3)	**-**	-
Derivative financial instruments	**37.6**	44.2	**-**	-
Total fair value movement of other financial instruments	**0.1**	(0.2)	**-**	-

Note 3: Revenue and expenses (continued)

	Commercial Account		National Interest Account	
	30 June 2016 $ m	30 June 2015 $ m	30 June 2016 $ m	30 June 2015 $ m
(v) Other revenue				
Premium and fees	-	-	14.4	12.2
Rental income	2.6	2.1	-	-
Sundry income	-	0.1	-	-
Recoveries from credit insurance	0.1	0.3	19.4	17.6
Total other revenue	2.7	2.5	33.8	29.8
(vi) Operating expenses				
Staff costs	(17.7)	(17.4)	-	-
Depreciation and amortisation	(4.2)	(3.5)	-	-
Advertising and promotional costs	(2.6)	(2.1)	-	-
Other expenses	(2.2)	(1.8)	-	-
Superannuation costs	(1.8)	(1.7)	-	-
Professional fees	(1.8)	(1.7)	-	-
Computer and communication costs	(1.8)	(1.0)	-	-
Property costs	(1.4)	(1.5)	-	-
Travel costs	(1.0)	(1.1)	-	-
Credit information	(0.5)	(0.4)	-	-
Provision for employee entitlements	(0.5)	(0.3)	-	-
Northern Australia Infrastructure Facility recovery	0.3	-	-	-
National Interest Account recovery/(expense)	1.2	1.0	(1.2)	(1.0)
Total operating expenses	(34.0)	(31.5)	(1.2)	(1.0)
(vii) State tax-equivalent charges				
Payroll tax-equivalent charge	(1.0)	-	-	-
Land tax-equivalent charge	(0.2)	-	-	-
Total state tax-equivalent charges	(1.2)	-	-	-
(viii) Credit/(charge) to sundry allowances				
Allowances for unrecoverable costs	0.1	(0.1)	-	-
Total credit/(charge) to sundry allowances	0.1	(0.1)	-	-
(ix) Net rescheduled loans and debt forgiveness				
Debt forgiveness	-	-	(19.7)	(14.3)
Total rescheduled loans and debt forgiveness	-	-	(19.7)	(14.3)

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 $19.7 million (2015: $14.3m) was cancelled, bringing the total cancelled to $67.4 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

		Commercial Account		National Interest Account	
	Note	30 June 2016 $ m	30 June 2015 $ m	30 June 2016 $ m	30 June 2015 $ m
	1(k)				
Overnight deposits		129.1	148.5	-	-
Fixed cash deposits		161.0	21.1	-	-
Total receivables from other financial institutions		290.1	169.6	-	-
Maturity analysis of receivables from other financial institutions					
At call		129.1	148.5	-	-
Due in less than 3 months		23.4	19.9	-	-
Due after 3 months to 1 year		137.6	1.2	-	-
Total receivables from other financial institutions		290.1	169.6	-	-

These receivables are from various banking institutions all rated AA-.

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

	Commercial Account		National Interest Account	
	30 June 2016 $ m	30 June 2015 $ m	30 June 2016 $ m	30 June 2015 $ m
Commonwealth opening balance payable	-	-	8.3	0.5
Net payments to the Commonwealth	-	-	(10.9)	(8.2)
	-	-	(2.6)	(7.7)
Profit for the year on National Interest Account	-	-	14.2	16.0
Total amounts payable to the Commonwealth	-	-	11.6	8.3

Note 6: Available-for-sale investment securities

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
	1(l)				
Discount securities		**307.5**	228.3	**-**	-
Floating rate notes		**390.0**	308.2	**-**	-
Fixed rate bonds		**177.8**	306.1	**-**	-
Total available-for-sale investment securities		**875.3**	842.6	**-**	-
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**318.2**	243.8	**-**	-
Due after 3 months to 1 year		**292.7**	333.1	**-**	-
Due after 1 year to 5 years		**264.4**	265.7	**-**	-
Total available-for-sale investment securities		**875.3**	842.6	**-**	-

Refer to Note 19 for further information regarding credit risk and market risk.

Note 7: Loans and receivables at amortised cost

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
	1(m)				
Gross export finance loans		**-**	-	**606.1**	665.4
Gross funded export finance guarantees		**20.9**	28.3	**-**	-
Gross rescheduled credit insurance debts		**0.7**	0.7	**204.9**	238.0
Loans and receivables gross		**21.6**	29.0	**811.0**	903.4
Unearned premiums		**-**	-	**(5.1)**	(6.4)
Specific provision for impairment		**(0.7)**	(0.7)	**(202.2)**	(212.3)
Deferred income		**-**	-	**(0.3)**	(1.9)
Unamortised grants	1(e)	**-**	-	**(14.7)**	(21.1)
Total loans and receivables at amortised cost		**20.9**	28.3	**588.7**	661.7
Maturity analysis loans and receivables gross					
Overdue – impaired		**-**	-	**-**	9.7
Due in 3 months or less		**-**	-	**18.6**	18.1
Due after 3 months to 1 year		**8.4**	8.1	**98.3**	98.8
Due after 1 year to 5 years		**12.8**	20.4	**369.8**	395.8
Due after 5 years		**0.4**	0.5	**324.3**	381.0
Total loans and receivables gross		**21.6**	29.0	**811.0**	903.4
Restructured exposures included above		**0.7**	0.7	**376.7**	376.9

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

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 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
Specific provision				
Specific provision opening balance	**0.7**	0.7	**212.3**	188.1
Foreign exchange movement	**0.1**	-	**6.8**	39.9
Provision written back	**(0.1)**	-	**(16.9)**	(15.7)
Specific provision closing balance	**0.7**	0.7	**202.2**	212.3
Impaired loans				
Impaired loans	**0.7**	0.7	**202.2**	212.3
Specific provision for impairment	**(0.7)**	(0.7)	**(202.2)**	(212.3)
Carrying value of impaired loans	**-**	-	**-**	-
Interest foregone on impaired loans	**-**	-	**0.2**	0.2

Amounts shown under National Interest Account represent loans made by Efic under Part 5 of the Efic Act.

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

		Commercial Account		National Interest Account	
	Note	**30 June 2016 $ m**	30 June 2015 $ m	**30 June 2016 $ m**	30 June 2015 $ m
Gross export finance loans		**1,131.1**	936.8	**-**	-
Gross funded export finance guarantees		**233.0**	250.9	**-**	-
Gross rescheduled credit insurance debts		**2.6**	7.5	**-**	-
Loans and receivables gross	1(n)	**1,366.7**	1,195.2	**-**	-
Fair value net premium and fees		**50.6**	22.3	**-**	-
Fair value interest income		**3.9**	2.2	**-**	-
Fair value of credit risk		**(84.1)**	(47.6)	**-**	-
Fair value of specific events		**(1.8)**	-	**-**	-
Total loans and receivables at fair value		**1,335.3**	1,172.1	**-**	-
Maturity analysis loans and receivables gross					
Overdue		**4.2**	0.7	**-**	-
Due in 3 months or less		**23.1**	24.1	**-**	-
Due after 3 months to 1 year		**98.7**	98.0	**-**	-
Due after 1 year to 5 years		**605.6**	586.6	**-**	-
Due after 5 years		**635.1**	485.8	**-**	-
Total loans and receivables gross		**1,366.7**	1,195.2	**-**	-
Restructured exposures included above		**7.0**	14.5	**-**	-
Maturity analysis of overdue loans and receivables gross					
Less than 30 days		**0.4**	-	**-**	-
30 to 60 days		**0.9**	0.7	**-**	-
61 to 90 days		**2.6**	-	**-**	-
Over 90 days		**0.3**	-	**-**	-
Total overdue loans and receivables gross		**4.2**	0.7	**-**	-

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 $4.2 million relates to eight SME export finance loans where payment was not received on time. For the loans over 90 days, Efic has entered into forbearance agreements where the agreed monthly payments are being received. For the other loans, Efic is working with the client to receive payment in full.

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 19 for further information regarding credit risks, including maximum exposures and market risk.

Note 9: Derivative financial instruments

		Commercial Account		National Interest Account	
	Note	**30 June 2016 $ m**	30 June 2015 $ m	**30 June 2016 $ m**	30 June 2015 $ m
	1(p)				
Derivative financial assets					
Interest rate swaps		**79.4**	79.7	**-**	-
Cross-currency swaps		**103.8**	106.0	**-**	-
Forward foreign exchange contracts		**-**	4.9	**-**	-
Options		**2.7**	3.2	**-**	-
Total derivative financial assets		**185.9**	193.8	**-**	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		**5.9**	7.4	**-**	-
Due after 3 months to 1 year		**48.5**	59.5	**-**	-
Due after 1 year to 5 years		**127.7**	113.2	**-**	-
Due after 5 years		**3.8**	13.7	**-**	-
Total derivative financial assets		**185.9**	193.8	**-**	-
Derivative financial liabilities					
Interest rate swaps		**30.9**	41.0	**-**	-
Cross-currency swaps		**331.8**	311.7	**-**	-
Forward foreign exchange contracts		**12.2**	0.1	**-**	-
Total derivative financial liabilities		**374.9**	352.8	**-**	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**90.9**	(8.3)	**-**	-
Due after 3 months to 1 year		**5.0**	(2.5)	**-**	-
Due after 1 year to 5 years		**158.5**	85.0	**-**	-
Due after 5 years		**120.5**	278.6	**-**	-
Total derivative financial liabilities		**374.9**	352.8	**-**	-

Refer to Note 19 for further information regarding credit risk, liquidity risk and market risk.

Note 10: **Property, plant and equipment**

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
	1(q)				
Freehold land and building, at valuation		**57.0**	47.0	**-**	-
Accumulated depreciation		**-**	-	**-**	-
Net book value – land and building		**57.0**	47.0	**-**	-
Plant and equipment, at valuation		**17.3**	15.7	**-**	-
Accumulated depreciation		**(7.5)**	(5.6)	**-**	-
Net book value – plant and equipment		**9.8**	10.1	**-**	-
Total property, plant and equipment		**66.8**	57.1	**-**	-

	Land and buildings $ m	Plant and equipment $ m	Total $ m
Gross value			
Balance as at 30 June 2015	47.0	15.7	62.7
Additions	-	1.7	1.7
Write back of accumulated depreciation on revaluation	(2.3)	-	(2.3)
Revaluation increment	12.3	-	12.3
Disposals	-	(0.1)	(0.1)
Gross value as at 30 June 2016	**57.0**	**17.3**	**74.3**
Accumulated depreciation			
Balance as at 30 June 2015	-	(5.6)	(5.6)
Depreciation charged for assets held at 1 July 2015	(2.3)	(1.7)	(4.0)
Depreciation charged for additions	-	(0.2)	(0.2)
Write back on revaluation	2.3	-	2.3
Depreciation recovered on disposals	-	-	-
Depreciation as at 30 June 2016	**-**	**(7.5)**	**(7.5)**
Net book value as at 1 July 2015	47.0	10.1	57.1
Net book value as at 30 June 2016	**57.0**	**9.8**	**66.8**

An independent valuation of land and buildings was carried out in June 2016 by Mr Benjamin Masters AAPI, Registered Valuer No. 16930. On an income approach and discounted cash flow analysis with reference to its highest and best use, the land and buildings were valued at $57,000,000.

Note 10: **Property, plant and equipment** (continued)

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:

	30 June 2016 $ m	30 June 2015 $ m
Leased accommodation		
Freehold land and building, at valuation	**39.0**	32.2
Accumulated depreciation	**-**	-
Written-down value	**39.0**	32.2
Depreciation expense	**1.6**	1.3

Note 11: **Intangible assets**

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
	1(r)				
Cost		**1.5**	-	**-**	-
Accumulated amortisation and impairment		**(0.1)**	-	**-**	-
Net book value – intangible assets		**1.4**	-	**-**	-

	Intangible Asset $ m
Gross value	
Balance as at 30 June 2015	-
Additions – internally developed software	1.5
Gross value as at 30 June 2016	**1.5**
Accumulated amortisation and impairment losses	
Balance as at 30 June 2015	-
Amortisation	(0.1)
Impairment loss	-
Amortisation and impairment as at 30 June 2016	**(0.1)**
Net book value as at 1 July 2015	-
Net book value as at 30 June 2016	**1.4**

Note 12: Other assets

	Commercial Account		National Interest Account	
	30 June 2016 $ m	30 June 2015 $ m	**30 June 2016 $ m**	30 June 2015 $ m
Accrued interest receivable	**0.1**	-	**2.8**	3.8
Sundry debtors and prepayments	**1.5**	1.3	**17.0**	16.2
Total other assets	**1.6**	1.3	**19.8**	20.0

Note 13: Payables to other financial institutions

	Note	Commercial Account		National Interest Account	
		30 June 2016 $ m	30 June 2015 $ m	**30 June 2016 $ m**	30 June 2015 $ m
	1(s)				
Overnight borrowings		**23.1**	40.8	**-**	-
Floating rate borrowing*		**20.9**	28.3	**-**	-
Total payables to other financial institutions		**44.0**	69.1	**-**	-
Maturity analysis of payables to other financial institutions					
At call		**18.9**	40.8	**-**	-
Due in 3 months or less		**4.2**	-		
Due after 3 months to 1 year		**8.4**	8.1	**-**	-
Due after 1 year to 5 years		**12.5**	20.2	**-**	-
Total payables to other financial institutions		**44.0**	69.1	**-**	-

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

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

	Note	Commercial Account		National Interest Account	
		30 June 2016 $ m	30 June 2015 $ m	**30 June 2016 $ m**	30 June 2015 $ m
	1(u)				
Borrowings		**2,491.2**	2,277.7	**-**	-
Total borrowings at fair value		**2,491.2**	2,277.7	**-**	-
Borrowings designated at fair value through profit or loss					
Structured borrowings					
Japanese yen		**134.3**	113.7	**-**	-
Total structured borrowings		**134.3**	113.7	**-**	-
Non-structured borrowings					
Australian dollar		**1,241.8**	1,202.4	**-**	-
New Zealand dollar		**148.0**	128.5	**-**	-
Total non-structured borrowings		**1,389.8**	1,330.9	**-**	-
Euro commercial paper					
US dollar		**967.1**	833.1	**-**	-
Total euro commercial paper		**967.1**	833.1	**-**	-
Total borrowings at fair value		**2,491.2**	2,277.7	**-**	-
Maturity analysis of borrowings					
Due in 3 months or less		**1,034.3**	802.9	**-**	-
Due after 3 months to 1 year		**184.5**	73.8	**-**	-
Due after 1 year to 5 years		**942.8**	629.6	**-**	-
Due after 5 years		**329.6**	771.4	**-**	-
Total borrowings at fair value		**2,491.2**	2,277.7	**-**	-

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.

A Debt Neutrality charge of 10 basis points on new borrowings and to existing debt that is rolled over or refinanced, payable to the Commonwealth, was introduced under competitive neutrality arrangements effective from 1 July 2015.

Refer to Note 19 for further information regarding credit risk, liquidity risk, market risk and contractual amounts.

Note 15: Guarantees designated at fair value through profit or loss

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
	1(v)				
Fair value of credit risk		**10.7**	15.2	**-**	-
Fair value of specific events		**0.5**	-	**-**	-
Fair value of net premium receivable		**(1.5)**	(4.7)	**-**	-
Total guarantees designated at fair value through profit or loss		**9.7**	10.5	**-**	-

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

Refer to Note 19 for further information regarding credit risk, market risk and maximum exposures.

Note 16: Sundry provisions and allowances

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
Employee entitlements	1(w)	**3.6**	3.3	**-**	-
Provision for tax equivalent charges		**7.1**	-	**-**	-
Allowances for unrecoverable costs		**-**	0.1	**-**	-
Total sundry provisions and allowances		**10.7**	3.4	**-**	-

Note 17: Other liabilities

	Note	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
Sundry creditors	1(x)	**30.6**	28.0	**-**	-
Interest payable		**-**	-	**2.7**	3.5
Total other liabilities		**30.6**	28.0	**2.7**	3.5

Note 18: Contingencies and commitments

	Commercial Account 30 June 2016 $ m	Commercial Account 30 June 2015 $ m	National Interest Account 30 June 2016 $ m	National Interest Account 30 June 2015 $ m
Contingent liabilities				
Guarantees	**249.5**	342.3	**11.4**	11.5
Bonds	**78.1**	124.3	**-**	-
Medium-term insurance	**363.0**	351.6	**-**	-
Total contingent liabilities	**690.6**	818.2	**11.4**	11.5

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

Commitments to provide financial facilities				
Loans	**157.5**	25.8	**-**	-
Funded guarantees	**1.5**	16.6	**-**	-
Guarantees*	**96.0**	297.9	**1.4**	1.8
Bonds	**4.2**	21.2	**-**	-
Total commitments to provide financial facilities	**259.2**	361.5	**1.4**	1.8

* 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	**0.1**	0.3	**-**	-
Operating lease payable				
Due in 1 year or less	**0.2**	0.3	**-**	-
Due after 1 year to 2 years	**0.1**	0.1	**-**	-
Due after 2 years to 5 years	**0.1**	0.1	**-**	-
Total commitments payable	**0.5**	0.8	**-**	-
Commitments receivable				
Operating lease receivable				
Due in 1 year or less	**2.9**	2.8	**-**	-
Due after 1 year to 2 years	**2.9**	2.9	**-**	-
Due after 2 years to 5 years	**4.9**	7.0	**-**	-
Due after 5 years	**1.2**	1.7	**-**	-
Total commitments receivable	**11.9**	14.4	**-**	-

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

Note 19: 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. Derivative 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 foreign 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.

Efic also conducts detailed stress testing, including examining the impact on the credit portfolio of slower economic growth in emerging markets and adverse movements in foreign exchange rates and commodity prices. Efic has previously entered into an option contract to mitigate to a degree credit losses across part of the portfolio.

(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 2016 $ m**	30 June 2015 $ m
Credit risk exposures			
Receivables from other financial institutions	4,1(k)	**290.1**	169.6
Available-for-sale investment securities	6,1(l)	**875.3**	842.6
Loans and receivables at amortised cost	7,1(m)	**20.9**	28.3
Loans and receivables designated at fair value through profit or loss	8,1(n)	**1,335.3**	1,172.1
Derivative financial assets	9,1(p)	**185.9**	193.8
Total*		**2,707.5**	2,406.4
Contingent liabilities	18	**690.6**	818.2
Commitments	18	**259.2**	361.5
Total		**949.8**	1,179.7
Total credit risk exposure		**3,657.3**	3,586.1

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

Note 19: Financial risk management (continued)

> *Exposures to treasury counterparties*

Credit risk arising from Efic's treasury activities through its investment portfolios and from interest rate and foreign exchange management is limited to the Commonwealth and state or territory governments, Authorised Deposit-taking Institutions rated BBB- or above and other entities with credit ratings the equivalent of AA- or above. 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 PGPA Act for the investment by Efic's treasury of surplus monies are limited to:

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

(ii) securities issued by or guaranteed by the Commonwealth, a State or Territory

(iii) money with other entities with credit ratings the equivalent of AA- or better

(iv) deposits with, or securities issued, by the above ADIs

(v) deposits with, or securities issued or guaranteed, by the above entities,

subject to:

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

(b) 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

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

In addition to the PGPA Act requirements, the Board does not permit proprietary trading and in addition 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

The Board also specifically does not permit proprietary trading by Efics treasury operations.

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. The Board on top of limits also sets triggers that require information to be notified to the Board. A treasury report, addressing prudential controls, risk, limits and triggers 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.

Note 19: Financial risk management (continued)

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

	Note	30 June 2016 $ m	30 June 2015 $ m
Available-for-sale investment securities			
Australian Authorised Deposit-taking Institutions			
AA-		**277.1**	292.4
A+		**143.3**	102.1
A		**18.2**	-
A-		**315.6**	323.8
BBB+		**14.9**	19.8
Other financial institutions or foreign entities			
AA-		**106.2**	75.0
A+*		**-**	29.5
Exposure to credit risk of available-for-sale investment securities	6,1(l)	**875.3**	842.6

* At time of purchase all investments with other financial institutions or foreign entities were rated at AA- or better.

	Note	30 June 2016 $ m	30 June 2015 $ m
Derivative financial assets			
Australian Authorised Deposit-taking Institutions			
AA-		**115.6**	127.0
Other financial institutions or foreign entities			
AA-		**36.6**	34.4
A+*		**6.9**	8.8
A*		**26.8**	23.6
Exposure to credit risk for derivative financial assets	9,1(p)	**185.9**	193.8

* At time of purchase all derivatives with other financial institutions or foreign entities were rated at AA- or better.

Note 19: Financial risk management (continued)

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 that were not subsequently recovered within the year were $0.5 million (2015: nil).

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

	Note	30 June 2016 $ m	30 June 2015 $ m
Gross exposures			
Export finance loans	8,1(n)	**1,131.1**	936.8
Funded export finance guarantees	8,1(n)	**233.0**	250.9
Rescheduled credit insurance debts	8,1(n)	**2.6**	7.5
Funded export finance guarantees at amortised cost	7	**20.9**	28.3
Rescheduled credit insurance debts at amortised cost	7	**0.7**	0.7
Guarantees	18	**249.5**	342.3
Medium-term insurance	18	**363.0**	351.6
Bonds	18	**78.1**	124.3
Total gross exposures		**2,078.9**	2,042.4
Reinsured exposures included above		**673.3**	601.4

Note 19: Financial risk management (continued)

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

	30 June 2016 $ m	30 June 2016 % of total	30 June 2015 $ m	30 June 2015 % of total
Country exposures				
Australia*	711.4	34.2	642.1	31.4
Canada	242.0	11.6	234.4	11.5
Mongolia	134.5	6.5	-	-
China	130.1	6.3	128.9	6.3
Papua New Guinea	128.1	6.2	129.6	6.4
Chile	100.9	4.9	113.9	5.6
Japan	95.1	4.6	95.7	4.7
United Kingdom	73.9	3.6	73.5	3.6
Malaysia	67.2	3.2	65.1	3.2
Bermuda	63.3	3.0	32.9	1.6
Belgium	60.5	2.9	58.6	2.9
Sri Lanka	43.2	2.1	42.7	2.1
France	42.4	2.0	41.0	2.0
Trinidad and Tobago	42.0	2.0	57.0	2.8
Denmark	41.8	2.0	46.6	2.3
Russia	36.3	1.7	41.7	2.0
Turkey	31.2	1.5	39.5	1.9
Indonesia	18.1	0.9	26.9	1.3
Vietnam	9.2	0.4	13.6	0.7
Taiwan	3.7	0.2	-	-
Egypt	2.6	0.1	7.5	0.3
United Arab Emirates	-	-	143.8	7.1
Other	1.4	0.1	7.4	0.3
Total country exposures	2,078.9	100.0	2,042.4	100.0
Reinsured exposures included above	673.3		601.4	

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

Note 19: Financial risk management (continued)

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

	30 June 2016 $ m	30 June 2015 $ m
Allowance for credit risk by product		
Export finance loans	(77.8)	(39.9)
Funded export finance guarantees	(6.1)	(6.0)
Rescheduled credit insurance debts	(0.2)	(1.7)
Guarantees	(8.9)	(12.1)
Medium-term Insurances	(0.6)	(0.9)
Bonds	(1.2)	(2.2)
Allowance for credit risk closing balance	(94.8)	(62.8)

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

	30 June 2016 $ m	30 June 2015 $ m
Allowance for credit risk for gross exposures		
Allowance for credit risk opening balance	(62.8)	(58.4)
New exposures	(44.0)	(15.8)
Repayments	13.6	11.1
Change in risk grade	(13.1)	(6.9)
Change in term to maturity	9.7	9.1
Change in probability of default rates	3.0	2.4
Change in risk grade due to reinsurance/specific events	0.1	5.6
Exchange rate movements	(1.3)	(9.9)
Allowance for credit risk closing balance	(94.8)	(62.8)

Note 19: 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 concentration risk on the Commercial Account. Any significant concentration risk on 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 gross exposures (before fair value adjustments) for the Commercial Account after reinsurance under each of the nine broad categories is as follows:

	Note	30 June 2016 $ m	30 June 2015 $ m
Gross exposures loans and receivables			
Risk category 1 (AA- to AAA)		**176.4**	133.2
Risk category 2 (A- to A+)		**355.2**	183.8
Risk category 3 (BBB- to BBB+)		**335.5**	517.5
Risk category 4 (BB- to BB+)		**37.8**	174.1
Risk category 5 (B- to B+)		**172.2**	158.7
Risk category 6 (CCC+)		**286.2**	20.4
Risk category 7 (C to CCC)		**3.4**	7.5
Gross exposures loans and receivables	8,1(n)	**1,366.7**	1,195.2

* There are no exposures in categories 8 and 9.

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 2016 $ m	30 June 2015 $ m
Contingent liabilities			
Risk category 1 (AA- to AAA)		**342.7**	266.1
Risk category 2 (A- to A+)		**131.5**	259.9
Risk category 3 (BBB- to BBB+)		**79.3**	62.6
Risk category 4 (BB- to BB+)		**10.0**	33.1
Risk category 5 (B- to B+)		**74.7**	110.7
Risk category 6 (CCC+)		**50.5**	79.7
Risk category 7 (C to CCC)		**1.9**	6.1
Total contingent liabilities	18	**690.6**	818.2

* There are no exposures in categories 8 and 9.

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 19: Financial risk management (continued)

	Note	30 June 2016 $ m	30 June 2015 $ m
Commitments			
Risk category 1 (AA- to AAA)		**206.9**	302.9
Risk category 2 (A- to A+)		**14.8**	-
Risk category 3 (BBB- to BBB+)		**-**	-
Risk category 4 (BB- to BB+)		**-**	0.7
Risk category 5 (B- to B+)		**11.6**	45.7
Risk category 6 (CCC+)		**25.9**	12.2
Total commitments	18	**259.2**	361.5

* There are no exposures in categories 7,8 and 9.

> *Retained sector exposure*

The sectors that represent more than 15% of Efic's Commercial Account retained exposure are the Mining LNG, Sovereign and Mining other sectors. At 30 June 2016, the exposure to the Mining LNG sector accounted for $402.6 million, representing 28.6% of Efic's total retained exposure (2015: $398.6 million, representing 27.7% of the total), the exposure to the Sovereign sector accounted for $261.8 million, representing 18.6% of Efic's total retained exposure (2015: $203.1 million, representing 14.1% of the total), and the Mining other sector accounted for $235.3 million, representing 16.7% of Efic's retained exposure (2015: $113.9 million, representing 7.9% 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 2016 $ m	30 June 2015 $ m
Reinsurance		
Reinsured to		
Risk category 1 (AA- to AAA)	**323.8**	316.8
Risk category 2 (A- to A+)	**349.5**	284.6
Reinsured from		
Risk category 2 (A- to A+)	**(302.5)**	(293.0)
Risk category 3 (BBB- to BBB+)	**(134.5)**	(130.2)
Risk category 4 (BB- to BB+)	**(46.5)**	(54.8)
Risk category 6 (CCC+)	**(189.8)**	(123.4)
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 2016 were $19.4 million (2015: $19.4 million).

Note 19: 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 $19.7 million during the year (2015: $14.3 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 2016 $ m	30 June 2015 $ m
Gross exposures			
Export finance loans	7,1(j)	**606.1**	665.4
Rescheduled credit insurance debts	7,1(j)	**204.9**	238.0
Guarantees	18	**11.4**	11.5
Total gross exposures		**822.4**	914.9

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

	30 June 2016 $ m	30 June 2016 % of total	30 June 2015 $ m	30 June 2015 % of total
Country exposures				
Papua New Guinea	**320.2**	**38.9**	323.9	35.4
Indonesia	**263.0**	**32.0**	314.6	34.4
Iraq	**192.5**	**23.4**	202.7	22.1
China	**13.3**	**1.6**	17.2	1.9
Egypt	**12.3**	**1.5**	35.3	3.9
Australia*	**11.4**	**1.4**	11.5	1.2
Cuba	**9.7**	**1.2**	9.7	1.1
Total country exposures	**822.4**	**100.0**	914.9	100.0

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

(c) Rescheduled debt exposures

Indonesia: At 30 June 2016, our rescheduled loans to the Indonesian Government were $122.2 million on the National Interest Account and $4.4 million on the Commercial Account. Scheduled payments from Indonesia due from December 1998 to December 2003 have been rescheduled on three occasions in the Paris Club. 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 2016 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Note 19: Financial risk management (continued)

Egypt: Efic is owed $2.6 million by Egypt on the Commercial Account and US$3.4 million and $7.8 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 and the final repayment was received in July 2016. As at 30 June 2016 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Iraq: The rescheduled debt balance at 30 June 2016 is US$0.5 million on the Commercial Account and US$143.2 million on the National Interest Account. At 30 June 2016, all rescheduled amounts have been paid on time as per the rescheduling agreements. However, the current situation in Iraq and the continuing deterioration in the economic environment were assessed as significantly impacting the likelihood of future payments. Accordingly, in consultation with DFAT, it was deemed appropriate to retain a 100% provision for impairment against the rescheduled debt and this treatment will be reviewed on an annual basis. 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 $19.4 million taken up as income during 2015-16 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 on 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.

Cuba: In the mid-1980s, Efic issued four National Interest Account loans to Banco Nacional de Cuba to support the sale of sugar cultivation and harvesting equipment. No repayments have been received on these loans since the late 1990s. In December 2015, the Paris Club's 'Group of Creditors of Cuba', which included Australia, agreed with Havana the terms upon which Cuba's outstanding debt would be rescheduled. Efic executed a bilateral agreement with Cuba in late May 2016 on terms consistent with those established by the Paris Club creditors. The debt is to be repaid over 18 years. No repayments have commenced under the rescheduling agreement. The loans have had a 100% provision in place since the payments ceased and this is maintained at 30 June 2016. The current outstanding amount is $9.7 million.

(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.

Note 19: Financial risk management (continued)

The liquidity table below 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:

	Contractual undiscounted principal and interest			
30 June 2016	**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	1.3	-	-	-
Receivables from other financial institutions	152.6	138.2	-	-
Available-for-sale investment securities	324.2	299.0	269.0	-
Loans and receivables at amortised cost	-	8.5	12.9	0.5
Loans and receivables designated at fair value through profit or loss	28.6	108.5	644.2	672.3
Loans to National Interest Account designated at fair value through profit or loss	19.6	90.2	326.3	217.7
Derivative financial instruments receivable				
– Contractual amounts receivable	484.9	195.3	1,308.7	410.7
Total undiscounted financial assets	1,011.2	839.7	2,561.1	1,301.2
Undiscounted financial liabilities				
Payables to other financial institutions	23.1	8.5	12.7	-
Borrowings designated at fair value through profit or loss				
– Euro commercial paper	826.9	141.2	-	-
– Non structured borrowings	208.1	29.7	888.9	391.2
– Structured borrowings	0.6	14.4	117.5	-
Derivative financial instruments payable				
– Contractual amounts payable	569.6	152.2	1,306.3	510.5
Total undiscounted financial liabilities	1,628.3	346.0	2,325.4	901.7
Net undiscounted financial assets/(liabilities)	(617.1)	493.7	235.7	399.5

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 funding longer term assets. The majority of the Euro Commercial Paper maturing ($826.9 million) in the next 3 months will be reissued which will cover any refinancing shortfall shown in the maturity profile.

Efic has 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 $83.0 million and the derivative liabilities would be $217.3 million.

As at 30 June 2016, Efic holds collateral of $12.4 million (2015: $21.0m) and Efic has posted collateral of $49.9 million (2015: $65.5m).

Note 19: Financial risk management (continued)

	Contractual undiscounted principal and interest			
30 June 2015	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	0.9	-	-	-
Receivables from other financial institutions	168.3	1.2	-	-
Available-for-sale investment securities	248.4	343.5	266.8	-
Loans and receivables at amortised cost	-	8.3	21.0	0.5
Loans and receivables designated at fair value through profit or loss	13.7	100.7	659.4	535.5
Loans to National Interest Account designated at fair value through profit or loss	19.8	92.0	373.8	287.5
Derivative financial instruments receivable				
– Contractual amounts receivable	144.9	313.4	1,044.9	1,186.0
Total undiscounted financial assets	596.0	859.1	2,365.9	2,009.5
Undiscounted financial liabilities				
Payables to other financial institutions	40.8	8.2	20.6	-
Borrowings designated at fair value through profit or loss				
– Euro commercial paper	794.3	39.1	-	-
– Non structured borrowings	8.1	33.2	586.9	920.2
– Structured borrowings	0.6	2.1	89.4	21.3
Derivative financial instruments payable				
– Contractual amounts payable	129.9	253.3	997.7	1,432.0
Total undiscounted financial liabilities	973.7	335.9	1,694.6	2,373.5
Net undiscounted financial assets/(liabilities)	(377.7)	523.2	671.3	(364.0)

Note 19: **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, and cross-currency swaps 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 the cash flow hedge reserve is as follows:

	30 June 2016 $ m	30 June 2015 $ m
Cash flow hedge reserve		
Opening balance cash flow hedge reserve	**0.8**	1.0
Transferred to interest expense	**(0.8)**	(0.7)
Transferred to interest income	**0.9**	1.2
Net unrealised change in cash flow hedges	**(0.5)**	(0.7)
Closing balance cash flow hedge reserve	**0.4**	0.8

Fair value hedges are intended to hedge the exposure to variability in fair value movements that are attributable to future interest cash flows only. No fair value hedges are curently held.

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, except for capital and reserves as shown in the table on the following page.

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 19: **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 2016	**Floating interest rate $ m**	**Fixed Less than 1 year $ m**	**Fixed 1 to 5 years $ m**	**Fixed More than 5 years $ m**	**Fixed Total $ m**
Undiscounted principal exposures					
Financial assets					
Cash and liquid assets	**1.3**	-	-	-	-
Receivables from other financial institutions	**290.0**	-	-	-	-
Available-for-sale investment securities	**696.9**	**141.1**	**31.2**	-	**172.3**
Loans and receivables designated at amortised cost	**21.6**	-	-	-	-
Loans and receivables designated at fair value through profit or loss	**1,338.1**	**19.1**	**9.5**	-	**28.6**
Loans to National Interest Account designated at fair value through profit or loss	**439.8**	**43.7**	**104.1**	**6.6**	**154.4**
Total financial assets	**2,787.7**	**203.9**	**144.8**	**6.6**	**355.3**
Financial liabilities					
Payables to other financial institutions	**44.0**	-	-	-	-
Derivative financial instruments					
– Cross-currency swaps	**856.6**	-	**(237.3)**	**(335.0)**	**(572.3)**
– Foreign exchange swaps	**12.9**	-	-	-	-
– Interest rate swaps*	**315.7**	**62.9**	**(385.6)**	**7.0**	**(315.7)**
Borrowings designated at fair value through profit or loss	**1,274.2**	-	**737.2**	**335.0**	**1,072.2**
Other monetary liabilities	**19.4**	-	-	-	-
Total financial liabilities	**2,522.8**	**62.9**	**114.3**	**7.0**	**184.2**
Interest exposures	**264.9**	**141.0**	**30.5**	**(0.4)**	**171.1**
Capital and reserves portfolio	**262.2**	**141.1**	**31.2**	-	**172.3**
Net interest exposures	**2.7**	**(0.1)**	**(0.7)**	**(0.4)**	**(1.2)**

* 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 following tables 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 19: Financial risk management (continued)

30 June 2015	Contractual undiscounted principal exposure Floating interest rate $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed Total $ m
Undiscounted principal exposures					
Financial assets					
Cash and liquid assets	0.9	-	-	-	-
Receivables from other financial institutions	169.5	-	-	-	-
Available-for-sale investment securities	536.0	152.5	141.1	-	293.6
Loans and receivables designated at amortised cost	29.1	-	-	-	-
Loans and receivables designated at fair value through profit or loss	1,148.5	19.0	27.7	-	46.7
Loans to National Interest Account designated at fair value through profit or loss	472.9	47.4	134.1	15.5	197.0
Total financial assets	2,356.9	218.9	302.9	15.5	537.3
Financial liabilities					
Payables to other financial institutions	69.1	-	-	-	-
Derivative financial instruments					
– Cross-currency swaps	787.7	-	(226.1)	(335.0)	(561.1)
– Interest rate swaps*	255.1	66.4	162.4	(483.9)	(255.1)
Borrowings designated at fair value through profit or loss	1,108.3	-	226.1	835.0	1,061.1
Other monetary liabilities	17.9	-	-	-	-
Total financial liabilities	2,238.1	66.4	162.4	16.1	244.9
Interest exposures	118.8	152.5	140.5	(0.6)	292.4
Capital and reserves portfolio	118.2	152.5	141.1	-	293.6
Net interest exposures	0.6	-	(0.6)	(0.6)	(1.2)

* 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 following 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.

Note 19: Financial risk management (continued)

30 June 2016	**Exposure at risk $ m**	**Increase in basis points Effect on profit $ m**	**Decrease in basis points Effect on profit $ m**	**Increase in basis points Effect on equity $ m**	**Decrease in basis points Effect on equity $ m**
Capital and reserve portfolio					
Fixed rate investments	**172.3**				
Change of 30 basis points interest margin		**-**	**-**	**(0.4)**	**0.4**
Floating rate investments	**262.2**				
Change of 30 basis points interest margin		**0.7**	**(0.7)**	**(0.1)**	**0.1**

30 June 2015	Exposure at risk $ m	Increase in basis points Effect on profit $ m	Decrease in basis points Effect on profit $ m	Increase in basis points Effect on equity $ m	Decrease in basis points Effect on equity $ m
Capital and reserve portfolio					
Fixed rate investments	293.6				
Change of 40 basis points interest margin		-	-	(1.2)	1.2
Floating rate investments	118.2				
Change of 40 basis points interest margin		0.4	(0.4)	-	-

> *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 2016, Efic's investment approval is derived from the PGPA Act. This approval requires Efic to invest its surplus money in only Australian Commonwealth and State or Territory overnment securities, on deposit with or in securities issued by Authorised Deposit-taking Institutions rated at least BBB- or above and on deposit with or in securities of other entities with credit ratings the equivalent of AA- or above. 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).

Notwithstanding such a high level of credit quality in Efic's investments, the portfolio is exposed to movements in credit spreads.

Unrealised marked to market movements are minimised by having an 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 19: Financial risk management (continued)

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

	Exposure at risk 2016 $ m	Exposure at risk 2015 $ m	Increase in basis points Effect on equity 2016 $ m	Decrease in basis points Effect on equity 2016 $ m	Increase in basis points Effect on equity 2015 $ m	Decrease in basis points Effect on equity 2015 $ m
Investment portfolio						
Fixed rate investments	**172.3**	293.6				
Change of 50 basis points credit margin			**(0.7)**	**0.7**	(1.5)	1.5
Change of 120 basis points credit margin			**(1.6)**	**1.7**	(3.6)	3.7
Change of 200 basis points credit margin			**(2.7)**	**2.8**	(6.0)	6.2
Floating rate investments	**986.9**	705.5				
Change of 50 basis points credit margin			**(3.1)**	**3.1**	(1.7)	1.7
Change of 120 basis points credit margin			**(7.4)**	**7.4**	(4.1)	4.1
Change of 200 basis points credit margin			**(12.3)**	**12.3**	(6.9)	6.9

Note 19: Financial risk management (continued)

(b) Foreign exchange risk

Efic extends facilities in various currencies, principally in USD 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).

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 2016	**USD A$ m**	**EUR A$ m**	**NZD A$ m**	**JPY A$ m**	**Other A$ m**
Financial assets exposure in foreign currencies					
Cash and liquid assets	-	0.1	0.1	-	0.6
Receivables from other financial institutions	274.3	-	-	-	-
Available-for-sale investment securities	45.2	-	-	-	27.1
Loans at amortised cost	20.9	-	-	-	-
Loans and receivables designated at fair value through profit or loss	1,222.6	39.7	-	-	3.3
Loans to National Interest Account designated at fair value through profit or loss	550.5	68.9	-	-	-
Derivative financial instruments receivable	620.1	-	144.4	132.0	-
Other assets	0.1	-	-	-	-
Total financial assets exposure in foreign currencies	**2,733.7**	**108.7**	**144.5**	**132.0**	**31.0**
Financial liabilities exposure in foreign currencies					
Payables to other financial institutions	39.9	0.6	-	-	3.5
Borrowings designated at fair value through profit or loss	946.2	-	148.0	134.3	-
Guarantees designated at fair value through profit or loss	6.9	1.8	(0.2)	-	0.1
Derivative financial instruments payable	1,758.2	109.6	-	-	27.2
Other liabilities	7.2	0.4	0.1	-	0.1
Total financial liabilities exposure in foreign currencies	**2,758.4**	**112.4**	**147.9**	**134.3**	**30.9**
Net foreign exchange exposures in foreign currencies	**(24.7)**	**(3.7)**	**(3.4)**	**(2.3)**	**0.1**

As shown by the above table, the net foreign exchange exposure as at 30 June 2016 is minimal in value for all currencies other than USD of $24.7 million. The imbalance in this currency is largely due to movements in credit risk.

Note 19: Financial risk management (continued)

30 June 2015	Foreign currency fair value exposures USD A$ m	EUR A$ m	NZD A$ m	Other A$ m
Financial assets exposure in foreign currencies				
Cash and liquid assets	0.1	0.1	-	0.2
Receivables from other financial institutions	159.3	-	-	-
Available-for-sale investment securities	26.2	44.6	-	30.8
Loans at amortised cost	28.3	-	-	-
Loans and receivables designated at fair value through profit or loss	1,099.4	60.5	-	0.6
Loans to National Interest Account designated at fair value through profit or loss	609.6	80.2	-	-
Derivative financial instruments receivable	635.2	-	125.4	112.6
Other assets	0.1	-	-	-
Total financial assets exposure in foreign currencies	2,558.2	185.4	125.4	144.2
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	22.6	18.2	-	-
Borrowings designated at fair value through profit or loss	833.1	-	128.5	113.7
Guarantees designated at fair value through profit or loss	6.4	2.2	-	0.4
Derivative financial instruments payable	1,713.2	170.4	-	31.0
Other liabilities	4.0	-	-	-
Total financial liabilities exposure in foreign currencies	2,579.3	190.8	128.5	145.1
Net foreign exchange exposures in foreign currencies	(21.1)	(5.4)	(3.1)	(0.9)

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) future fixed interest profit that has been taken to income in foreign currency.

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

(iii) the 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 currencies that are material to Efic's accounts.

Note 19: Financial risk management (continued)

Sensitivity analysis for foreign exchange on the Commercial Account:

30 June 2016	**Change in foreign exchange (FX) rate %**	**Exposure at risk A$ m**	**Increase in FX rate Effect on profit A$ m**	**Decrease in FX rate Effect on profit A$ m**
Exposure to USD	**10.5**	**(24.7)**	**2.3**	**(2.9)**
Exposure to EUR	**10.5**	**(3.7)**	**0.4**	**(0.4)**
Exposure to NZD	**10.5**	**(3.4)**	**0.2**	**(0.3)**
Exposure to JPY	**10.5**	**(2.3)**	**0.3**	**(0.4)**

30 June 2015	Change in foreign exchange (FX) rate %	Exposure at risk A$ m	Increase in FX rate Effect on profit A$ m	Decrease in FX rate Effect on profit A$ m
Exposure to USD	10.9	(21.1)	2.1	(2.6)
Exposure to EUR	10.9	(5.4)	0.5	(0.7)
Exposure to NZD	10.9	(3.1)	0.3	(0.4)

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

	USD 30 June 2016 A$ m	**EUR 30 June 2016 A$ m**	USD 30 June 2015 A$ m	EUR 30 June 2015 A$ m
Financial assets exposure				
Loans and receivables	**524.0**	**62.3**	574.3	72.6
Other assets	**12.8**	**0.1**	3.5	0.1
Total financial assets exposure	**536.8**	**62.4**	577.8	72.7
Financial liabilities exposure				
Borrowings from Commercial Account	**524.1**	**62.3**	574.9	72.6
Other liabilities	**2.5**	**0.1**	3.0	0.1
Total financial liabilities exposure	**526.6**	**62.4**	577.9	72.7
Net foreign exchange exposures	**10.2**	**-**	(0.1)	-

This year the majority of the exposure relates to the receivable from the Iraq Government due on the 1st July 2016 in respect of rescheduled debts. The policy of the Commonwealth is not to hedge these exposures.

Sensitivity analysis for foreign exchange on the National Interest Account:

30 June 2016	**Change in foreign exchange (FX) rate %**	**Exposure at risk A$ m**	**Increase in FX rate Effect on profit A$ m**	**Decrease in FX rate Effect on profit A$ m**
Exposure to USD	**10.5**	**10.2**	**(1.0)**	**1.2**

30 June 2015	Change in foreign exchange (FX) rate %	Exposure at risk A$ m	Increase in FX rate Effect on profit A$ m	Decrease in FX rate Effect on profit A$ m
Exposure to USD	10.9	(0.1)	-	-

Note 20: **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: techniques for which all inputs significantly affecting the recorded fair value are observable, either directly or indirectly.

Level 3: other techniques for which inputs significantly affecting the recorded fair value 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 2016	**Level 1 A$ m**	**Level 2 A$ m**	**Level 3 A$ m**	**Total A$ m**
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	1,335.3	1,335.3
Loans to National Interest Account designated at fair value through profit or loss	-	627.3	-	627.3
Interest rate swaps	-	79.4	-	79.4
Cross-currency swaps	-	80.3	23.5	103.8
Forward foreign exchange contracts	-	-	-	-
Option	-	2.7	-	2.7
Available-for-sale financial assets				
Discount securities	-	307.5	-	307.5
Floating rate notes	-	247.3	142.7	390.0
Fixed rate bonds	-	127.4	50.4	177.8
Total	-	1,471.9	1,551.9	3,023.8
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	(2,356.9)	(134.3)	(2,491.2)
Guarantees designated at fair value through profit or loss	-	-	(9.7)	(9.7)
Interest rate swaps	-	(30.9)	-	(30.9)
Cross-currency swaps	-	(331.8)	-	(331.8)
Forward foreign exchange contracts	-	(12.2)	-	(12.2)
Total	-	(2,731.8)	(144.0)	(2,875.8)

Note 20: **Fair value of financial instruments** (continued)

	Fair value exposures by hierarchy			
30 June 2015	Level 1 A$ m	Level 2 A$ m	Level 3 A$ m	Total A$ m
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	1,172.1	1,172.1
Loans to National Interest Account designated at fair value through profit or loss	-	712.6	-	712.6
Interest rate swaps	-	79.7	-	79.7
Cross-currency swaps	-	97.2	8.8	106.0
Forward foreign exchange contracts	-	4.9	-	4.9
Option	-	3.2	-	3.2
Available-for-sale financial assets				
Discount securities	-	228.3	-	228.3
Floating rate notes	-	85.8	222.4	308.2
Fixed rate bonds	-	256.0	50.1	306.1
Total	-	1,467.7	1,453.4	2,921.1
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	(2,164.0)	(113.7)	(2,277.7)
Guarantees designated at fair value through profit or loss	-	-	(10.5)	(10.5)
Interest rate swaps	-	(41.0)	-	(41.0)
Cross-currency swaps	-	(309.9)	(1.8)	(311.7)
Forward foreign exchange contracts	-	(0.1)	-	(0.1)
Total	-	(2,515.0)	(126.0)	(2,641.0)

Note 20: 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 2015 $ 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 2016 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	1,172.1	530.8	(395.6)	35.3	-	-	(7.3)	1,335.3
Cross-currency swaps	8.8	0.6	-	19.3	-	-	(5.2)	23.5
Available-for-sale financial assets								
Floating rate notes	222.4	53.7	(133.1)	(9.4)	(0.2)	9.2	0.1	142.7
Fixed rate bonds	50.1	-	-	-	0.2	-	0.1	50.4
	1,453.4	585.1	(528.7)	45.2	-	9.2	(12.3)	1,551.9
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(113.7)	-	-	(23.6)	-	-	3.0	(134.3)
Guarantees designated at fair value through profit or loss*	(10.5)	-	-	(0.3)	-	-	1.1	(9.7)
Cross-currency swaps	(1.8)	-	0.2	1.7	-	(0.1)	-	-
	(126.0)	-	0.2	(22.2)	-	(0.1)	4.1	(144.0)
Total net level 3	1,327.4	585.1	(528.5)	23.0	-	9.1	(8.2)	1,407.9

* 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 2014 $ 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 2015 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	855.5	288.2	(136.0)	176.8	-	-	(12.4)	1,172.1
Cross-currency swaps	31.0	-	(0.9)	(21.5)	-	(3.2)	3.4	8.8
Available-for-sale financial assets								
Floating rate notes	163.2	82.5	(31.8)	8.2	0.2	(0.1)	0.2	222.4
Fixed rate bonds	-	49.9	-	-	(0.1)	-	0.3	50.1
	1,049.7	420.6	(168.7)	163.5	0.1	(3.3)	(8.5)	1,453.4
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(223.8)	-	126.7	(15.9)	-	0.5	(1.2)	(113.7)
Guarantees designated at fair value through profit or loss*	(23.3)	-	-	(2.3)	-	-	15.1	(10.5)
Cross-currency swaps	(3.6)	(1.3)	2.5	(5.7)	-	1.1	5.2	(1.8)
	(250.7)	(1.3)	129.2	(23.9)	-	1.6	19.1	(126.0)
Total net level 3	799.0	419.3	(39.5)	139.6	0.1	(1.7)	10.6	1,327.4

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

Note 20: Fair value of financial instruments (continued)

The profit or loss on the 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 2016 $ m	Effect of reasonable alternative assumptions $ m	At 30 June 2015 $ m	Effect of reasonable alternative assumptions $ m
Level 3 Financial assets				
Loans and receivables designated at fair value through profit or loss	1,335.3	(18.8)	1,172.1	(16.3)
Cross-currency swaps	23.5	0.1	8.8	-
Available-for-sale financial assets				
Floating rate notes	142.7	0.1	222.4	0.2
Fixed rate bonds	50.4	0.1	50.1	0.1
Level 3 Financial liabilities				
Borrowings designated at fair value through profit or loss	(134.3)	(0.3)	(113.7)	(0.4)
Guarantees designated at fair value through profit or loss	(9.7)	(3.6)	(10.5)	(5.8)
Cross-currency swaps	-	-	(1.8)	-

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 or 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 prior to 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 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 20: 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. These loans are classified as a level 2 hierarchy.

Derivative financial instruments

The fair value of derivative financial instruments is determined by product 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 complex interest rate formula that include foreign exchange rates.

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 complex interest rate formula that include foreign exchange rates.

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 21: Capital equivalent

	Commercial Account		National Interest Account	
	30 June 2016 $ m	30 June 2015 $ m	**30 June 2016 $ m**	30 June 2015 $ m
Capital available				
Equity at start of period	**436.8**	225.9	**-**	-
Profit	**11.5**	18.2	**-**	-
Net gain on cash flow hedges	**(0.4)**	(0.2)	**-**	-
Net gain/(loss) on available-for-sale investments	**(1.8)**	(2.6)	**-**	-
Asset revaluation reserve	**12.3**	13.7	**-**	-
Capital Injection	**-**	200.0	**-**	-
Dividend payable/paid	**(13.6)**	(18.2)	**-**	-
Equity at end of period	**444.8**	436.8	**-**	-
Eligible allowance for credit risk in capital	**15.2**	12.8	**-**	-
Efic capital	**460.0**	449.6	**-**	-
Callable capital	**200.0**	200.0	**-**	-
Capital available (including callable capital)	**660.0**	649.6	**-**	-
Capital required				
Export finance	**141.3**	115.6	**-**	-
Treasury	**35.0**	32.9	**-**	-
Other assets	**5.6**	4.6	**-**	-
Operational capital	**9.8**	8.5	**-**	-
Capital before concentration capital	**191.7**	161.6	**-**	-
Concentration capital	**172.1**	172.0	**-**	-
Total capital required	**363.8**	333.6	**-**	-
Capital ratios				
Risk weighted assets	**2,528.1**	2,131.4	**-**	-
Capital adequacy ratio (excluding callable capital)	**18.2%**	21.1%	**-**	-
Capital adequacy ratio (including callable capital)	**26.1%**	30.5%	**-**	-

Note 21: Capital equivalent (continued)

Commercial Account

Capital management

Efic 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 management believe that the APRA/Basel prudential framework is the most suitable framework for Efic to measure its capital adequacy and large exposures. On this basis, and consistent with previous years, the model Efic has adopted for Capital Adequacy may be summarised as follows:

- Efic adopts the Foundation Internal Ratings Based (IRB) approach (as allowed by APRA and Basel) 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.

Note 21: Capital equivalent (continued)

- 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 (excluding reinsurers and central or local governments with internal rating 1 and 2); 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).

The amount of capital that Efic has set aside for concentration capital risk at 30th June 2016 is $172.1 million which is 50% of the maximum exposure to the mining LNG sector.

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 2016, Efic's capital requirement based on risk weighted assets of $2.5 billion (2015: $2.1b) is $363.8 million (2015: $333.6m) compared with available capital of $660.0 million (2015: $649.6m). The capital adequacy ratio is 18.2% excluding callable capital and 26.1% including callable capital (2015: 21.1% and 30.5% 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 in the past has limited large exposures to 25% of eligible capital for internal grades 1 and 2 (A- and above) and adopted a more conservative target of 15% for internal risk grades 3 and worse (below A-) within the general limit of 25%, 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 22: Remuneration of external auditors

	Commercial Account		National Interest Account	
	30 June 2016 $	30 June 2015 $	**30 June 2016 $**	30 June 2015 $
Auditor's remuneration				
Amounts received or due and receivable by the Corporation's auditors for:				
Other services	**34,000**	-	**-**	-
An audit or review of the financial report of the Corporation	**220,000**	220,000	**-**	-
Total audit remuneration	**254,000**	220,000	**-**	-

The Corporation's auditor is the Australian National Audit Office (ANAO) who has retained KPMG to assist with the assignment.

Note 23: Related party disclosures

Total remuneration received and receivable by key management personnel for the year (includes Directors). Remuneration includes all cash remuneration, superannuation and any non-cash benefits (including applicable fringe benefits tax).

	Commercial Account		National Interest Account	
	30 June 2016 $	30 June 2015 $	**30 June 2016 $**	30 June 2015 $
Key Management Remuneration Expenses for the Reporting Period				
Short-term employee benefits	**3,334,374**	3,288,259	**-**	-
Post-employment benefits	**249,183**	237,451	**-**	-
Termination benefits	**13,060**	464,001	**-**	-
Total remuneration	**3,596,617**	3,989,711	**-**	-
Total number of senior management personnel	**17**	18	**-**	-

Transactions with key management personnel

Efic has not entered into any direct transactions with key management personnel.

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 24: Reconciliation of operating profit to net cash flows from operating activities

	Commercial Account		National Interest Account	
	30 June 2016 $ m	30 June 2015 $ m	**30 June 2016 $ m**	30 June 2015 $ m
Operating profit from ordinary activities	**11.5**	18.2	**14.2**	16.0
Reclassification on non-cash items				
Depreciation	**4.2**	3.5	**-**	-
Employee entitlements	**0.5**	0.3	**-**	-
Amortisation of deferred income	**(0.2)**	(0.5)	**(8.1)**	(10.5)
Credit risk movement	**31.2**	(4.8)	**-**	-
Foreign exchange (gains)/losses	**1.6**	5.4	**0.1**	0.3
Unearned premium	**-**	-	**(0.6)**	(1.4)
Fair value movement of third-party loans and guarantees	**(25.8)**	4.3	**-**	-
Fair value movement of other financial instruments	**(0.1)**	0.2	**-**	-
Specific provision	**2.2**	(2.2)	**19.7**	14.3
Provision for competitive neutrality charges	**7.1**	-	**-**	-
Other	**2.7**	(4.3)	**(1.9)**	(2.2)
Reclassification on cash items				
Net movement in receivables/payables	**2.2**	7.9	**1.8**	(2.5)
Net repayments of loan balances	**(34.9)**	(62.8)	**59.4**	60.9
Rescheduled debt repayments	**4.9**	4.6	**23.4**	20.6
Net cash inflows/(outflows) from operating activities	**7.1**	(30.2)	**108.0**	95.5
Reconciliation of cash				
Cash at end of financial year is reconciled to the related items in the Balance Sheet as follows:				
Cash	**1.3**	0.9	**-**	-
Receivables from other financial institutions	**290.1**	169.6	**-**	-
Cash (including liquid funds) at end of financial year	**291.4**	170.5	**-**	-
Financing facilities				
Borrowing facilities available to Efic at end of financial year				
Overdraft facilities	**0.3**	0.3	**-**	-
Amount of facilities used	**-**	-	**-**	-
Amount of facilities unused	**0.3**	0.3	**-**	-

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

Part A:
PGPA Act, Public Governance, Performance and Accountability Rule 2014

Section	Subject	Location	Page
Public Governance, Performance and Accountability Act 2013			
s.39	The Board must prepare Annual Performance Statements	Annual Performance Statement	8-13
s.42	The Board must prepare annual financial statements	Financial statements	89-147
s.43	The Auditor-General's report of financial statements must be included in an Annual Report	Independent auditor's report	91-92
s.46	The Board must prepare an Annual Report	Annual Report	1-147
Public Governance, Performance and Accountability Rule 2014			
s.17BB	The Board must approve the Annual Report by a resolution of directors and signed by a director and include how and when approval was given	Chairman's and Managing Director's report	14-19
s.17BE (a) – (b)	The Annual Report must detail Efic's enabling legislation, its objects and functions and its purposes	Purpose and principles Our business	38-39 40-42
s.17BE (c) – (f)	The Annual Report must detail the particulars of the responsible Minister and any directions given or policy orders applied during the financial year	Our business Particulars of directions by the Minister	40-43 66-68
s.17BE (g)	The Annual Report must include Efic's Annual Performance Statements	Annual Performance Statement	8-13
s.17BE (h) – (i)	The Annual Report must detail any significant issues reported to the Minister	No issues reported	–
s.17BE (j)	The Annual Report must detail particulars of the Board	Our Board	44-49
s.17BE (k) – (l)	The Annual Report must detail particulars of Efic's organisational structure and location	Our executive team Corporation details	50 152
s.17BE (m) – (p)	The Annual Report must outline the main corporate governance practices	Our business Our Board Our governing principles	40-43 44-49 51-68
s.17BE (q) – (s)	The Annual Report must detail any judicial and administrative decisions or reviews or reports having a significant effect on Efic	Judicial and administrative decisions and reviews	65
s.17BE (t)	The Annual Report must detail any indemnity applied during the financial year	Indemnity and insurances	65
s.17BE (u)	The Annual Report must include an index of Efic's statutory reporting requirements	Index of statutory reporting requirements	148-150

INDEX OF STATUTORY REPORTING REQUIREMENTS

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	Corporate responsibility	59-65
Export Finance and Insurance Corporation Act 1991			
s.9 (4)	Particulars of Ministerial directions issued under section 9(2)	Particulars of directions by the Minister	66-68
s.70 (2)	Financial effect on the operations of EFIC of each Ministerial direction issued under section 9(2)	Particulars of directions by the Minister	66-68
s.85 (2) (a)	Particulars of Ministerial directions issued under section 9(2)	Particulars of directions by the Minister	66-68
s.85 (2) (b)	Statement of principal objectives	Annual Performance Statement Purpose and principles	8-13 38-39
s.85 (2) (c)	Assessment of principal objectives achieved	Annual Performance Statement	8-13
Equal Employment Opportunity (Commonwealth Authorities) Act 1987			
s. 9 (4)	Report on Equal Employment Opportunity program	Our people	51-52
Work Health and Safety Act 2011			
Sch2, Pt 4, Clause 4 (2)	Work health and safety initiatives, outcomes, statistics and investigations	Work health and safety	58-59

ABBREVIATIONS AND ACRONYMS

Table 11: Abbreviations and acronyms

Abbreviation / acronym	Description
APRA	Australian Prudential Regulation Authority
ASX	Australian Securities Exchange
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 or Efic	Export Finance and Insurance Corporation
EFIC Act or 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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