ANNUAL **REPORT**
2012 | **2013**

Overcoming financial barriers for exporters

EFIC
Export Finance
& Insurance Corporation

EFIC's Purpose

To support the growth of Australian business internationally.

EFIC's Mission

Overcoming financial barriers for exporters.

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

Values

Results

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

Enterprise

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

Responsibility

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

Contents

Abbreviations and acronyms

ADB	Asian Development Bank
APRA	Australian Prudential Regulation Authority
ASX	Australian Securities Exchange
CAC Act	Commonwealth Authorities and Companies Act 1997
CEDA	Committee for Economic Development of Australia
CRP	Corporate Responsibility Policy
DFAT	Department of Foreign Affairs and Trade
DPRK	Democratic People's Republic of Korea
ECA	Export Credit Agency
EFG	Export Finance Guarantee
EFIC	Export Finance and Insurance Corporation
EFIC Act	Export Finance and Insurance Corporation Act 1991
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
PNG	Papua New Guinea
RPA	Risk Participation Agreement
SME	Small or Medium-sized Enterprise
US	United States of America
WHS Act	Work Health and Safety Act 2011
WHSC	Work Health and Safety Committee

Part 1:

Report of operations

Contents

Summary and statement by the Board

EFIC performed well in 2012-13, entering into 168 facilities to support Australian exporters and investors in 24 countries. Signings were lower than in 2011-12 as the private sector's risk appetite continued to improve; profitability and credit quality remained solid.

During the year, EFIC provided facilities on the Commercial Account totalling over $513 million and this level supported export contracts and overseas investments of more than $2 billion. EFIC's profit on the Commercial Account was $22.6 million (2011-12 $26.8 million).

There was no business written on the National Interest Account during the year and the profit for the year was $14.0 million (2011-12 $16.6 million).

With ongoing capacity constraints in financial markets, many of EFIC's larger transactions in 2012–13 continued to involve clients with better risk profiles than is usual for our business. As a result, the credit quality of our portfolio continues to be robust, equivalent to between BBB and BB. When the market normalises, we expect our average risk grade to return to historical levels of between BB and B.

During the year, legislation was passed to require EFIC to pay a $200 million special dividend to the Federal Government as required under the 2012-13 Federal Budget. Consequently, EFIC ended the financial year with a cash capital adequacy ratio of 11.3 per cent, or 21.2 per cent when callable capital of $200 million is included. While this aggregate measure is higher than the minimum ratio of around 8 per cent generally required by bank supervisors globally, EFIC experienced a number of breaches of capital-based limits specific to large exposures as a consequence of paying the special dividend. Discussions are ongoing with government concerning additional callable capital.

The expected legislative changes to the Export Finance and Insurance Corporation Act 1991 (Cth) as a result of the Government Response to the Productivity Commission's final report were not included in the Senate's full agenda in the final weeks of Parliament's winter sitting.

EFIC's Board is confident that at a time of continued credit risk, EFIC has appropriate controls in place and can responsibly meet the needs of Australian companies exporting and investing overseas. However, those controls do not guarantee that EFIC will not incur financial losses, particularly as EFIC is engaged in transactions and jurisdictions that are higher risk. The assessment and underwriting of risk is central to our financial management, as is maintaining appropriate capital and reserves to support the level of risk that we accept.

During the year, Mr Bruce Brook was reappointed to the EFIC Board for a second three-year term and Mr Brook continues to serve as the Chair of the Board Audit Committee. Subsequent to the end of the financial year, EFIC Board member Sally Pitkin retired. The Board would like to thank Sally for her tremendous contribution to both the Board and the Audit Committee.

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

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

Andrew Mohl
CHAIRMAN

Angus Armour
MANAGING DIRECTOR & CEO

22 August 2013

The EFIC Board at 30 June 2013

Back row (L-R): Jennifer Seabrook, Angus Armour (Managing Director & CEO), Nicholas Minogue
Front row (L-R): David Evans, Sally Pitkin (Deputy Chair), Andrew Mohl (Chairman), Deena Shiff
Insets (top-bottom): Bruce Brook, Annabelle Chaplain*, Peter Varghese, Jan Adams

* Annabelle Chaplain was appointed to the Board on 1 August 2013, replacing Sally Pitkin, whose second term finished on 31 July 2013

The year in review

During 2012-13, EFIC provided 168 facilities worth over $513 million. This value of facilities supported exports and overseas investments valued at over $2 billion. We recorded a profit on our Commercial Account of $22.6 million, reflecting the continued strength of our underwriting of risk and the repayment of existing facilities.

These strong results were delivered in a year where markets continued to normalise after the disruption of the GFC. Risk appetite in the commercial sector strengthened while demand for new credit commitments declined. As a consequence, the value of signings fell from the record level achieved in the previous financial year. However, exporters still had to deal with fluctuations in the Australian dollar, with the currency falling from record highs but maintaining a relatively robust level, a challenge especially for smaller exporting companies.

EFIC continued to help Australian exporters of all sizes overcome financial barriers by supporting exports to 24 countries. We continued to support the mining sector, which accounted for 44.4 per cent of the value of signings, followed by the construction sector.

Our SME team experienced another strong year, expanding its banking partnerships for working capital solutions and its strategy for overseas investment-related transactions. We also increased our support for eligible Australian-based contractors and subcontractors that supply projects in Australia where the final goods and/or services are exported such as those in the oil and gas and resources sectors. Our Producer Offset loan continued to be a success – we supported films such as the Australian box office hit, The Sapphires and the SBS series Who Do You Think You Are?

Our Structured Trade and Project Finance team experienced a more challenging year, with more stable credit markets and lower demand for credit meaning that the number and value of signings declined from the previous financial year.

One highlight was our participation in the $US20 billion financing for the Ichthys LNG Project, which was the largest project financing in the world to date and the largest new commitment made by EFIC during the year. EFIC's US$150 million loan facility helped ensure Australian companies secure important construction contracts, including in relation to the offshore works.

Also during the year, the development of business in the agricultural sector was transferred to Structured Trade and Project Finance and this is a sector we will place considerable emphasis on in the coming years.

While commercial lenders are generally meeting the demand for credit, world financial markets remain volatile and vulnerable to further shocks. The challenge for EFIC remains meeting the changing needs of Australian exporters where the private market lacks the capacity to do so.

This is my final review as Managing Director & Chief Executive Officer of EFIC, after 10 years in this role and 20 years at EFIC. It has been a pleasure and a privilege to work at EFIC, to be exposed to the ingenuity and persistence of Australian exporters as they tackle opportunities overseas, and to work with my colleagues in shaping EFIC's support for these firms. The qualities that characterise Australian exporters apply equally to EFIC's staff, who have persistence and ingenuity and a passion for helping Australian companies succeed. I would like to offer my personal thanks to colleagues at EFIC for their tremendous efforts, and to the Board for their unflagging support and guidance through a challenging year.

Angus Armour
MANAGING DIRECTOR & CEO

22 August 2013

Performance against principal objectives

Objective 1: Support Australian exports and overseas investments 2012-13

Table 1: EFIC's performance in supporting exports and investments, 2012-13

Performance measure	2012-13 plan	2012-13 outcome
Value of facilities signed	$852 million	**$513.8 million**
Value of exports and overseas investments supported	Over $4.5 billion	**Over $2.1 billion**
Number of facilities provided	109	168

In 2012-13 the level of signings and exports supported were below Plan. In part this was due to the private sector's increased risk appetite which meant EFIC stepped away from a number of large corporate opportunities on the Commercial Account. There were also a number of projects that were expected to require EFIC support that did not proceed. Similarly, 2 transactions on the National Interest Account were deferred and are now unlikely to proceed. However our support for SMEs increased as reflected by the significant increase in the number of facilities provided which was well above Plan. Over 80% of the facilities provided supported SME transactions.

Objective 2: Generate sustainable profit within the market gap and prevailing policy and pricing constraints 2012-13

Table 2: EFIC's financial performance, 2012-13

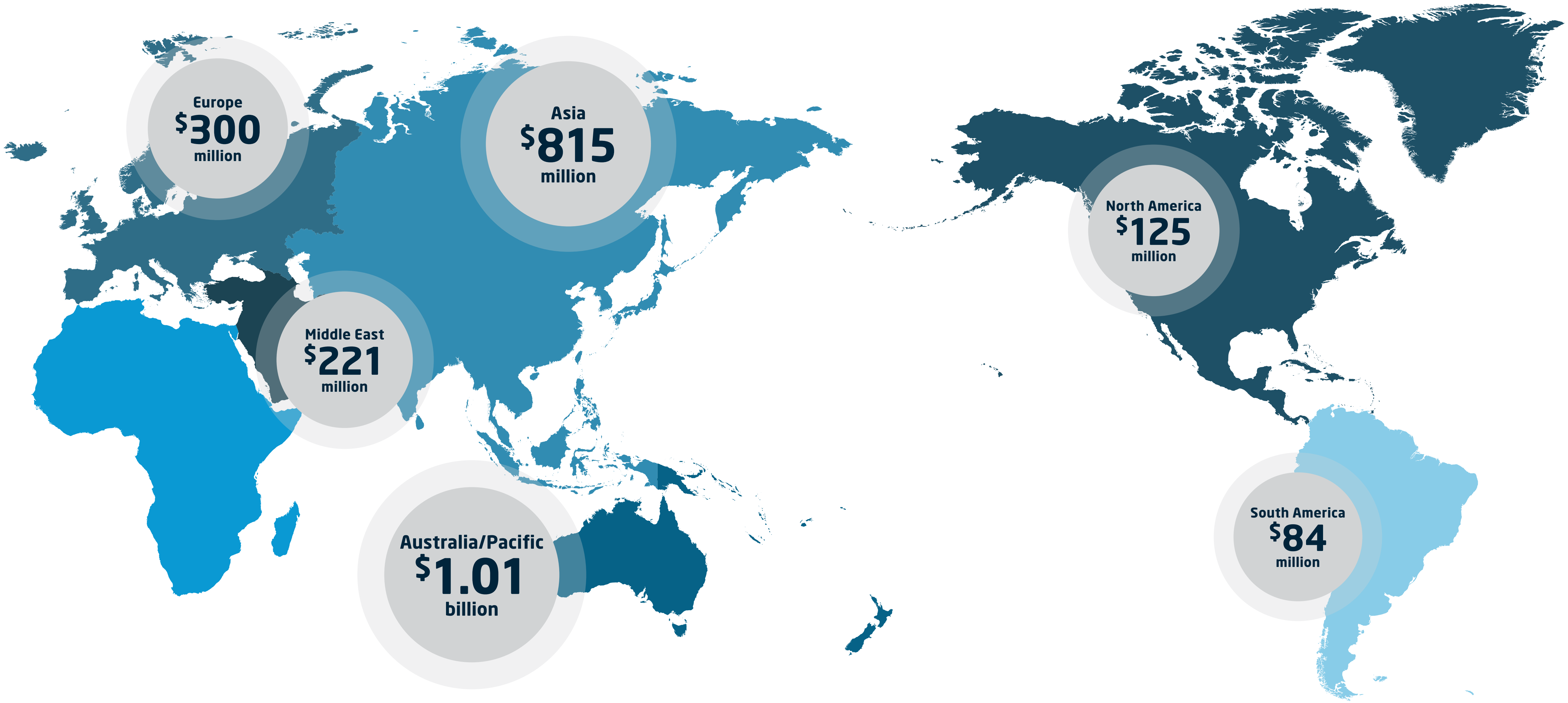
Performance measure	2012-13 plan	2012-13 outcome
Profit on the Commercial Account	$29.9 million	**$22.6 million**
Capital adequacy ratio	Above 16 per cent of risk-weighted assets including callable capital, and 8 per cent on a cash capital basis.	**21.2 per cent of risk-weighted assets, including callable capital and 11.3 per cent on a cash capital basis.**
Manage EFIC's overall portfolio risk within the market gap	Weighted average risk grade over the business cycle of between 3.5 and 4.5, where 4 is equivalent to a rating of BB/Ba and 5 is equivalent to B/B.	**Weighted average risk grade during the year between 3.5 and 3.8 (3.6 at June 2013).**

Success for EFIC is not always reflected through greater profitability or increased levels of signings and exports supported. When EFIC steps forward our participation often encourages the participation of other financiers. This catalytic role is consistent with EFIC's mandate to "crowd in" the private sector. In that case, EFIC will step back as we do not compete with the private sector. If EFIC's early involvement means our client's needs can be met at a later stage by the private sector, then EFIC has been successful; albeit that it is not reflected in EFIC's planned outcomes.

Exposures by region

At 30 June 2013, EFIC managed maximum exposures of $2.6 billion across 24 countries (Figure 1).

Figure 1: EFIC's exposures by region



New business and exports supported

SME team

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

In 2012-13, the team signed 135 facilities worth over $127 million across a wide range of products and sectors, reflecting the continuing challenges SME exporters face in obtaining finance from the commercial market.

We launched a number of new initiatives to assist our clients with financial solutions and strengthen our relationships with our banking partners. We also started developing our strategy and products for global supply chains, acknowledging that this is an area the Federal Government wants EFIC to focus on as well as a strategically important initiative for our business.

Our staff also joined the Victorian Government's Super Trade Missions to South East Asia and China. China is Victoria's largest trading partner, while the ASEAN region was Victoria's largest export market for both goods and services in 2011-12. Both missions gave EFIC the opportunity to connect with exporters servicing these two important markets.

Case studies of transactions undertaken during the year are on pages 12-19.

Product innovation

Our Producer Offset loan continues to be a success with a number of key feature and television projects supported during the financial year. The loan program developed in collaboration with Screen Australia, assists small Australian film and television productions that have international distribution agreements and are eligible for the Australian Government's Producer Offset scheme, but have difficulty attracting finance in the commercial market.

In 2012-13, the films EFIC supported included the Australian box-office hit, The Sapphires, Mental, an Australian comedy starring Toni Collette and surfing drama, Drift, starring Sam Worthington.

On the small screen, we supported the joint ABC HBO 1960s detective drama, Serangoon Road as well as the SBS series, Who Do You Think You Are? The series, produced by Artemis International, is the Australian version of the hit BBC series where each episode features a celebrity who goes on a journey to trace his or her family tree.

Product development

EFIC continues to evolve our support for small exporters through our export working capital guarantee product. The guarantee provides exporters with support for their short-term working capital requirements.

In 2012-13, companies that EFIC assisted through the guarantee included tool grinder manufacturer ANCA, South Australian-based game meat processing and exporting group Macro Investments, and mining equipment group, Specialised Vehicle Solutions.

EFIC also increased its support for eligible Australian based contractors and subcontractors that supply projects in Australia where the final goods and/ or services are exported. We have helped eligible companies working on projects such as oil and gas, defence and resources to win and finance contracts. We supplied Western Australian electrical contractor, GCo Electrical Pty Ltd (GCo) with warranty bonds for its contract with Karara Mining.

Our efforts in the subcontracting arena were also strengthened with the launch of an official marketing campaign to potential clients in this space. We commissioned specialised research determining the market size and the opportunities for subcontractors in the resources sector, focusing on tendering, financing solutions and future trends post the sector's boom. The research was sent to potential clients and once recipients were identified as viable prospects, they received more specific information on how EFIC could potentially assist them with financial solutions.

Products and alliances

During the financial year, we added to our working capital guarantee partnerships, signing Master Working Capital Guarantee facilities with Bank of China (BoC), National Australia Bank (NAB) and Standard Chartered. Under the arrangement, EFIC can provide guarantees to the banks, enabling them to lend to their SME customers the additional working capital they need to finance their international business growth.

The move not only assists SME exporters overcome the challenge of working capital shortages but will also enable BoC and NAB to assist their business customers to finance growth for export or export-related sales.

In 2012-13, EFIC continued to build on its risk-sharing agreement with the Asian Development Bank (ADB) signed in May 2011. The agreement, part of ADB's Trade Finance Program, aims to make it easier for some of Asia's developing economies to import crucial Australian goods. During the financial year, the number of transactions signed under the agreement increased to 47 from 11 in the previous corresponding period.

Support for SME exporters

Client:	Artemis International
Project:	Who Do You Think You Are?
Destination:	Worldwide
Product:	Producer Offset loan

Television production company, Artemis International Pty Ltd, required additional funding to complete production of the successful TV series Who Do You Think You Are?

After securing commercial funding for several instalments, the Perth-based firm faced a shortfall in funding to complete the series. While the company was able to apply for the Australian Government's producer offset tax rebate, production had to be completed and the post-production costs had to be met before the rebate could be received.

EFIC helped to bridge the funding gap by providing Artemis with Producer Offset loans to meet the shortfall.

EFIC's Producer Offset loan assists in the financing of eligible Australian film, documentary and television productions with international distribution agreements. The loan provides upfront access to funds for production.

Who Do You Think You Are? which airs on SBS, is the Australian version of the hit BBC series where each episode features a celebrity who goes on a journey to trace his or her family tree. Celebrities who have appeared on the program include actors Melissa George and Ben Mendelsohn, sports people Cathy Freeman and Rod Marsh and journalist and businesswoman, Ita Buttrose.

"EFIC came to the rescue with their offset loan. This critical piece of the funding jigsaw enabled us to complete and deliver the series."

Artemis Executive Producer, Brian Beaton

Support for SME exporters

Client:	Bothar Boring and Tunnelling
Project:	APLNG and GLNG
Location:	Australia
Product:	Export working capital guarantee

Bothar is a Brisbane-based engineering services company which specialises in the installation and rehabilitation of underground services and facilities for water, gas, sewage and utilities housing cables.

In recent years, Bothar has built a significant business in the Middle East and has opened offices in Abu Dhabi, Kuwait and Qatar. It has also been experiencing strong growth in its Australian business.

Recently the company secured new drilling services contracts with the Australia Pacific LNG (APLNG) and the Gladstone LNG (GLNG) projects which are building large facilities to produce liquefied natural gas (LNG) in Australia for export.

Bothar required additional working capital for these contracts. Bothar's principal financier, GE Finance, was supportive of the company but it was unable to provide all the additional funding Bothar sought.

The company and GE therefore sought EFIC's support to enable the provision of additional working capital for Bothar's onshore contracts. The working capital is being provided by Westpac, Bothar's transactional bank, supported by an EFIC guarantee.

"Bothar are very appreciative of EFIC's support which has been a key element in funding the expansion and access of new export markets."

Bothar Chief Financial Officer, Michael Walsh

Support for SME exporters

Client:	GCo Electrical
Project:	Karara Mining
Location:	Western Australia
Product:	Warranty bond

Western Australian electrical contractor, GCo Electrical Pty Ltd (GCo), needed to provide warranty bonds for its contract with Karara Mining Ltd which will produce magnetite iron ore for export.

Its commercial bank, ANZ, wanted to assist a valued client but recognized that it wasn't able to do so because of a security shortfall and therefore referred the client to EFIC.

EFIC provided warranty bonds to cover GCo's warranty obligations for the Karara project.

Geraldton based GCo specializes in industrial contracting and electrical infrastructure and also provides ongoing maintenance services and long-term labour hire.

GCo's contract with Karara relates to the electrical control systems and power supplies (including high voltage power) for the entire Karara Mining berth facility.

"EFIC did more than provide us with bonds. They helped us to deliver on one of our biggest projects."

GCo Electrical Chief Executive Officer, Murray Hadley

Support for SME exporters

Client:	**Story Bridge Films**
Project:	**Mental**
Destination:	**Worldwide**
Product:	**Producer Offset loan**

Film production company, Story Bridge Films Pty Ltd, required additional funding to complete production of its recent Australian comedy, Mental.

Despite the production being directed by an internationally renowned Australian director, PJ Hogan (Muriel's Wedding, Peter Pan and My Best Friend's Wedding) and starring Toni Collette, Anthony La Paglia and Rebecca Gibney, the production was unable to source finance in Australia.

The production company found it necessary to obtain a producer offset loan and Gap loan from a non bank lender in Singapore, and a "pre sales" loan from a US bank (City National Bank).

Due to some production delays and additional post production expenditure necessary to increase the sales potential of the film, the cost of production increased significantly. This increased the value of the producer offset rebate. The existing lenders, however, were not prepared to extend further funds as they had reached their capacity.

EFIC provided funding against the projected increase in value in the producer offset, in a subordinated position to the primary offset lender, to ensure successful completion and delivery of the production.

"EFIC provided additional funding at a critical stage of the production process, enabling us to deliver the film on schedule."

Story Bridge Producer, Todd Fellman

Structured Trade and Project Finance Team

The year in review was characterised by more stable credit markets and generally lower demand for credit. Export credit agencies were very active in supporting large-scale project financing in a number of countries including Australia. Their involvement commenced during a less certain market environment, with commitments made to sponsors at a time when bank capacity was insufficient to meet that demand. Transactions closed this year demonstrated the importance of ECAs in multi-sourced financing structures where banks and public agencies work together to deliver the capacity required.

As anticipated, EFIC's role with domestic borrowers in relation to their export activities diminished as bank appetite rose and demand for credit fell. This was expected to occur as markets normalised after the disruption of the GFC. As a consequence, the number and value of signings fell from the record level achieved in the previous financial year.

The largest new commitment made during the year was our participation in the Ichthys project financing. EFIC was selected as one of six pathfinder ECAs with which the project sponsors, Inpex and TOTAL, negotiated the terms of the financing. Once agreed, commercial banks and a second group of ECAs were invited to participate. The financing, the largest in history, was closed successfully in January 2013. EFIC's role, while small by comparison with the other pathfinder ECAs, was regarded as critical to the sponsors in delivering the commitments of those ECAs. This is consistent with our mandate to attract capital from other sources in order to secure funding to support Australian exports.

A case study of a transaction undertaken during the year is on pages 22-23.

Bonding facilities and agriculture

In non-project finance activities, bonding remained in demand in relation to offshore activities being undertaken by Australian contractors. Several bonding facilities were renewed on their expiry with additional conditions relating to use. Bonding in relation to domestic projects is no longer being provided for larger clients on the basis that private market capacity is now more generally available. Facilities were signed with Clough, NRW Holdings Ltd and UGL Ltd to support their activities offshore. We continued to provide assistance to Incat for a vessel completed and delivered into service in Denmark, extending the company's presence in an important European market. Incat has completed the world's first dual fuel turbine powered fast ferry, recently delivered to its new owner in Uruguay . This vessel has achieved a world-record speed for a passenger ferry in sea trials conducted as part of the delivery process. The vessel operates with liquefied natural gas as the primary fuel, which reduces emissions relative to conventional diesel powered vessels; an important development with the coming introduction of tighter emission standards, and a further demonstration of the innovation achieved by Australian companies in this industry.

Towards the end of the year, responsibility for the development of business in the agricultural sector was transferred to Structured Trade and Project Finance. Two transactions were completed in the fourth quarter and there are several opportunities to provide export finance in emerging economies, which are currently under development. This is a sector we will place considerable emphasis on in the coming years.

Two significant transactions were approved by the Board but not concluded before year end for reasons beyond our control. Work continues to finalise these transactions, both of which relate to emerging or frontier markets. In both cases, these transactions support very significant involvement of many Australian exporters, most of which are SMEs. This will become increasingly important as the resource investment boom matures and Australian companies have to look beyond Australia to maintain their order books and staffing levels with fewer domestic opportunities. This will require closer co-operation with our SME colleagues to identify Australian content as the basis on which to encourage buying Australian inputs through the provision of financial support to foreign project sponsors.

Working with other export credit agencies

We continue to work closely with other ECAs in projects where we have a common interest. This includes risk-sharing arrangements which permits EFIC to extend support for Australian exports where there is also third-country content, while limiting our exposure to the buyer or project risk. This is in addition to the risk transfer activities we conduct with the private market as a tool to manage portfolio risk and to increase our capacity to support greater export volumes.

Support for large corporate clients

Client:	Ichthys
Project:	LNG
Destination:	Worldwide
Product:	Direct loan

EFIC, in conjunction with seven other export credit agencies and 24 commercial banks, participated in the US$20 billion project financing for the Ichthys LNG Project, the largest project financing to date.

EFIC's US$150 million loan facility helped ensure Australian companies secure important construction contracts, including in relation to the offshore works. During the construction phase, the Project will generate more than 4,000 construction positions and once operating, will be a significant source of export revenue for the Australian economy over approximately 40 years.

The Ichthys LNG Project is a Joint Venture between INPEX group companies (the Operator), major partner TOTAL group companies and the Australian subsidiaries of Tokyo Gas, Osaka Gas, Chubu Electric Power and Toho Gas.

The Ichthys Field, containing natural gas and condensate, was discovered in the Browse Basin offshore Western Australia. The Ichthys LNG Project includes major offshore gas and condensate production and processing facilities, an 889 kilometre gas pipeline running from the Ichthys Field to Darwin and onshore processing and liquefaction facilities located at Blaydin Point in Darwin Harbour.

The Project is expected to produce 8.4 million tonnes of LNG and 1.6 million tonnes of LPG per annum, along with approximately 100,000 barrels of condensate per day at peak. Production is scheduled to commence by the end of 2016.

Facilities signed

Table 3: Facilities signed by EFIC, 2012-13

Exporter / investor / client	Industry of export	Goods / services	Country	Facility type	Amount (A$ million equivalent)	Environmental / social impact category (b)
Adriatic Fast Ferries Ltd	Manufacturing	Construction of fast ferry	Denmark	Loan x 2	10.08	Low Potential - Note 1
Aircraft Support Industries Pty Ltd	Construction	Aircraft Hangars	Singapore	Bond	2.00	Low Potential - Note 1
Aircraft Support Industries Pty Ltd	Construction	Aircraft Hangars	Philippines	Bond x 2	2.72	Low Potential - Note 1
Allmine Group Ltd	Mining	Engineering/Construction services	Australia	Bond x 11	3.06	Low Potential - Note 1
ANCA Pty Ltd	Manufacturing	CNC grinding machines	China	EWCG	4.00	Low Potential - Note 1
Anglo Coal Australia Pty Ltd	Mining	Coking Coal	Various	RPA x 12	40.35	Potential Impacts - Note 1
Asian Development Bank	Wholesale Trade	Various	Pakistan	RPA x 7	5.66	Low Potential - Note 1
Asian Development Bank	Wholesale Trade	Various	Sri Lanka	RPA x 30	2.41	Low Potential - Note 1
Asian Development Bank	Wholesale Trade	Various	Vietnam	RPA x 7	0.98	Low Potential - Note 1
Aspen Medical Pty Ltd	Health Care and Social Assistance	Health care services	Sri Lanka	Reinsurance	18.83	C
Australian Rural Exports Pty Ltd	Agriculture, Forestry and Fishing	Breeding Cattle	Russia	Bond x 4	8.82	Low Potential - Note 1
Australian Rural Exports Pty Ltd	Agriculture, Forestry and Fishing	Breeding Cattle	Philippines	EWCG	0.95	Low Potential - Note 1
Australian Rural Exports Pty Ltd	Agriculture, Forestry and Fishing	Dairy Cattle	China	EWCG x 3	14.34	Low Potential - Note 1
Bothar Boring and Tunnelling Pty Ltd	Construction	Boring & tunnelling services	Australia	EWCG	2.00	Low Potential - Note 1
Camatic Pty Ltd	Manufacturing	Manufacture of Stadium Seats	USA	EWCG	1.72	C
Clough Ltd	Construction	Construction and Engineering Services	Various	Bond Line	50.00	Note 2
Emtivac Engineering Pty. Ltd	Manufacturing	Mine equipment associated with pumping activities	Saudi Arabia	EWCG	0.96	C
Emtivac Engineering Pty. Ltd	Manufacturing	Mine equipment associated with pumping activities	Saudi Arabia	Bond x 2	1.16	Low Potential - Note 1
Ferra Engineering Pty Ltd	Manufacturing	Weapons Bay Adaptors (a)	USA	EWCG x 2	7.20	C
GCo Electrical Pty Ltd	Mining	Electrical infrastructure to mining industry	Australia	Bond x 2	0.90	Low Potential - Note 1
Gold Peg International Pty Ltd	Manufacturing	Food processing equipment	United Kingdom	Bond	0.43	Low Potential - Note 1
GRM International Pty Ltd	Professional, Scientific and Technical Services	Project Management Services	Afghanistan	Bond	0.51	Low Potential - Note 1
Ichthys LNG Pty Ltd	Mining (Oil & Gas Extraction)	LNG Exports	Australia	Loan	142.33	A (Australia)
Innotech Site Services Pty Ltd	Mining	Dewatering services to mines	Australia	Bond x 4	0.71	Low Potential - Note 1
Landmark Global Exports Pty Ltd	Agriculture, Forestry and Fishing	Breeding cattle	Russia	Funded EFG	16.14	B
Lean Field Developments Pty Ltd	Mining	Pipe supply and laying	Australia	Bond x 2	1.32	Low Potential - Note 1
Macro Investments Pty Ltd	Manufacturing	Processed Kangaroo Meat	Various	EWCG	0.75	Low Potential - Note 1
NRW Holdings Pty Ltd	Construction	Mining / construction services	Various	Bond Line	30.00	Note 2
Prior Industries Australia Pty Ltd	Professional, Scientific and Technical Services	Components for Nickel Smelters Technical Services	Cuba	EWCG	2.50	Low Potential - Note 1
Prior Industries Australia Pty Ltd	Professional, Scientific and Technical Services	Components for Nickel Smelters Technical Services	Brazil	EWCG	0.28	Low Potential - Note 1
Refrigeration Engineering Pty Ltd	Manufacturing	Industrial refrigeration equipment	South Korea	Bond	0.22	Low Potential - Note 1
Schaffler Pty Ltd	Professional, Scientific and Technical Services	Auxiliary inverter and battery charger	Malaysia	Bond	0.14	Low Potential - Note 1
Specialised Vehicle Solutions Pty Ltd	Manufacturing	Underground Mining Vehicles	Indonesia	EWCG	0.50	Low Potential - Note 1
Synertec Pty Ltd	Professional, Scientific and Technical Services	Gas Analyser Houses	Australia	Bond	0.42	C
TTG Transportation Technology Pty Ltd	Professional, Scientific and Technical Services	Energy saving system for railways	United Kingdom	EWCG	0.40	C
UGL Ltd	Construction (Heavy and Civil Engineering)	Construction and Engineering Services	Australia	Bond Line	50.00	Note 2
United World Enterprises Pty Ltd	Wholesale Trade	Various	China	EWCG x 10	7.19	Low Potential - Note 1
Wellard Rural Exports Pty Ltd	Wholesale Trade	Dairy Cattle	China	EWCG x 4	25.50	Low Potential - Note 1
Whittens Pty Ltd	Mining	Civil concrete construction	Australia	Bond x 4	4.80	Low Potential - Note 1
Xstrata Coal Queensland Pty Ltd	Mining	Coking Coal	Various	RPA x 13	39.50	Potential Impacts - Note 1
Foreign exchange facility guarantee clients	Various	Various	Various	FXG x 13	2.08	N/A
Producer Offset loans clients	Various	Film and television production	Various	Loan x 12	9.98	N/A
Total facilities (168)					**513.83**	

EFG: Export Finance Guarantee
EWCG: Export Working Capital Guarantee
FXG: Foreign Exchange Facility Guarantee
RPA: Risk Participation Agreement
Notes 1: Transaction associated with either a non-project or bond.
Notes 2: Facility involves a bonding line. Individual projects supported under the line are separately evaluated.
(a) Miscellaneous aircraft parts
(b) An explanation of EFIC's three categories (A, B, C) for classifying potential environmental and/or social impacts is on pages 50-51.

Signings and exports supported

During 2012-13, EFIC entered into 168 facilities on the Commercial Account totalling over $513 million underpinning exports and overseas contracts for Australian companies in excess of $2 billion. EFIC did not enter into any facilities on the National Interest Account during the year.

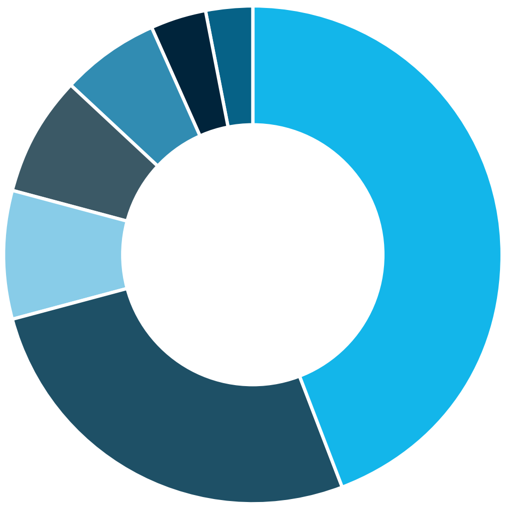
Mining continued to be the main industry supported in terms of dollar value during 2012-13, accounting for 44.4 per cent of total signings (Figure 2). This was followed by the construction sector at almost 27 per cent.

In terms of the number of transactions, wholesale trade was the main industry supported, accounting for 61 signings (or 36.3 per cent of total signings), reflecting the number of SME transactions supported by EFIC during the year (Figure 3).

Loans represented almost 30 per cent of the total value of signings by facility type, and bonding lines accounted for another 25.3 per cent (Figure 4).

Of the total number of signings, risk participation agreements accounted for 69 signings (or 41.1 per cent of total signings), followed by guarantees with 42 signings (Figure 5).

Figure 2: Value of signings by industry sector supported



Sector	Value ($m)	Value (%)	# Signings
Mining	$228.16	44.4%	45
Construction	$136.72	26.6%	7
Wholesale Trade	$42.05	8.2%	61
Agriculture, Forestry and Fishing	$40.85	8.0%	11
Manufacturing	$32.38	6.3%	19
Health Care and Social Assistance	$18.83	3.7%	1
Other	$14.84	2.8%	24

Note: Sectors based on Australian and New Zealand Standard Industrial Classification.

Figure 3: Number of signings by industry sector supported

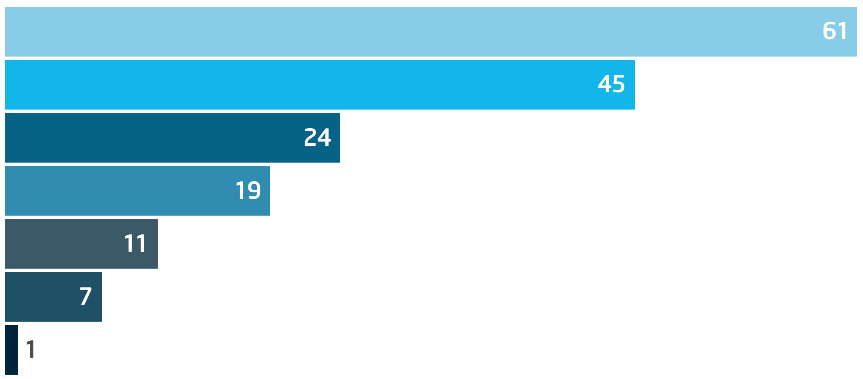
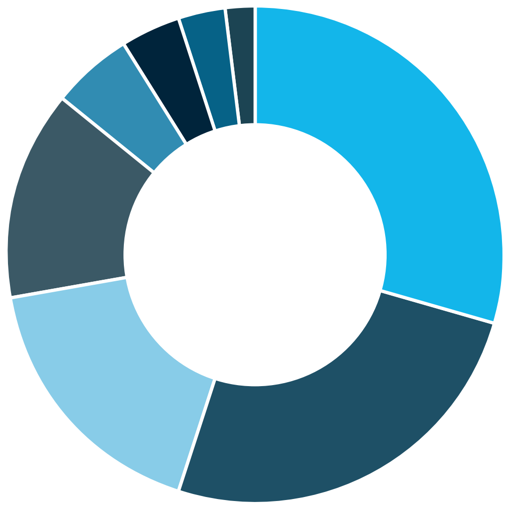
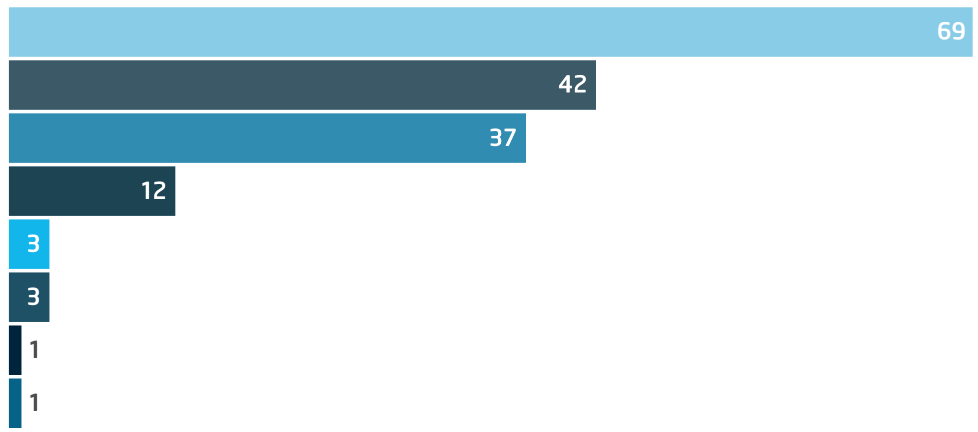


Figure 4: Value of signings by facility type



Sector	Value ($m)	Value (%)	# Signings
Loans	$152.41	29.7%	3
Bond Line	$130.00	25.3%	3
Risk Participation Agreement	$88.89	17.3%	69
Guarantees	$70.37	13.7%	42
Bond	$27.21	5.3%	37
Reinsurance	$18.83	3.7%	1
Funded Export Finance Guarantees	$16.14	3.1%	1
Producer Offset loans	$9.98	1.9%	12

Figure 5: Number of signings by facility type



2012-13 financial performance

The 2012-13, Commercial Account profit of $22.6 million was below the budget of $29.9 million. This was primarily the result of below budget origination income, unrealised foreign exchange losses and increased allowances for specific events. However the lower-than-expected profit was offset by reduced operating costs and increased investment income as a result of the sale of investments.

On the National Interest Account, there was a profit of $14.0 million in 2012-13, slightly below the planned profit of $14.4 million. This was primarily due to higher allocated operating costs on large transactions anticipated to be signed on the National Interest Account which was offset by higher premiums and fee income from PNG LNG facility drawdowns.

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

At 30 June 2013, EFIC's equity, including retained profits, was $216.3 million. In addition, the EFIC Act provides that $200 million of callable capital is available to EFIC from the Commonwealth, which helps underpin its activities in supporting exports and overseas investments.

EFIC's exposures

Commercial Account

EFIC's Commercial Account exposures of over $1.7 billion comprise loans, export finance guarantees (EFGs) including funded EFGs, medium-term insurances, bonds, political risk insurances and rescheduled credit insurance debts. The facilities vary in maturity up to 15.5 years, but typical loan and guarantee facilities are for 10 years on an amortising basis. The average remaining maturity of facilities outstanding at 30 June 2013 was 2 years, and 6.5 years on a weighted average basis.

The exposures represent risks on the overseas purchasers of Australian goods and services exports, the majority of which are held in the private sector and on Australian parties directly or indirectly involved in the export of goods and services to overseas purchasers. While exposures remain predominantly to private sector companies – both customers and reinsurers – EFIC continues to accept risks on governments and public sector entities (classified as 'Public administration and safety' by the Australian and New Zealand Standard Industrial Classification) in developing countries. At 30 June 2013, EFIC's highest private sector exposures were to the reinsurance and manufacturing industries. However, as this year's signings translate to exposure in later years, EFIC's risk profile will continue to change.

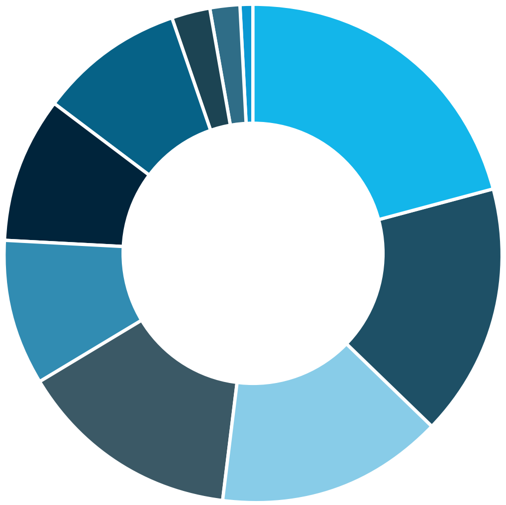
The distribution of exposures by region, industry sector and facility type at 30 June 2013 are shown in Figures 6 to 8.

Figure 6: Commercial Account at 30 June 2013 – exposures by region

Sector	Value ($m)	Value (%)
Australia/Pacific	$585.7	34.1%
Europe	$317.8	18.5%
Asia	$304.5	17.8%
North America	$285.4	16.6%
Middle East	$148.4	8.7%
South America	$74.2	4.3%

Note: Includes exposures that have been reinsured.

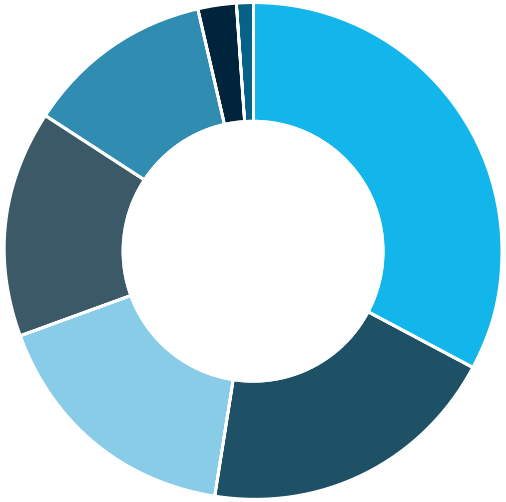
Figure 7: Commercial Account at 30 June 2013 – exposures by industry sector



Sector	Value ($m)	Value (%)
Reinsurance	$362.4	21.1%
Manufacturing	$278.4	16.2%
Construction	$255.9	14.9%
Public Administration and Safety	$243.2	14.2%
Transport, Postal and Warehousing	$162.5	9.5%
Financial and Insurance Services	$162.4	9.5%
Mining	$161.1	9.4%
Political Risk	$45.4	2.6%
Other	$32.0	1.9%
Professional, Scientific and Technical Services	$12.7	0.7%

Note: Sectors based on Australian and New Zealand Standard Industrial Classification.

Figure 8: Commercial Account at 30 June 2013 - outstanding facilities by type



Sector	Value ($m)	Value (%)
Loans	$564.0	32.9%
Guarantees	$336.8	19.6%
Medium Term Insurance	$291.0	17.0%
Funded Export Finance Guarantees	$255.6	14.9%
Bonds	$206.8	12.0%
Political Risk Insurances	$45.4	2.6%
Rescheduled credit insurance debts	$16.4	1.0%

National Interest Account

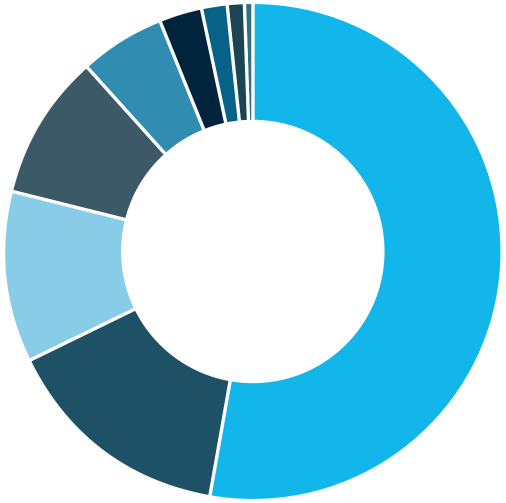
The National Interest Account exposures of $757.6 million are almost all loans to sovereign countries or their agencies. The largest exposure continues to be to the Indonesian Government. The changes in distribution by country between 2011-12 and 2012-13 are mainly reflected by the disbursements under the PNG LNG transaction.

The National Interest Account exposures arose mainly from three sources:

- In the 1980s and 1990s, EFIC made loans under the Australian Government's aid-supported mixed credit program, the now discontinued Development Import Finance Facility. Reflecting the priorities of Australia's overseas aid program at the time, these loans include exposures of $424.5 million to Indonesia, $23 million to China and $4 million to the Philippines (excluding reinsurance sourced from North America).
- In the mid- to late 1980s and early 1990s, EFIC paid credit insurance claims on exports to Egypt. These debts were subsequently rescheduled through the Paris Club. Egypt has paid all amounts due under the rescheduling agreement in full and on time. The balance of rescheduled credit insurance debts owed by Egypt is $87 million.
- In support of the PNG LNG project (which has exposure across a number of countries), EFIC is to provide US$250 million in total on the National Interest Account, with loan disbursements having commenced in December 2010. The National Interest Account exposure at the end of June 2013 was US$219 million (A$236 million).

The distribution of exposures by country at 30 June 2013 is shown in Figure 9.

Figure 9: National Interest Account at 30 June 2013 - exposures by country



Sector	Value ($m)	Value (%)
Indonesia	$400.7	52.9%
Papua New Guinea	$114.7	15.1%
United States of America	$83.4	11.0%
Egypt	$72.1	9.5%
Australia	$42.5	5.6%
China	$21.4	2.8%
Japan	$11.0	1.5%
Cuba	$9.7	1.3%
Philippines	$2.1	0.3%

Note: Includes exposures that have been reinsured.

About EFIC

EFIC's mission is overcoming financial barriers for exporters.

We support the growth of Australian companies in their international activities by providing tailored financial solutions when the private market faces constraints.

As Australia's export credit agency (ECA), we assist Australia based businesses so that they can take advantage of commercial export and overseas investment opportunities. We also support buyers of Australian goods and services in emerging markets and subcontractors to Australian exporters.

We work directly with businesses and their banks to provide loans, guarantees, bonds and insurance products.

EFIC Act

EFIC, as Australia's ECA, has performed its role within various statutory frameworks since 1957. EFIC was established in its current form on 1 November 1991, under the Export Finance and Insurance Corporation Act 1991 (Cth) (EFIC Act), as a statutory corporation wholly owned by the Commonwealth of Australia.

Under the EFIC Act, EFIC has four key functions:

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

EFIC'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 as a corporation. Premiums and other fees are retained by EFIC and any losses are borne from EFIC's accumulated capital and reserves.

National Interest Account

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

Transactions on the National Interest Account tend to involve:

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

CAC Act

As a Commonwealth statutory corporation that holds money on its own account, EFIC is a Commonwealth authority and subject to the Commonwealth Authorities and Companies Act 1997 (Cth) (CAC Act) and to regulations and orders made under it. The CAC Act sets out requirements in relation to aspects of EFIC's corporate governance, financial management and reporting, which are additional to those in the EFIC Act.

Accountability

EFIC is part of the Australian Government's Foreign Affairs and Trade portfolio and the Minister for Trade is responsible for EFIC. For the financial year 2012-13, the Hon Dr Craig Emerson MP was Minister for Trade and Competitiveness. The Hon Mr Richard Marles MP was Minister for Trade from 1 July 2013 until 18 September 2013 when the Hon Mr Andrew Robb MP was appointed Minister for Trade and Investment (Minister for Trade).

The Minister for Trade has a number of powers in relation to EFIC, as set out in the EFIC Act. The Minister for Trade may give written directions to EFIC in respect of the performance of its functions or the exercise of its powers if satisfied that it is in the public interest that directions be given. The Minister may also approve or direct entry into transactions on the National Interest Account (see pages 30-31). In relation to the Commercial Account, EFIC is not required to obtain ministerial approval or directions to enter into a particular transaction. Details of ministerial directions are published in EFIC's annual reports, which is tabled in Federal Parliament.

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

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

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

EFIC's solutions for Australian exporters

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

Helping exporters compete for and WIN export contracts

EFIC helps Australian-based businesses to win and finance export, offshore investment and onshore export-related opportunities when the private market is unable to provide all the support they need in order to win international business. EFIC understands the issues exporters face in competing for overseas contracts:

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

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

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

Helping exporters FINANCE their export activities

Finance for export activities

It takes more than a competitive product or service and a keen buyer to succeed as an exporter. Turning business prospects into sales or investments often depends on securing finance. Financial issues are common concerns for fast-growing export businesses. A shortage of working capital, for example, can prevent an exporter not just from filling current orders but from pursuing new export opportunities and expanding their export business.

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

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

Project finance

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

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

Helping exporters PROTECT their contract payments and overseas investments

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

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

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

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

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

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

Whole-of-government support for exporters

EFIC works with other government departments and agencies to effectively deliver its services to exporters. In 2012-13, we worked closely with the Australian Trade Commission (Austrade) on a number of activities aimed at:

- increasing awareness and understanding of export finance
- sharing information on overseas markets and export opportunities
- increasing cooperation to better serve exporters.

In 2012-13, EFIC continued placement of permanent business origination staff from EFIC's SME team in Austrade's Melbourne and Perth offices. Building on the success of this initiative, EFIC has established a further SME origination presence in Queensland, based in Austrade's Brisbane office which commenced in the first quarter of 2013-14.

EFIC also works with other Commonwealth, State and Territory government agencies, and in particular has been active in working with other agencies to help Australian SMEs overcome financial barriers to winning opportunities in export supply chains onshore and in regional value chains.

Public inquiry into Australia's export credit arrangements

In September 2011, the then Minister for Trade and the Assistant Treasurer announced that an inquiry into Australia's export credit arrangements would be undertaken by the Productivity Commission.

The terms of reference for the inquiry were broad-ranging and covered EFIC's mandate, scope of operations, financial performance and governance. The Productivity Commission's final report was tabled in the Federal Parliament in June 2012.

The Government's Response to the report was published in January 2013, and is available on DFAT's website at http://www.dfat.gov.au/publications/efic/. The proposed changes to EFIC's mandate were contained in the "Export Finance and Insurance Corporation Amendment (New Mandate and Other Measures) Bill, 2013" and in summary relate to:

- limiting EFIC's provision of export finance to situations of market failure (particularly failures relating to inadequate information) that may impede Australian exporters;
- removing EFIC's current exemption from competitive neutrality principles such that EFIC will be required to pay a tax-equivalent charge and debt neutrality fee; and
- reorienting EFIC's operations to support SMEs (including greater flexibility to support Australian SMEs participating in global value chains) and non-SMEs undertaking transactions in emerging and frontier markets (where information-related market failures are most likely to affect larger exporters).

However the Bill did not pass through the Senate's winter session to complete the legislative process prior to the election and the process will need to start afresh in the 44th Parliament, beginning with the House of Representatives. EFIC is working with Government on the implications of when changes may be made to the EFIC Act and the Minister's Statement of Expectations.

EFIC's financial operations

EFIC is self funding and operates on a commercial basis, charging customers fees and premiums and earning interest on loans and investments, including the investment of its cash capital, reserves and working capital. The Commonwealth also guarantees our creditors the payment of all monies payable by EFIC. This guarantee has never been called. Regulations under the EFIC Act set upper limits on EFIC's aggregate liabilities under facilities, guarantees and insurance contracts that it may enter into on the Commercial Account, and EFIC operates within these limits.

Governance and corporate matters

Corporate governance

EFIC governance

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

The Minister for Trade is responsible for EFIC and appoints members to the Board who are all non-executive directors. The Managing Director is also a member of the Board and is a full-time employee. The Minister for Trade is represented on the Board by the Secretary of the Department of Foreign Affairs and Trade, or his alternate.

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

The Board met seven times in 2012-13 and its membership is set out on pages 40–43.

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

As a Commonwealth authority, EFIC, its Board members and employees are governed and subject to various obligations under the EFIC Act and the CAC Act. EFIC is required to produce for each financial year an annual report, which is tabled in the Federal Parliament.

EFIC employees are also subject to a Code of Conduct and are required to keep information about clients confidential. This requirement of confidentiality also applies to Board members. The EFIC Act permits EFIC to publish only a limited amount of information about its transactions.

EFIC is partially exempt from freedom of information legislation. The partial exemption and the strong secrecy obligation imposed on EFIC recognises the need to keep confidential the commercial information that EFIC obtains from Australian exporters and investors.

EFIC demonstrates its strong commercial discipline by following the Corporate Governance Principles and Recommendations with 2010 Amendments produced by the Australian Securities Exchange (ASX) Corporate Governance Council. However as a Commonwealth authority EFIC is not required to disclose the extent to which its corporate governance complies with the recommendations. The following details demonstrate EFIC's commitment to good governance.

Principle 1

Lay solid foundations for management and oversight

1.1 The Board has formally determined its responsibilities and set them out in its Board Charter which is available on EFIC's website. The powers of the Managing Director, as delegated by the Board, are set out in an instrument entitled 'Statement of the Powers of Managing Director'.

1.2 The Board assesses the performance of the Managing Director each year, including eligibility for any performance-related remuneration.

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

Principle 2

Structure the Board to add value

2.1 The majority of the Board consists of independent members:

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

2.2 The Board's performance is reviewed, at a minimum, every two years. The most recent evaluation was completed in December 2011 and addressed issues such as Board composition and skills, quality of information received, roles and responsibilities, exercise of powers and effectiveness, operation of meetings, induction and education, stakeholder obligations and risk management. The review found that the Board operates professionally and effectively. The next review of the Board is scheduled for December 2013.

2.3 The Board holds 'in camera' discussions at the end of each meeting to assess the effectiveness of the meeting and identify areas for improvement.

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

2.5 EFIC publishes its key performance indicators in its annual report (please see tables 1 and 2).

Principle 3

Promote ethical and responsible decision-making

3.1 EFIC has a Code of Conduct.

3.2 EFIC has a policy on diversity that recognises the strategic advantages of a diverse workforce. An assessment of EFIC's Diversity Management Policy is undertaken biennially by the Board. Details about the composition of EFIC's workforce are on page 46.

3.3 In addition, EFIC's Corporate Responsibility Policy (CRP) sets out many of the principles that enable EFIC to attain an appropriate balance between the responsibilities EFIC owes to its varied stakeholders. It assists EFIC to balance the need to achieve its purpose of overcoming financial barriers for exporters, while fulfilling its responsibilities to its broader, non customer stakeholders. For further information on the CRP please see pages 49-53.

Principle 4

Safeguard integrity in financial reporting

4.1 EFIC has had a Board Audit Committee since its inception. The Board has set out the accountabilities of the committee in an Audit Committee Charter, available on EFIC's website. Details of Board Audit Committee members and their qualifications appear on pages 40-43. The Board Audit Committee has broad responsibilities to the Board regarding risk oversight and management, including:

- overseeing the work of both external and internal auditors
- reviewing the annual and half yearly financial statements
- overseeing compliance with statutory obligations
- the effective management and control of financial and operational risks.

All three Board Audit Committee members, including the Committee Chair, are independent, non-executive Board members. The Committee Chair is not Chairperson of the Board. The Board Audit Committee met four times in 2012-13. EFIC's risk management system operates under the review of the Board Audit Committee.

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

4.3 In accordance with the CAC Act, the Auditor-General conducts an annual external audit of EFIC. The Auditor-General contracted Ernst & Young to assist with the audit work for 2012-13.

Principle 5

Make timely and balanced disclosure

5.1 EFIC's annual report (incorporating the financial statements) is made available on its website. EFIC also reports on its website the types of transactions it enters into and reviews, in accordance with its Policy and Procedure for environmental and social review of transactions.

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

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

Principle 6

Respect the rights of the shareholder

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

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

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

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

Principle 7

Recognise and manage risk

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

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

More information about the framework is available on pages 56-57 and on EFIC's website.

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

7.4 EFIC contracted Deloitte to carry out the internal audit function within EFIC for 2012-13.

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

Principle 8

Remunerate fairly and responsibly

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

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

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

EFIC's Board and its membership

Andrew Mohl

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

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

Sally Pitkin

LLB, LLM, PhD, FAICD
Born 1959
Deputy Chair, Independent non-executive member, Audit Committee member
Terms of Board appointment:
16/07/2007 to 15/07/2010 and 01/08/2010 to 31/07/2013
Board attendance: 7 of 7
Board Audit Committee attendance: 4 of 4

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

Angus Armour

BA (Hons), MBA, FFin, FAICD
Born 1963
Managing Director and Chief Executive Officer, Executive member
Appointed:
31/10/2003
Board attendance: 7 of 7

Angus Armour joined EFIC in 1993 in the project finance area and after a succession of management roles was appointed Managing Director in 2003. Prior to joining EFIC, he worked with Export Development Canada in project and asset finance in Europe, Latin America and the United States, and the International Finance Corporation's project advisory team for the South Pacific. Angus is a trustee of the Committee for Economic Development of Australia and a member of its NSW State Advisory Council. Angus is also a non-executive Board member of the European Australian Business Council. In 2013 Angus served on the Historic Houses Trust Foundation of New South Wales, and the Foundation's Finance and Legal Committee. From 2009 through to 2011. Angus has served as President of the Berne Union, the international association of export credit and investment insurance companies that supports approximately $1.4 trillion of trade and investment annually, and he continues to serve on the Management Committee and Finance and Remuneration Committee.

Bruce Brook

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

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

Annabelle Chaplain

BA, MBA FAICD
Born 1958
Independent non-executive member
Term of Board appointment:
01/08/2013 to 31/07/2016

Annabelle Chaplain is an experienced company director of publicly listed and private companies. She spent her executive career as an investment banker working on a variety of transactions for public sector and large corporate clients. Currently a director of Downer-EDI Ltd and PanAust Ltd, she is also a director of a number of private companies including KDR Gold Coast Pty Ltd, the operator for the light rail consortium on the Gold Coast. She is chairman of Council for St Margaret's Anglican Girls School.

David Evans

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

David Evans is Managing Partner of Evans and Partners Pty Ltd, the investment advisory company he established in June 2007. David has extensive experience in investment banking and stockbroking and worked for 18 years at JB Were & Son and Goldman Sachs JBWere Pty Ltd, where his final role was Managing Director and Chief of Staff. David was also Chairman of Essendon Football Club between 2006 and 2013 and is currently a director of the Melbourne Stars, The Shane Warne Foundation and Seven West Media Ltd.

Nicholas Minogue

MA, MBA
Born 1955
Independent non-executive member, Audit Committee member
Term of Board appointment:
09/12/2011 to 08/12/2014
Board attendance: 7 of 7
Audit Committee attendance: 2 of 2

Nicholas Minogue retired from the Macquarie Group in November 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 immediately prior to his retirement while also previously holding the position of Head of Credit. Nick commenced his career in London where he acquired grounding in trade and international finance working for the international banking division of a clearing bank. He spent 7 years with Standard Chartered Bank in London and Hong Kong in various roles and finally as Senior Manager, Corporate Banking Group Hong Kong prior to joining the Macquarie Group in 1993. Nick is also Chairman of Morphic Asset Management Pty Ltd.

Jennifer Seabrook

BCom, ACA, FAICD
Born 1957
Independent non-executive member, Audit Committee member
Term of Board appointment:
05/04/2011 to 04/04/2014
Board attendance: 6 of 7
Board Audit Committee attendance: 4 of 4

Jennifer Seabrook is currently a Special Advisor to Gresham Partners Ltd. She is a non-executive director of Iress Ltd and Iluka Resources Ltd. Jennifer is also a member of the Australian Securities and Investments Commission's External Advisory Panel. During her career, Jennifer has worked on a variety of mergers, acquisitions, equity capital markets and capital structuring advisory transactions.

Deena Shiff

BSc Econ (Hons), LLB (Hons)
Born 1954
Independent non-executive member
Term of Board appointment:
09/12/2011 to 08/12/2014
Board attendance: 6 of 7

Deena Shiff has extensive executive experience in the communications industry. She served as a Group Managing Director at Telstra Corporation Ltd between 2005 and 2013, during which time she led the Wholesale Division, established Telstra's Business Division dedicated to small to medium enterprises and established Telstra's corporate venture capital arm. Deena was also a partner of Mallesons Stephen Jaques, in-house corporate counsel at Telstra, and has served as a senior executive and advisor on legal and social policy reforms for the Australian Government. Deena is also a director of a number of venture capital-backed software businesses and is currently Chair of the Sydney Writer's Festival.

Peter Varghese, AO

BA (Hons)
Born 1956
Government Board member, Represents the Australian Government, Non-executive member
Appointed:
11/02/2013
Board attendance: 0 of 4 (see alternate Government member)

Peter Varghese is Secretary of the Department of Foreign Affairs and Trade (DFAT). Prior to that, he has held the positions of Australia's High Commissioner to India and was the Director-General of the Office of National Assessments. Mr Varghese has also previously held the roles of Senior Advisor (International) to the Prime Minister, Australian's High Commissioner to Malaysia and has served overseas in Tokyo, Washington and Vienna. Mr Varghese was appointed an Officer in the Order of Australia (AO) in 2010 for distinguished service to public administration, particularly leading reform in the Australian intelligence community and as an adviser in areas of foreign policy and international security.

Jan Adams

BEc (Hons), LLB (Hons)
Born 1963
Alternate Government member, Represents the Australian Government, Non-executive member
Appointed:
07/05/2013
Board attendance: 1 of 2 (as alternate)

Jan Adams was appointed Deputy Secretary of the Department of Foreign Affairs and Trade (DFAT) in April 2013. Prior to that Jan was First Assistant Secretary of the DFAT, Free Trade Agreement Division (from March 2009) and Australia's lead negotiator for China, Japan, Korea and India bilateral FTA negotiations. Between 2005 and 2008 Jan served as Ambassador for the Environment and Ambassador for Climate Change. Between 1993 and 1996 she worked as an Advisor to the then Minister for Trade and Minister for Industry, Science and Technology, Senator Peter Cook. Jan joined DFAT in 1999 as Assistant Secretary, APEC Branch. Overseas, Jan has served as Minister Counsellor (Trade) in Washington (2000–2004) and has also worked in the Environment and Trade Directorates of the OECD in Paris.

Members whose term ended in 2012-13

Dennis Richardson

BA (Hons)
Government Board member, Represents the Australian Government, Non-executive member
Appointed:
15/03/2010 to 17/10/2012
Board attendance: 0 of 3 (see alternate Government member)

Bruce Gosper

BA (Hons), Dip Pub Policy
Represents the Australian Government as alternate Government Board member, Non-executive member
Appointed:
04/03/2011 to 31/01/2013
Board attendance: 3 of 3 (as alternate Government board member)

Hamish McCormick

BA, MBA, Grad Dip Sc
Represents the Australian Government as alternate Government Board member, Non-executive member
Appointed:
11/02/2013 to 23/04/2013
Board attendance: 2 of 2 (as alternate Government board member)

Board and Audit Committee

During the year, Mr Brook was reappointed to the Board as a member and as Chair of the Audit Committee for a second term of three years and Mr Minogue was appointed as a member of the Audit Committee.

Mr Richardson and Mr Gosper, who are both Australian government employees, resigned from their membership on the Board to take up positions as Secretary to the Department of Defence and Chief Executive Officer of Austrade, respectively.

Subsequent to 30 June 2013, Dr Sally Pitkin retired from the EFIC Board effective 31 July 2013 following the expiry of her second term. Ms Annabelle Chaplain was appointed as an independent board member effective 1 August 2013. Ms Deena Shiff was appointed as EFIC's new Deputy Chair effective 1 August 2013.

The Audit Committee also undertook a review of its performance during the year and decided to amend its Charter to ensure that the Committee's performance against its Charter was assessed annually.

Transactions with Board members and related entities of Board members

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

Note 22 to the financial statements sets out the aggregate amount of remuneration received, or due and receivable, by the Board members during the year ended 30 June 2013.

Material transactions are detailed in the financial statements.

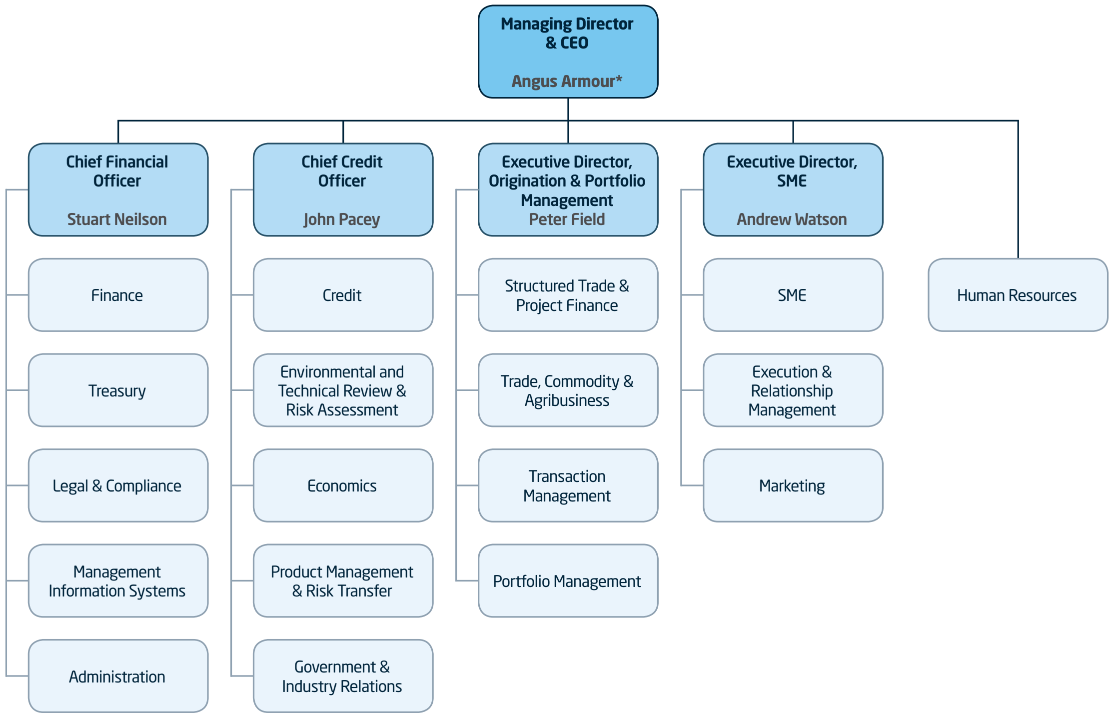
Declared potential conflicts of interest

The Board carefully manages conflicts of interest, or potential conflicts of interest, in relation to EFIC transactions. No Board member declared a conflict of interest or potential conflict of interest relating to an EFIC transaction considered during 2012-13.

Our people

Organisational chart

Figure 10: EFIC's organisational structure



* Andrew Hunter took up the position of Managing Director & CEO on 2 September 2013

Staff numbers

A summary relating to EFIC's number of employees (in full-time equivalents) is shown in Table 4.

Table 4: Number of full-time equivalent employees

	30 June 2013	30 June 2012
Employees (excluding short-term)	81.2	86.6
Short-term contract employees	2.7	0.4
Total	**83.9**	**87.0**

Diversity

In line with our internal principles of integrity, openness and accountability, EFIC is an equal employment opportunity employer that encourages and values a work environment in which all staff are treated with fairness and equity. EFIC recognises that a diverse workforce can lead to strategic advantages through the exchange of skills, experiences and perspectives, which foster creativity and innovation and enhanced problem-solving capability. EFIC values the contribution its workforce make in support of our strategic objectives, and celebrates diversity across age groups and life experiences, cultural backgrounds, religious beliefs, gender, gender identity, transgender, intersex status, sexual orientation, marital status and disability.

EFIC fosters a positive, inclusive and equitable organisational culture by ensuring that employees are not harassed or discriminated against at any time in their employment. We provide equal opportunity in all aspects of employment, including conditions of employment, recruitment and selection, remuneration, training and development and promotion, all of which are supported by policies, including EEO and diversity policies, procedures and practices that encourage fairness and equity.

We regularly review our policies and practices and train all employees and management on equal employment opportunity, anti-discrimination and work health and safety.

EFIC has a formal commitment to reconciliation between Indigenous and non-Indigenous Australians through its Reconciliation Action Plan. Under the plan, EFIC aims to engender a greater awareness and appreciation of Indigenous culture among staff and, in the course of conducting its business with banks and allies including Austrade, to ensure that Indigenous Australian companies involved in exporting are aware of EFIC's services. We have a staff intranet section dedicated to highlighting Indigenous achievement, culture and issues, and in 2013, we celebrated the reconciliation effort by hosting a staff screening of the film The Sapphires, which EFIC supported through a Producer Offset loan. We also erected a plaque on our office building in recognition of the traditional land owners.

The Equal Employment Opportunity (Commonwealth Authorities) Act 1987 (Cth) promotes equal opportunity in employment for members of designated groups, including women and people from non-English speaking backgrounds. In accordance with the reporting requirements of the Act, statistics on EFIC's workforce profile are shown in Table 5.

Although EFIC employees can be classified by role (for example, managers and administrators, professionals, associated professionals and clerical workers), the statistics in Table 5 are grouped by salary range due to EFIC's size and the generality of role classifications.

Table 5: Workforce diversity profile at 30 June 2013

		Employee Diversity Profile					
		Female	Male	NESB	ATSI	PWD	Total Staff
Annual FTE Salary Earnings[(a)]	Up to $75,000	16	1	8	0	0	17
		94%	6%	47%	nil	nil	**19%**
	$75,001- $150,000	19	14	21	0	0	33
		58%	42%	64%	nil	nil	**38%**
	$150,001 & Above	6	32	11	0	0	38
		16%	84%	29%	nil	0%	**43%**
	Totals	41	47	40	0	0	**88**
		47%	**53%**	**45%**	**0%**	**0%**	**(83.9 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
(a) Salary excludes superannuation.

Training and development

EFIC is committed to ongoing staff training and development. We undertake biannual performance reviews which include an analysis of each staff member's professional development needs and career objectives. In 2013 our training program covered technical skills and industry specialisation training including trade finance, communication skills development, leadership development including executive coaching, and management training which was developed against core managerial competencies to enhance our people management practices. All staff and management also completed our annual compliance training program, covering work health and safety, workplace behaviour, anti-money laundering, bribery and corruption, privacy, fraud and competition and consumer protection.

EFIC is a corporate member of Women in Banking and Finance (WiBF), which is a professional industry association, and actively promotes development and networking opportunities to its female staff through this forum to assist in their career endeavours. In 2012-13, two of our high potential female staff participated in a mentoring program facilitated by WiBF.

EFIC also encourages staff to undertake further studies through its studies assistance program, which provides financial support and paid leave to staff undertaking approved postgraduate courses.

Work-life balance

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

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

Parental leave: Parental leave of up to 12 months, with the option of requesting a further 12 months' leave, including paid maternity leave for a period of three months. During 2012-13, four employees were on maternity leave, one of whom has extended their period of leave for a further 12 months. In addition 7 staff members took a 5 day period of paid partner leave.

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

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

Flexible work arrangements: We give employees the opportunity to work flexible hours wherever possible, which includes the opportunity to work part-time. As at 30 June 2013, 12 employees (or 14 per cent of our workforce) work on a part time basis.

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

Salary continuance: We provide a corporate income protection (salary continuance) insurance policy to employees who have completed their probation period (excluding temporary staff).

National Disability Strategy

The National Disability Strategy (the Strategy) sets out a ten year national plan for improving life for Australians with disability, their families and carers. The Commonwealth, State and Territory governments have developed this Strategy in partnership under the auspices of the Council of Australian Governments (COAG). The Australian Local Government Association has assisted in the development of the Strategy and there will be a strong role for local governments in its implementation. The shared vision is for an inclusive Australian society that enables people with disability to fulfil their potential as equal citizens.

Each level of government has specific roles and responsibilities across the range of policies and programs that impact on people with disability, their families and carers. The Strategy does not change the nature of these roles and responsibilities, but seeks to create a more cohesive approach across all governments.

The purpose of the National Disability Strategy is to:

- establish a high level policy framework to give coherence to, and guide government activity across mainstream and disability-specific areas of public policy
- drive improved performance of mainstream services in delivering outcomes for people with disability
- give visibility to disability issues and ensure they are included in the development and implementation of all public policy that impacts on people with disability
- provide national leadership toward greater inclusion of people with disability.

The Strategy will be revised and updated over its ten year life span in response to reviews of progress. Copies of the Strategy are available at: http://www.coag.gov.au/sites/default/files/national_disability_strategy_2010-2020.pdf.

Work health and safety

Work Health and Safety Committee

EFIC's Work Health and Safety Committee (WHSC) is a six-member consultative body comprised of two management representatives and four staff representatives, including a Health and Safety Representative. The committee facilitates cooperation between EFIC management and employees in instigating, developing and carrying out measures designed to ensure work health and safety, and assists in developing and reviewing standards, procedures and processes relating to work health and safety. Committee members are responsible for reporting to the committee any worker concerns and consulting with workers on matters discussed in the committee. Workers are also encouraged to put forward agenda items for the WHSC meetings.

To assist the Board in meeting its due diligence requirements under the Work Health and Safety Act 2011 (Cth) (WHS Act), the WHSC holds a meeting prior to each Board meeting, which at present is seven times per year. The minutes of the WHSC meetings are made available to all staff through EFIC's intranet, and a copy of the minutes is also provided to the Board at the subsequent Board meeting, accompanied by a report and performance indicators. Our Board Charter articulates the due diligence requirements under the Act.

Workplace inspections are undertaken by a WHSC representative in consultation with workers prior to each WHSC meeting, and the findings are discussed at the meeting. Workplace hazards are prioritised according to the risk they pose to health and safety, and an action plan is developed. Any hazards that can be immediately eliminated are attended to. A copy of the workplace inspection findings are made available to all staff on the intranet and also provided to the Board.

Health and safety management arrangements

EFIC's health and safety management arrangements set out EFIC's work health and safety management framework, including our consultative mechanisms, the respective responsibilities of the 'person conducting a business or undertaking', 'officers' and 'workers' as defined in the WHS Act, first aid and emergency response procedures, incident notification procedures, Risk Management Framework, dispute resolution, and cessation of unsafe work. The Health and Safety Management Arrangements are reviewed by the WHSC in consultation with workers on an annual basis.

Work health and safety initiatives

EFIC engages regularly with employees to ensure that they are aware of work health and safety arrangements. Formal engagement includes regular employee engagement surveys and staff briefings held by the Managing Director and Executive team, as well as focus group meetings for particular sections of the workforce, such as frequent travellers. The WHSC consults with workers in the development and maintenance of the Work Health and Safety Risk Control Matrix, including hazard controls, and formally reviews the matrix on an annual basis.

Given the nature of its operations, EFIC has identified travel as a risk that requires specialised monitoring. All frequent travellers have access to an annual full medical check, and staff have the option of taking a satellite phone when travelling to remote destinations. EFIC also engages international travel specialists, International SOS, to provide extensive cultural, security and medical information and assistance to staff members before and during international business trips. EFIC has a certified traveller program which all staff are required to complete on an annual basis prior to undertaking any international business travel. The Travel Coordinator is also a member of the Work Health and Safety Committee, to ensure travel related issues get channelled to the Committee for discussion.

EFIC also consults with its workers on the adequacy of facilities for the welfare of workers, and provides employees with access to an employee assistance program and salary continuance insurance policy.

We have a strong culture of incident notification and investigation, which includes reporting of 'near misses' and workers are encouraged to actively participate in the management of work health and safety.

Other initiatives to ensure the health, safety and welfare of workers include the ongoing development of our intranet site to improve communication and access to information across the organisation, and making available flexible work practices to assist employees to meet the demands of their work and personal or family commitments.

Health and safety outcomes

The initiatives outlined above have enabled EFIC to achieve and maintain outstanding work health and safety practices for its workers. We continually monitor and respond to our operating environment in order to ensure work health and safety is proactively managed. One way in which we measure our effectiveness is through our staff engagement survey. In 2013, the positive perception score for safety was 92 per cent.

Training

All employees undergo annual training on work health and safety, an annual building evacuation exercise, as well as an induction for new staff and contractors. EFIC also provided ongoing training to current and new first aid officers, including annual CPR recertification and first aid kit refresher training with St John. EFIC has 9 trained first aid officers.

Accidents or dangerous occurrences

There were no 'notifiable incidents' during 2012-13 under the WHS Act.

EFIC conducts regular testing and preventative maintenance on its plant and equipment, including air conditioning, and undertakes all reasonable steps to eliminate or minimise risks to staff and visitors to the building.

Investigations and notices

EFIC did not receive any notices under the WHS Act during 2012-13.

Corporate responsibility

EFIC's approach to corporate responsibility

In early 2013 EFIC reviewed its Corporate Responsibility Policy. An internal working group was formed that includes staff from different operational areas within EFIC. The mandate of the Corporate Responsibility Group is to review EFIC's approach to Corporate Responsibility and to develop and implement an updated Corporate Responsibility Strategy for EFIC.

In taking this step, EFIC acknowledges that the integration of sustainability principles into its business is not a static exercise but an evolving process. Accordingly, the Corporate Responsibility Group will continue to advise the Executive and the Board on the ongoing implementation of the Corporate Responsibility Strategy as well as improvements and related changes to the way in which we manage our business.

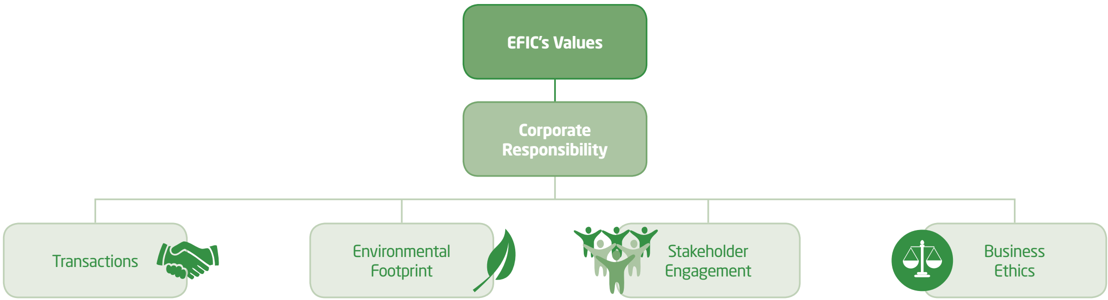
Our Corporate Responsibility Strategy will continue to outline the ways in which we fulfil our responsibilities to our stakeholders - our clients, our employees, the Australian Government as our shareholder and the wider community. We take our responsibilities to these stakeholders seriously.

As shown in Figure 11, the key components of our Corporate Responsibility Strategy are:

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

The Corporate Responsibility section of EFIC's website will be amended to reflect the Strategy by the end of 2013.

Figure 11: EFIC's approach to corporate responsibility



EPBC Act

EFIC has a statutory obligation under section 516A of the Environment Protection and Biodiversity Conservation Act 1999 (Cth) to report its environmental performance. Our reporting on transactions and environmental footprint are EFIC's response to that requirement.

Transactions

Our Policy for Environmental and Social Review of Transactions (Policy) sets out the principles EFIC applies to meet its corporate values, and our Procedure for Environmental and Social Review of Transactions (Procedure) describes how we implement the Policy. Both documents are available on EFIC's website. EFIC's Policy adopts the International Finance Corporation's Performance Standards as its general benchmark for environmental and social review.

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

EFIC's 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 EFIC plays in transactions.

Screening identifies two types of transactions: projects (which are further divided into new and existing projects) and 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 impact as follows:

Category A: potentially significant adverse environmental and/or social impacts

Category B: environmental and/or social impacts in the spectrum between A and C

Category C: minimal or no adverse environmental and/or social impacts.

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 6 summarises the number of EFIC's medium to long-term facilities and their type of environmental review for 2012-13 and includes comparative data for the previous two financial years. The table excludes transactions dealing only with foreign exchange products, Producer Offset loans and risk participation agreements associated with multilateral institutions (these transactions are considered to have low potential for environmental and social impact).

Table 6: Environmental and social review summary

Year	Environmental / social impact category				
	Category A	Category B	Category C	Existing project and non-project potential impact	
				Yes	No
2012-13					
All facilities	1	1	6	2	27
Project finance	1	0	0	Not applicable	Not applicable
Project related corporate loans	0	0	0	Not applicable	Not applicable
2011-12					
All facilities	2	5	7	1	13
Project finance	1	0	0	Not applicable	Not applicable
2010-11					
All facilities	0	2	22	0	2
Project finance	0	0	0	Not applicable	Not applicable

Table 3 (Facilities signed) on pages 24-25 shows more information about EFIC's transactions in 2012-13 including location, industry type, sector and results of screening and classification.

EFIC supported one transaction associated with a Category A project this financial year, the Ichthys LNG project located near Darwin Australia (see pages 22-23). That project required environmental approvals under both Northern Territory and Commonwealth legislation and both governments provided public reports on the project's potential environmental and social impacts.

One transaction was identified to be associated with a Category B project. This was a continuation of an export of breeding cattle to Russia that was also reported last year.

Two non-projects were identified to have a potential for environmental and/or social impacts. Those transactions involved risk participation agreements for the export of coking coal. EFIC considered the environmental and social risk associated with the industry and companies supported by EFIC in undertaking its environmental and social reviews.

EFIC made a commitment to have the application of our Policy and Procedure audited by an independent firm every two years. The first audit was completed by Net Balance Management Group Pty Ltd in December 2012. It concluded that we met our Policy and Procedure commitments with no non-compliances. A copy of the report can be found on EFIC's website.

Equator Principles reporting

Principle 10 of the Equator Principles requires a signatory to report on its implementation of the principles and the number of project finance and project-related corporate loan transactions that have reached financial close. Table 6 summarises the number of project finance transactions signed over the past three years and the number of project related corporate loans for 2012-13.

EFIC supported one project finance transaction in 2012-13, this was the Ichthys LNG project located near Darwin Australia. An independent adviser was available to the lenders during the due diligence and monitoring phases. The location, industry type, sector and results of screening and classification for that project are provided in Table 3 on pages 24-25.

EFIC reports not only projects that have reached financial close, but also projects that it has screened during the financial year. EFIC considers a project to have been 'screened' if it received a mandate or equivalent for that project. No project finance transactions were screened during the financial year.

The third version of the Equator Principles was launched on 4 June 2013. EFIC was an active participant in the review process that led to the new version.

Environmental footprint

EFIC operates from Export House, which is located at 22 Pitt Street, Sydney. EFIC occupies four floors of Export House and leases the remaining floors to tenants on standard commercial terms.

In managing our environmental performance, we endeavour to minimise the building's environmental footprint. Table 7 summarises the available information on EFIC's energy use, water use, solid waste generation and business travel in 2012-13 and includes comparative data for the 2010-11 and 2011-12 financial years.

Gas supply for heating was available for part of the year and this is included as part of the building services energy consumption. Despite the additional energy source, the building services energy use per square meter declined between 2011-12 and 2012-13. This is mainly due to the building energy efficiencies installed as part of the building renovations, including more energy efficient air-conditioning, lifts and lighting. EFIC's occupancy energy use increased slightly this financial year but remains below data prior to the building refurbishment. The 2011-12 figure may also have been unusually low as it included a floor that was not fully utilised during the building renovations.

The renovations to Export House were completed in early 2013. Systems to monitor energy and water use and waste generation and assess performance against Plans have been installed. There will be a 12-month period following the completion of the renovations to maximise the operational efficiency of all systems that use energy and water. That data will also enable EFIC's refurbishment to obtain a rating under the National Australian Built Environment Rating System.

EFIC employees flew 2.13 million kilometres during 2012-13. A majority of this travel was associated with either due diligence for new transactions or the management of existing transactions. EFIC accepts higher risks than its commercial peers and travel is considered essential to appropriately manage those risks. EFIC's travel has declined significantly over the past three years. While some of that decline is due to efforts to minimise travel some is due to the type of business undertaken over that time.

Table 7: EFIC's environmental footprint

Parameter	2010-11	2011-12	2012-13
Energy use, megajoules/m2			
EFIC occupancy[a], electricity	930	684	**722**
Building services[b], electricity	536	538	**346**
Building services[b], gas	0	0	**77**
Green energy, electricity	0	0	**0**
Water (sewage data not available)			
Water, kilolitres[c]	5,410	3,132	**Not available**
Solid waste[d]			
	Not available	Not available	**Not available**
Business travel by EFIC employees			
Total domestic (km)	0.74 million	0.73 million	**0.68 million**
Total international (km)	2.81 million	2.32 million	**2.13 million**

Table notes

(a) This figure represents EFIC's energy use only, that is, energy consumed on the floors it occupies. It includes EFIC's computer facilities which, like all computer services, have a high energy demand.

(b) Building services are common facilities for all floors of Export House and include lighting to common areas, lifts and air conditioning. Energy use per square meter is the building average.

(c) The water figure represents total usage by Export House. It is not possible to separately identify water use by floor or by tenancy. Water figures were not reliable during 2012-13 due to a low recording meter.

(d) Data on the generation of waste could not be collected prior to the refurbishment. Systems have been established to obtain this data and are expected to commence during the 2013-14 financial year.

Stakeholder engagement

EFIC engaged with its stakeholders in various ways last year, including:

- Customers: This is discussed in the "Structured Trade and Project Finance" and "SME" sections of this Annual Report
- Employees: This is discussed in the "Our people" section of this Annual Report
- Community: EFIC engagement with the broader community includes a multi-stakeholder forum, the outcomes of which are reported on our website. In 2012 EFIC also established a complaints mechanism which enables anyone (customer, individual, group, community, or other party) concerned about, affected or likely to be affected by EFIC's activities to complain and seek a response. No complaints were received during the year
- Government: This is discussed in the "Whole of government support to exporters" section of this Annual Report.

Business ethics

Business ethics is discussed in the "Governance" section of this Annual Report.

Indemnities and insurance

All of EFIC's employees and Board members, and certain former employees and Board members, continued to have the benefit of an indemnity from EFIC during 2012-13, covering them for liabilities incurred as an officer of EFIC and related legal costs. The scope of the indemnity is consistent with the requirements of the CAC Act and the Competition and Consumer Act 2010 (Cth) in relation to such indemnities.

During the year, EFIC maintained and paid premiums for certain insurance covering its employees and Board members. This included directors and officers liability insurance and professional indemnity insurance (both of which include cover for certain legal costs), for which premiums totalling approximately $207,000 were paid.

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

Judicial and administrative decisions and reviews

During the financial year ended 30 June 2013, there were no judicial decisions or decisions of administrative tribunals that have had, or are likely to have, a significant impact on our operations.

The Auditor-General provided his annual independent auditor's report on EFIC's financial statements. The report was unmodified.

Freedom of Information

Agencies subject to the Freedom of Information Act 1982 (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. EFIC displays on its website a plan showing what information it publishes in accordance with the IPS requirements.

Particulars of directions from the Minister

Section 9 EFIC Act directions

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

EFIC complied with the section 9 directions referred to below during 2012-13. It is not possible to assess the financial effect on EFIC of these directions.

During the year ended 30 June 2013, directions dated 4 July 2007 were in effect in relation to the following matters:

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

Uranium

A section 9 direction dated 1 June 2010 was in effect during the year ended 30 June 2013 in relation to uranium. The direction states that EFIC must not provide assistance for any transaction linked to uranium without specific written agreement from the Australian Government. It also sets out preconditions that must be satisfied before EFIC submits a request seeking agreement from the Australian Government for EFIC to provide assistance.

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

Iran

A section 9 direction dated 15 October 2008 was in effect during the year ended 30 June 2013 in relation to trade with Iran.

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

Zimbabwe

A section 9 direction dated 27 May 2009 was in effect during the year ended 30 June 2013 in relation to Zimbabwe. Under this direction:

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

Democratic People's Republic of Korea

A section 9 direction dated 19 July 2009 was in effect during the year ended 30 June 2013 in relation to the Democratic People's Republic of Korea (DPRK). The direction states that EFIC must not:

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

Section 29 EFIC Act directions

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

During the year ended 30 June 2013, a direction dated 4 July 2007 was in effect which set out facility terms for the provision by EFIC of indemnities or guarantees up to an aggregate of $30 million in relation to advance payments under, or performance of, contracts or proposed contracts.

Section 55 EFIC Act directions

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

During the year ended 30 June 2013, a direction dated 1 November 2012 was issued requiring EFIC to pay a dividend to the Commonwealth of $26.8 million or 100 per cent of the Commercial Account profit for 2011-12.

At the date of publication, a determination in respect of the dividend for the year ended 30 June 2013 has not been made.

In the 2012-13 Federal Budget, the Treasurer announced that EFIC would be required to pay a 'special dividend' of $200 million during 2012-13. The legislative changes required to be made to the EFIC Act to enable this payment to be made were enacted on 30 March 2013 and the payment of the special dividend was made on 28 June 2013.

Risk management and financial matters

Risk Management Framework

EFIC's Risk Management Framework sets out core principles and the types of risk that EFIC faces and forms the basis of the Risk Appetite Statement and the Risk Control Matrix. The Risk Management Framework is a high level public document and is available on EFIC's website.

The Risk Appetite Statement (RAS) however, is not a public document as it describes in detail the manner in which EFIC's risk appetite and tolerances (qualitative and quantitative limits) are established and subsequently controlled. Risk appetite is a fundamental part of both risk management and capital management. 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.

Similarly, the Risk Control Matrix (RCM) is not a public document as it sets out each of the individual risks that the business faces as well as the mitigants in place and the people responsible for managing the risks. It also includes 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 the Risk Management Framework and regular discussions with the Board and Audit Committees underlines EFIC's commitment to continuously improve its risk management practices, with particular emphasis on planning to identify new risks.

Core principles

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

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

Roles and responsibilities

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

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

The Credit Committee, chaired by EFIC's Chief Credit Officer, examines credit policy and practices in relation to exposures and potential transactions with credit transactions approved under appropriate management delegations. The Risk and Compliance Committee, chaired by EFIC's Compliance Counsel, examines, monitors and regulates compliance risks. The Treasury Risk Review Committee, chaired by the Treasurer, examines treasury activities, limits, noteworthy transactions and current financial market and risk issues.

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

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

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

Types of risks

EFIC maintains a comprehensive list of risks that it must manage across the business. This list results from internal consultation within the management team and is reviewed periodically. Risks fall into the following categories:

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

Capital adequacy

EFIC's capital base has reduced from $630.3 million to $428.4 million following the payment of the $200 million special dividend announced by the Treasurer in the May 2012 Federal Budget. The special dividend was deferred until June 2013 as it could not be paid until the EFIC Act was amended. Previously under section 55(4) of the EFIC Act the dividend payable for a financial year could not exceed EFIC's profit for that year. Section 55A(1) was introduced into the EFIC Act giving power to the Minister to direct EFIC to pay a one-off dividend of $200 million, which was paid on 28 June 2013 in accordance with the amended legislation. Section 55A(2) was also introduced which gives the Minister power to direct EFIC to pay further specified dividends within a specific period.

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' in order to (a) meet the likely liabilities of EFIC and (b) make adequate provision for defaults in loan payments. This requirement relates only to EFIC's Commercial Account activities.

EFIC guides itself in fulfilling this obligation by setting its own prudential standards drawing upon both the standards of APRA and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision.

The Board treats EFIC's capital as equivalent to the regulatory capital under Basel and APRA guidelines and uses this as the basis for setting risk tolerances with regard to large exposures and capital adequacy. As outlined above, recent changes to the EFIC Act which give 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 capital 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.

Section 54(8) of the EFIC Act was also recently amended which gives the Minister power to increase EFIC's callable capital above $200 million. The Board has written to the Minister requesting an additional $200 million of callable capital to replace the $200 million of cash capital paid out for the special dividend. This would bring the total callable capital to $400 million if approved in full and restore EFIC's adherence to risk tolerance limits. The decision on the maximum level of exposure to hold at any one time is based on a certain level of known capital. These risk tolerances apply to an individual counterparty, a specific country or a specific industry.

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

For further information on EFIC's capital adequacy, please see Note 20 of the Financial Statements on pages 118-120.

Large exposures

EFIC has modelled its 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.

The Board has endorsed a limit of 25 per cent of capital and reserves (including callable capital) to apply to exposures graded ERS 1 (AAA/AA- or Aaa/Aa3) or ERS 2 (A+/A- or A1/A3), but a 15 per cent target applies for risks graded ERS 3 (BBB+/BBB- or Baa1/Baa3) or worse within the general guideline of 25 per cent. Exceptions in excess of the 15 per cent target would require consideration by the Board in light of such issues as the creditworthiness of the relevant counterparty or group of related counterparties, the tenor of the exposure and the level of Australian content in the particular transaction.

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

As an exception to this policy, the Board has approved increases in exposure limits to single counterparties under risk transfer arrangements from a maximum of 25 per cent to 37.5 per cent for risk transfer partners rated ERS 1 or 2; and from a maximum of 25 per cent to 50 per cent for risk transfer partners rated ERS 1 from government-backed export credit agencies.

For bank counterparties, APRA has indicated a maximum exposure of 50 per cent of capital. The Board has endorsed the application of this limit of 50 per cent of capital to all treasury activities with bank counterparties (defined by EFIC as 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 EFIC's capital has a maturity of six months or less. However, in 2011-12, as bank ratings globally came under pressure, the Board approved exposure limits on the major Australian banks and certain international banks that were in excess of 50 per cent of capital, and exposure limits on other counterparties were reduced by management.

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

The Board has written to the Minister and held discussions with government officials outlining that a number of EFIC's existing exposures would exceed these Board approved prudential limits following the payment of the special dividend, unless replaced with an equivalent amount of callable capital. The Board highlighted that EFIC would have limited or no capacity to consider new exposures to some counterparties and reduced capacity in some emerging and frontier markets. Those discussions on additional callable capital are ongoing and the Board will continue to monitor its exposures to individual counterparties and countries consistent with the above limits.

Allowance for risks

Allowance for credit risk

While it is never possible to know in advance the losses a financial institution will suffer in a particular year, it is possible to forecast the average level of credit losses it can reasonably expect to experience. The Basel guidelines, issued by the Basel Committee on Banking Supervision, refer to such losses as 'expected losses'. The Basel Committee's belief, shared by the Australian Prudential Regulation Authority, is that credit-related provisions should reflect a financial institution's 'expected' credit losses, whereas capital should principally cover any 'unexpected' losses.

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

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

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

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

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

We monitor closely the financial health and risk grade of each of the counterparties to which EFIC is exposed. At year end, the weighted average risk grade of our Commercial Account exposures, 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 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. EFIC uses CDS spreads as a proxy for credit risk in its CVA and DVA calculations as it is more aligned to a "fair value" approach.

EFIC also takes into account the risk that the valuation of a contract by EFIC 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

EFIC applies fair value to its loans and guarantees and uses 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.

EFIC treasury

Activities

EFIC's treasury activities are carried out within a control framework approved by the Board and compliant with the EFIC Act, the CAC Act and 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 prudently within Board and management approved limits and does not trade speculatively.

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

EFIC borrows in the global debt capital markets to fund its lending operations. The core function of EFIC's Treasury is to prudently raise funding at competitive rates and to manage the investment of capital and reserves and the surplus liquidity portfolio. Treasury uses derivative products to minimise currency and interest rate risks arising from EFIC's core businesses and Treasury's funding and investing operations. EFIC's power to enter into derivative transactions derives from its general powers in section 11 of the EFIC Act.

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

The loans we have provided to customers and the rescheduled debts are mostly denominated in foreign currencies. As at 30 June 2013, taking both the National Interest Account and Commercial Account into consideration, 80 per cent were denominated in US dollars and 13 per cent in euro.

EFIC does not take currency exposure on its assets and liabilities – it effectively eliminates this exposure by borrowing in the same currency as the assets or, typically, by borrowing in another currency and using cross-currency swaps and other foreign exchange instruments to remove the foreign exchange exposure.

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

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

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

Borrowings

Under section 62 of the EFIC Act, the Commonwealth guarantees the due payment by EFIC of any money that becomes payable, including our borrowings from third parties. The main borrowing instruments currently used are medium-term notes issued in the capital markets and euro-commercial paper. The main reason EFIC borrows 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 EFIC is 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 EFIC's guarantees. EFIC also maintains a diversified funding capability with spare capacity in order to ensure that it has a flexible and robust funding model that can accommodate a degree of disruption to financial markets and to enable a range of pricing and risk management strategies.

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

We continued to issue short-term euro-commercial paper in US dollars during 2012-13.

New capital market issues under our medium-term note programs in 2012-13 raised US$428 million, compared with US$214 million in 2011-12. We made 5 issues in 2012-13, compared with one in 2011-12. All other funding activities for the year were confined to the short-dated commercial paper market and short-term direct loans from banks. During the year, we were consistently able to borrow at sub-LIBOR margins using derivative markets.

The new capital market issues during 2012-13 are shown in Table 8.

Table 8: New capital market issues, 2012-13

Arranger	Term (years)	Currency	Amount (million)	US$ equivalent (million)
CBA	10	AUD	100	104.2
FTN	10	USD	40	40.0
CBA	13	AUD	115	120.0
FTN	10	USD	40	40.0
ANZ	13	AUD	120	123.3

Investments and liquidity

At 30 June 2013, the face value of EFIC's investment and liquidity holdings on the Commercial Account was $861 million, comprising cash, bank deposits and investment securities. Of this amount, $208 million represented cash capital and reserves, while the remainder represented liquidity held to maintain a minimum market presence or to refinance borrowings.

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

Financial matters

Rescheduling and debt forgiveness

In previous years, pursuant to Paris Club determinations, EFIC has rescheduled debts owed by the Indonesian, Egyptian and Iraqi governments. The Paris Club is a group of government creditors, the role of which is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. There were no new Paris Club reschedulings during 2012-13.

Indonesia

At 30 June 2013, our rescheduled loans to the Indonesian Government were $161.6 million on the National Interest Account and $9.3 million on the Commercial Account. The National Interest Account loans were predominantly loans supported by aid grants and approved under the now-discontinued Development Import Finance Facility. The loans have various maturities, the longest having a final repayment in 2024.

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

On 8 July 2010, the then Minister for Foreign Affairs and Trade issued a section 31 direction requiring EFIC to cancel up to $75 million in debt service owed to it by the Republic of Indonesia. 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 2012-13, $8.3 million was cancelled under this program.

Egypt

At 30 June 2013, EFIC was owed $65.4 million and US$21.4 million by the Egyptian Government ($16.4 million on the Commercial Account and the balance on the National Interest Account). These amounts arose from credit insurance claims paid in respect of wheat exports in the mid-1980s. These debts were subject to rescheduling at Paris Club meetings of Egypt's government creditors in 1987 and 1991 (with partial debt forgiveness agreed at the latter meeting) and are repayable by 2016. At 30 June 2013, all rescheduled amounts had been paid on time as per the rescheduling agreements.

Iraq

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

The Paris Club agreed to provide Iraq with 80 per cent debt forgiveness in three stages. In May 2006, EFIC signed a bilateral agreement with Iraq, which triggered 60 per cent forgiveness under stages one and two of the debt-relief package. The third and final stage of debt forgiveness, 20 per cent, was made in accordance with the last International Monetary Fund (IMF) Board review of Iraq's three-year IMF Program, in December 2008. The remaining principal debt is to be repaid over 17 years from mid-2011. Iraq's debt is currently treated as a contingent asset in the financial statements. Any recoveries under this agreement will be taken to income as and when received. At 30 June 2013, all rescheduled amounts have been paid on time as per the rescheduling agreements, resulting in $14.9 million being taken up as income during 2012-13 on the National Interest Account.

Dividends

Section 55 of the EFIC Act requires the EFIC Board, by written notice to the Minister for Trade (the Minister), to make a recommendation that EFIC pay a specified dividend, or not pay a dividend to the Commonwealth for that financial year. The Minister by written notice to EFIC either approves the recommendation or directs the payment of a different specified dividend. The dividend for this year was based on a direction from the Minister that 100% of the 2011-12 profit of $26.8m be paid as a dividend.

At the date of publication, a determination in respect of the dividend for the year ended 30 June 2013 had not been made.

Also payable this year was a special dividend of $200 million announced by the Treasurer in the May 2012 Federal Budget. The special dividend could not be paid until the EFIC Act was amended. Previously under section 55(4) of the EFIC Act the dividend payable for a financial year could not exceed EFIC's profit for that year. Section 55A(1) was introduced into the EFIC Act giving power to the Minister to direct EFIC to pay a one-off dividend of $200 million, which was paid before 30 June 2013 in accordance with the amended legislation. Section 55A(2) was also introduced which gives the Minister power to direct EFIC to pay further specified dividends within a specific period.

Ten-year financial summary

Commercial Account

Years ended 30 June:	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Signings	**514**	990	593	697	377	365	545	265	112	91
Export contracts and overseas investments supported	**2,075**	4,278	3,473	3,561	817	2,219	1,367	605	176	502
Net interest income	**32.8**	38.1	39.6	38.3	44.5	32.2	23.4	19.3	18.5	17.7
Net premiums and fees	**15.0**	16.5	14.5	32.0	11.0	4.6	9.0	19.2	12.8	15.2
Fair value other financial instruments	**(3.0)**	(4.1)	(6.1)	(7.4)	(4.2)	(1.6)	21.0	0.0	0.0	0.0
Other income	**4.7**	3.1	3.0	2.6	3.0	2.9	2.4	1.9	2.9	2.7
Total revenue	**49.5**	53.6	51.0	65.5	54.3	38.1	55.8	40.4	34.2	35.6
Operating expenses	**(26.9)**	(26.7)	(24.5)	(23.8)	(20.6)	(18.8)	(15.5)	(12.5)	(11.7)	(9.0)
(Charge) / credit for sundry allowances	**0.0**	0.1	3.6	(3.4)	(0.2)	0.0	0.0	0.0	6.7	(3.2)
Profit/ (loss) from the discontinued credit insurance business	**0.0**	(0.2)	0.1	0.0	0.1	0.4	0.4	0.8	0.2	4.3
Operating profit of EFIC	**22.6**	26.8	30.2	38.3	33.6	19.7	40.7	28.7	29.4	27.7
Dividend (paid in subsequent years)	**Not decided**	26.8	30.2	28.7	16.8	9.8	20.4	14.3	14.7	12.6
Dividend payout ratio	**Not decided**	100%	100%	75%	50%	50%	50%	50%	50%	55%
Special dividend	**200.0**	0	0	0	0	0	0	0	0	2.5
Equity	**216.3**	418.1	408.1	407.6	376.7	331.2	359.8	321.7	287.5	266.2
Return on average equity (% pa)	**7%**	6%	7%	10%	9%	6%	12%	9%	11%	11%
Capital adequacy ratio including callable capital	**21.2%**	31.0%	34.6%	37.3%	31.2%	34.5%	46.5%	34.2%	33.8%	26.4%
Face value of Commercial Account client facilities outstanding (before provisions)										
Loans	**535**	458	361	342	227	145	120	210	263	274
Funded EFGs	**149**	101	102	115	55	0	0	0	0	0
Guarantees and other off-balance-sheet exposures	**654**	513	362	403	514	510	408	464	498	529
Exposures reinsured	**362**	327	112	87	206	212	103	142	97	82
Rescheduled debts	**16**	20	24	22	24	25	26	33	37	39
Total Commercial Account facilities	**1,716**	**1,419**	**961**	**969**	**1,026**	**892**	**657**	**849**	**895**	**924**

All figures are in A$ million unless otherwise specified.

National Interest Account

Years ended 30 June:	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Signings	**0**	13	0	274	200	4	9	5	4	4
Export contracts and overseas investments supported	**0**	240	0	2,411	530	18	85	33	39	21
Exports supported by Australian content by drawdown	**904**	1,005	338	0	0	21	46	21	30	20
Net premiums and fees	**7.7**	5.3	5.0	6.9	2.2	2.4	2.6	3.0	3.2	5.4
Fair value other financial instruments	**0.0**	0.0	0.0	0.0	0.0	0.0	60.6	88.0	0.0	0.0
Total revenue	**9.8**	6.5	6.0	9.8	5.2	2.7	72.7	108.7	21.9	29.8
Operating expenses	**(2.2)**	(1.4)	(1.5)	(2.5)	(2.7)	(1.8)	(3.8)	(4.3)	(4.7)	(4.7)
(Charge) / credit for specific provisions	**(8.3)**	(8.1)	(7.5)	0.1	0.2	1.8	1.4	0.0	2.7	(0.2)
Profit/ (loss) from the discontinued credit insurance business	**14.7**	19.6	10.7	2.0	(2.9)	2.1	0.1	2.1	(7.9)	(2.3)
Operating profit attributable to the Commonwealth	**14.0**	16.6	7.7	9.4	(0.2)	4.8	70.4	106.5	12.0	22.6
Face value of National Interest Account client facilities outstanding (before provisions)										
Loans	**670**	590	567	722	898	893	1,066	1,326	1,398	1,715
Guarantees and other off-balance-sheet exposures	**11**	6	0	1	4	8	11	8	7	6
Exposures reinsured	**5**	10	18	33	45	43	52	61	59	66
Rescheduled debts	**72**	87	101	101	111	111	121	360	532	607
Total National Interest facilities	**758**	**693**	**686**	**858**	**1,058**	**1,055**	**1,250**	**1,755**	**1,996**	**2,394**

All figures are in A$ million unless otherwise specified.

Part 2:

Financial statements

Contents

Financial Statements

Statement by Board members and Chief Financial Officer

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

(a) the accompanying financial statements are drawn up to give a true and fair view of the performance of the Corporation for the year ended 30 June 2013 and the financial position of the Corporation at 30 June 2013;

(b) the financial statements give a true and fair view of the matters required by Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2012) under subsection 48(1) of the CAC Act;

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

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

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

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

Signed in accordance with a resolution of the Board.

Andrew Mohl
CHAIRMAN

Angus Armour
MANAGING DIRECTOR & CEO

Stuart Neilson
CHIEF FINANCIAL OFFICER

22 August 2013

Independent auditor's report

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Trade

I have audited the accompanying financial statements of the Export Finance and Insurance Corporation ("the Corporation") for the year ended 30 June 2013, which comprise: a Statement by Board Members and Chief Financial Officer; the Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; and Notes to and Forming Part of the Financial Statements.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Independence

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

Opinion

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

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

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Export Finance and Insurance Corporation's financial position as at 30 June 2013 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office

Ian Goodwin
Group Executive Director
Delegate of the Auditor-General

Canberra
22 August 2013

Statement of comprehensive income

for the year ended 30 June 2013

		Commercial Account		National Interest Account	
	Note	**30 June 2013 $ m**	30 June 2012 $ m	**30 June 2013 $ m**	30 June 2012 $ m
Interest income	3(i)	**161.7**	243.9	**28.5**	33.9
Interest expense	3(ii)	**(128.9)**	(205.8)	**(26.4)**	(32.7)
Net interest income		**32.8**	38.1	**2.1**	1.2
Fair value movement of third-party loans and guarantees	3(iii)	**15.0**	16.5	**-**	-
Fair value movement of other financial instruments	3(iv)	**(3.0)**	(4.1)	**-**	-
Other revenue	3(v)	**4.7**	3.1	**22.6**	25.1
Operating income		**49.5**	53.6	**24.7**	26.3
Operating expenses	3(vi)	**(26.9)**	(26.7)	**(2.2)**	(1.4)
Foreign exchange profit/(loss) on rescheduled credit insurance debts		**-**	(0.2)	**(0.2)**	(0.2)
Profit/(loss) before specific provisions		**22.6**	26.7	**22.3**	24.7
Credit/(charge) to sundry allowances	3(vii)	**-**	0.1	**-**	-
Credit/(charge) to specific provisions	3(viii)	**-**	-	**(8.3)**	(8.1)
Profit/(loss) from ordinary activities		**22.6**	26.8	**14.0**	16.6
National Interest Account attributable directly to the Commonwealth		**-**	-	**(14.0)**	(16.6)
Net profit available to the Commonwealth		**22.6**	26.8	**-**	-
Other comprehensive income					
Items not subject to subsequent reclassification to profit or loss:					
Revaluation of land and buildings		**-**	10.9	**-**	-
Items subject to subsequent reclassification to profit or loss:					
Net gain/(loss) taken to equity on cash flow hedge		**(0.4)**	(0.4)	**-**	-
Net fair value gain/(loss) on available-for-sale investments		**2.8**	2.9	**-**	-
Total other comprehensive income for the period		**2.4**	13.4	**-**	-
Total comprehensive income for the period available to the Commonwealth		**25.0**	40.2	**-**	-

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

Balance sheet

as at 30 June 2013

	Note	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
Assets					
Cash and liquid assets	1(i)	**0.6**	0.6	-	-
Receivables from other financial institutions	4, 1(j)	**129.6**	552.1	-	-
Amounts receivable from the Commonwealth	5	-	-	**3.8**	10.7
Available-for-sale investment securities	6, 1(k)	**745.2**	841.8	-	-
Loans and receivables at amortised cost	7, 1(l)	**36.9**	39.7	**685.6**	611.7
Loans and receivables designated at fair value through profit or loss	8, 1(m)	**783.2**	626.7	-	-
Loans to National Interest Account designated at fair value through profit or loss	1(n)	**768.8**	716.6	-	-
Derivative financial instruments	9, 1(o)	**193.3**	447.5	-	-
Property, plant and equipment	10, 1(p)	**47.7**	47.7	-	-
Other assets	11	**1.4**	1.2	**18.5**	18.3
Total assets		**2,706.7**	3,273.9	**707.9**	640.7
Liabilities					
Payables to other financial institutions	12, 1(q)	**62.2**	57.4	-	-
Borrowings from Commercial Account	1(r)	-	-	**702.5**	634.1
Borrowings designated at fair value through profit or loss	13, 1(s)	**2,193.8**	2,603.0	-	-
Guarantees designated at fair value through profit or loss	14, 1(t)	**32.1**	24.5	-	-
Derivative financial instruments	9, 1(o)	**179.0**	118.2	-	-
Sundry provisions and allowances	15	**3.6**	33.5	-	-
Other liabilities	16	**19.7**	19.2	**5.4**	6.6
Total liabilities		**2,490.4**	2,855.8	**707.9**	640.7
Net assets		**216.3**	418.1	-	-
Equity					
Contributed equity		**6.0**	6.0	-	-
Reserves		**112.1**	109.7	-	-
Retained profits		**98.2**	302.4	-	-
Total equity		**216.3**	418.1	-	-

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

Statement of changes in equity

for the year ended 30 June 2013

	Retained Profits $ m	Asset Revaluation Reserves $ m	Available-for-sale Investment Reserve $ m	Cash Flow Hedge Reserve (Note 18) $ m	Other Reserves $ m	Contributed Equity $ m	Total Equity $ m
Commercial Account							
Opening balance as at 30 June 2012	**302.4**	**36.6**	**5.0**	**1.9**	**66.2**	**6.0**	**418.1**
Comprehensive income							
Other comprehensive income	-	-	**2.8**	**(0.4)**	-	-	**2.4**
Profit/ (loss) for the period	**22.6**	-	-	-	-	-	**22.6**
Total comprehensive income	**22.6**	-	**2.8**	**(0.4)**	-	-	**25.0**
Transactions with the Commonwealth							
Dividends paid 2011-12 profit	**(26.8)**	-	-	-	-	-	**(26.8)**
Special dividends paid	**(200.0)**	-	-	-	-	-	**(200.0)**
Closing balance available to the Commonwealth 30 June 2013	**98.2**	**36.6**	**7.8**	**1.5**	**66.2**	**6.0**	**216.3**
Commercial Account							
Opening balance as at 30 June 2011	305.8	25.7	2.1	2.3	66.2	6.0	408.1
Comprehensive income							
Other comprehensive income	-	10.9	2.9	(0.4)	-	-	13.4
Profit/ (loss) for the period	26.8	-	-	-	-	-	26.8
Total comprehensive income	26.8	10.9	2.9	(0.4)	-	-	40.2
Transactions with the Commonwealth							
Dividends payable	(30.2)	-	-	-	-	-	(30.2)
Closing balance available to the Commonwealth 30 June 2012	302.4	36.6	5.0	1.9	66.2	6.0	418.1

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

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

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

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

Section 55 of the EFIC Act requires the EFIC Board by written notice to the Minister for Trade (the Minister), make a recommendation that EFIC pay a specified dividend, or not pay a dividend to the Commonwealth for that financial year. The Minister by written notice to EFIC either approves the recommendation or directs the payment of a different specified dividend. The dividend for this year was based on a direction from the Minister that 100% of the 2011-12 profit of $26.8m be paid as a dividend.

Also payable this year was a special dividend of $200 million announced by the Treasurer in the May 2012 Federal Budget. The special dividend could not be paid until the EFIC Act was amended. Previously under section 55(4) of the EFIC Act the dividend payable for a financial year could not exceed EFIC's profit for that year. Section 55A(1) was introduced into the EFIC Act giving power to the Minister to direct EFIC to pay a one-off dividend of $200 million, which was paid before 30 June 2013 in accordance with the amended legislation. Section 55A(2) was also introduced which gives the Minister power to direct EFIC to pay further specified dividends within a specific period.

In addition, the 2010-11 dividend of $30.2 million normally payable in 2011-12, but was deferred by the Minister, was also paid this year.

Cash flow statement

for the year ended 30 June 2013

	Note	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
Cash flows from operating activities					
Inflows:					
Premium and fees received*		**26.5**	26.9	**6.0**	3.5
Interest received	1(c)	**169.6**	223.1	**12.8**	14.6
Insurance claim recoveries		**0.1**	0.1	**14.5**	13.8
Guarantees and associated costs recovered		**0.2**	0.2	-	-
Sundry income*		**2.7**	2.6	-	-
Rescheduled debt repayments		**4.0**	3.7	**16.9**	15.6
Net decrease/(increase) in other debtors and prepayments		**0.4**	0.1	**(0.6)**	2.5
Outflows:					
Premiums paid to reinsurers (net of commissions)		**(1.7)**	(5.9)	-	-
Interest and other costs of finance paid	1(c)	**(133.0)**	(199.4)	**(27.6)**	(34.1)
Loan administration management fee		**(0.3)**	(0.5)	-	-
Guarantees called and associated costs		**(0.2)**	(1.6)	-	-
Net repayments/(disbursements) of loans		**(90.4)**	(132.4)	**(17.6)**	(14.1)
Payments to creditors and employees*		**(26.1)**	(24.8)	-	-
Net cash from/(used by) operating activities	23	**(48.2)**	(107.9)	**4.4**	1.8
Cash flows from investing activities					
Inflows:					
Proceeds from available-for-sale investments		**1,195.8**	1,666.1	-	-
Proceeds from sale of property, plant and equipment		**0.1**	0.1	-	-
Outflows:					
Payments for available-for-sale investments		**(1,084.2)**	(1,210.9)	-	-
Payments for property, plant and equipment		**(3.3)**	(6.3)	-	-
Net cash from/(used by) investing activities		**108.4**	449.0	-	-

* Grossed up for Goods and Services Tax

	Note	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
Cash flows from financing activities					
Inflows:					
Receipts from the Commonwealth		-	-	**13.1**	16.3
Receipts from National Interest Account		**2.1**	1.5	-	-
Outflows:					
Net proceeds/(repayments) of borrowings		**(218.1)**	130.3	**4.7**	5.9
Dividend payments to the Commonwealth		**(257.0)**	-	-	-
Other payments to the Commonwealth		-	-	**(20.1)**	(22.5)
Payments to Commercial Account		-	-	**(2.1)**	(1.5)
Net cash from/(used by) financing activities		**(473.0)**	131.8	**(4.4)**	(1.8)
Net increase/(decrease) in cash equivalents held		**(412.8)**	472.9	-	-
Cash equivalents at beginning of financial year		**552.7**	80.3	-	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		**(9.7)**	(0.5)	-	-
Cash equivalents at end of financial year	23	**130.2**	552.7	-	-

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

Notes to and forming part of the financial statements

for the year ended 30 June 2013

Note 1: Summary of significant accounting policies

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

EFIC supports the growth of Australian companies in their international activities by providing tailored financial solutions when the private market faces constraints. As the Australian Government's export credit agency, we assist Australian-based businesses so that they can take advantage of commercial export and overseas investment opportunities. We also support buyers of Australian goods and services in emerging markets and subcontractors to Australian exporters.

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

The financial statements have been prepared in accordance with:

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

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

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

(i) Business undertaken on the Commercial Account

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

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

(ii) Business undertaken on the National Interest Account

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

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

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

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

(b) New Australian Accounting Standards (AAS)

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

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

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

Listed below are the standards (including reissued standards) and interpretations introduced by the Australian Accounting Standards Board (AASB) this year that will become effective in the future. Based on an initial assessment at this date the expected impact on the financial statements of adoption of these standards is not significant, other than the requirements of AASB 9 'Financial Instruments' which does not come into effect until 2015 and EFIC has not yet determined the impact. EFIC intends to adopt all the standards upon their application date.

Standard	Title	Application date for EFIC
AASB 2	Share-based payment	1 July 2013
AASB 3	Business combinations	1 July 2013
AASB 4	Insurance contracts	1 July 2013
AASB 5	Non-current Assets Held for Sale and Discontinued Operations	1 July 2013
AASB 7	Financial Instruments: Disclosures	1 July 2013
AASB 8	Operating Segments	1 July 2013
AASB 10	Consolidated financial statements	1 July 2013
AASB 11	Joint arrangements	1 July 2013
AASB 12	Disclosure of interests in other entities	1 July 2013
AASB 13	Fair value measurement	1 July 2013
AASB 102	Inventories	1 July 2013
AASB 107	Statement of Cash Flows	1 July 2013
AASB 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 July 2013
AASB 110	Events after the Reporting Period	1 July 2013
AASB 112	Income taxes	1 July 2013
AASB 116	Property, Plant and Equipment	1 July 2013
AASB 118	Revenue	1 July 2013
AASB 119	Employee benefits	1 July 2013
AASB 127	Separate financial statements	1 July 2013
AASB 128	Investments in associates and joint ventures	1 July 2013
AASB 131	Interests in Joint Ventures	1 July 2013
AASB 1053	Application of tiers of AAS	1 July 2013
Interp. 20	Stripping costs in the production phase of a surface mine	1 July 2013
AASB 2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013
AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements	1 July 2013
AASB 2011-4	Amendments to AAS to remove individual key management personnel disclosure requirements	1 July 2013
AASB 2011-6	Amendments to AAS - extending relief from consolidation, the equity method and proportionate consolidation - reduced disclosure requirements	1 July 2013
AASB 2011-7	Amendments to AAS arising from the consolidation and joint arrangements standards	1 July 2013
AASB 2011-8	Amendments to AAS arising from fair value measurement standard	1 July 2013
AASB 2011-10	Amendments to AAS arising from employee benefits	1 July 2013
AASB 2011-11	Amendments to employee benefits arising from reduced disclosure requirements	1 July 2013
AASB 2012-1	Amendments to AAS - fair value measurement - reduced disclosure requirements	1 July 2013
AASB 2012-2	Amendments to AAS - disclosures - offsetting financial assets and financial liabilities	1 July 2013
AASB 2012-5	Amendments to AAS arising from annual Improvements 2009-2011 cycle	1 July 2013
AASB 2012-7	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013
AASB 2012-9	Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039	1 July 2013
AASB 2012-10	Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments	1 July 2013
AASB 2012-11	Amendments to Australian Accounting Standards - Reduced Disclosure Requirements and Other Amendments	1 July 2013
AASB 2013-2	Amendments to AASB 1038 - Regulatory Capital	1 July 2013
AASB 1055	Budgetary Reporting	1 July 2014
AASB 2012-3	Amendments to AAS - offsetting financial assets and financial liabilities	1 July 2014
AASB 2013-1	Amendments to AASB 1049 - Relocation of Budgetary Reporting Requirements	1 July 2014
AASB 2013-3	Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets	1 July 2014
AASB 9	Financial instruments	1 July 2015
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	1 July 2015

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

(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.

(f) Foreign currency

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

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

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

	2013	2012
Average rates during year		
US$ / A$	**1.0272**	1.0317
Euro / A$	**0.7953**	0.7712
Yen / A$	**89.7431**	81.1281
Rates at 30 June		
US$ / A$	**0.9278**	1.0189
Euro / A$	**0.7096**	0.8089
Yen / A$	**91.6200**	80.8956

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

(g) Hedge accounting

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

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

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

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

(h) Taxation

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

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

(i) Cash and liquid assets

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

(j) Receivables from other financial institutions

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

(k) Available-for-sale investment securities

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

(l) Loans and receivables at amortised cost

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

On the National Interest Account, export finance loans and rescheduled credit insurance debts are carried at amortised cost. The recoverable amount is represented by the gross value of the outstanding balances, adjusted by specific provisions for impairment, 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.

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

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

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

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

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

(o) Derivative financial instruments

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

(p) Property, plant and equipment

Property, plant and equipment are revalued periodically to fair value, as required by Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for periods ended on or after 1 July 2011) under subsection 48(1) of the CAC Act.

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

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

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

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

Depreciation rates used are as follows:

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

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

(q) Payables to other financial institutions

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

(r) Borrowings from Commercial Account

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

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

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

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

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

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

(u) Employee entitlements

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

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

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

(v) Sundry creditors

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

(w) Cash flows

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

(x) Contingencies and commitments - assets and liabilities

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

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

(y) Events after the reporting period

There have been no material events occurring after the reporting period that impact these financial statements for the year ending 30 June 2013.

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 2013, and it has been determined that no investment is considered to be impaired. On a portfolio basis there has been an appreciation in the value of the available-for-sale investments since purchase.

Plant and equipment

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

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

Fair value of financial instruments

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

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

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

During the year EFIC implemented an external valuation system to obtain the fair value for our loans, borrowings and derivatives. This system replaced valuations that had previously been either in a spreadsheet model or calculated in reports written from our existing treasury system.

Note 3: Revenue and expenses

		Commercial Account		National Interest Account	
	Note	**30 June 2013 $ m**	30 June 2012 $ m	**30 June 2013 $ m**	30 June 2012 $ m
(i) Interest income					
Receivables from other financial institutions		**1.9**	3.0	**-**	-
Available-for-sale investment securities		**36.3**	59.9	**-**	-
Loans at amortised cost		**0.2**	0.3	**28.5**	33.9
Loans and receivables designated at fair value through profit or loss		**11.8**	11.4	**-**	-
Loans to National Interest Account designated at fair value through profit or loss		**26.2**	32.7	**-**	-
Derivative financial instruments	1(c)	**85.3**	136.6	**-**	-
Total interest income		**161.7**	243.9	**28.5**	33.9
(ii) Interest expense					
Payables to other financial institutions		**(0.6)**	(0.3)	**-**	-
Borrowings from Commercial Account		**-**	-	**(26.4)**	(32.7)
Borrowings at amortised cost		**(0.2)**	(0.2)	**-**	-
Borrowings designated at fair value through profit or loss		**(68.5)**	(93.6)	**-**	-
Derivative financial instruments	1(c)	**(59.6)**	(111.7)	**-**	-
Total interest expense		**(128.9)**	(205.8)	**(26.4)**	(32.7)
(iii) Fair value movement of third-party loans and guarantees					
Net premium and fees		**31.7**	40.7	**-**	-
Reinsurance		**(5.4)**	(16.2)	**-**	-
Interest income/(expense)		**(1.7)**	1.8	**-**	-
Credit risk		**(6.8)**	(8.6)	**-**	-
Specific events		**(3.4)**	0.2	**-**	-
Foreign exchange profit/(loss) on premium		**0.6**	(1.4)	**-**	-
Total fair value movement of third-party loans and guarantees		**15.0**	16.5	**-**	-
(iv) Fair value movement of other financial instruments					
Available-for-sale investment securities		**(0.4)**	0.3	**-**	-
Loans to National Interest Account designated at fair value through profit or loss		**(15.0)**	(2.5)	**-**	-
Borrowings designated at fair value through profit or loss		**0.2**	(96.7)	**-**	-
Derivative financial instruments		**12.2**	94.8	**-**	-
Total fair value movement of other financial instruments		**(3.0)**	(4.1)	**-**	-

Note 3: Revenue and expenses *(continued)*

	Commercial Account		National Interest Account	
	30 June 2013 $ m	30 June 2012 $ m	**30 June 2013 $ m**	30 June 2012 $ m
(v) Other revenue				
Premium and fees	-	-	**7.6**	5.3
Foreign exchange profit/(loss) on premium	-	-	**0.1**	-
Rental income	**2.4**	2.3	-	-
Sundry income	**0.1**	0.1	-	-
Profit on sale of available-for-sale investment securities	**1.9**	-	-	-
Recoveries from export finance	**0.2**	0.2	-	-
Recoveries from credit insurance	**0.1**	0.5	**14.9**	19.8
Total other revenue	**4.7**	3.1	**22.6**	25.1
(vi) Operating expenses				
Staff costs	**(15.1)**	(14.5)	-	-
Depreciation	**(3.2)**	(2.5)	-	-
Professional fees	**(2.1)**	(1.9)	-	-
Superannuation costs	**(1.5)**	(1.4)	-	-
Advertising and promotional costs	**(1.4)**	(1.4)	-	-
Travel costs	**(1.3)**	(1.5)	-	-
Property costs	**(1.2)**	(1.7)	-	-
Computer and communication costs	**(0.8)**	(0.8)	-	-
Provision for employee entitlements	**(0.4)**	(0.5)	-	-
Credit information	**(0.4)**	(0.5)	-	-
Other expenses	**(1.7)**	(1.4)	-	-
National Interest Account recovery/(expense)	**2.2**	1.4	**(2.2)**	(1.4)
Total operating expenses	**(26.9)**	(26.7)	**(2.2)**	(1.4)
(vii) Credit/(charge) to sundry allowances				
Allowances for claims and litigation	-	0.1	-	-
Total credit/(charge) to sundry allowances	-	0.1	-	-
(viii) Credit/(charge) to specific provisions				
Debt forgiveness	-	-	**(8.3)**	(8.1)
Total credit/(charge) to specific provisions	-	-	**(8.3)**	(8.1)

On 8 July 2010 the 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 $8.3 million ($8.1m 2012) was cancelled and the remainder is available to be cancelled if the Republic of Indonesia continues to invest in approved tuberculosis programs.

Note 4: Receivables from other financial institutions

	Note	Commercial Account		National Interest Account	
		30 June 2013 $ m	30 June 2012 $ m	**30 June 2013 $ m**	30 June 2012 $ m
	1(j)				
Overnight deposits		**30.3**	28.5	-	-
Fixed cash deposits		**99.3**	523.6	-	-
Total receivables from other financial institutions		**129.6**	552.1	-	-
Maturity analysis of receivables from other financial institutions					
At call		**30.3**	28.5	-	-
Due in less than 3 months		**61.9**	488.8	-	-
Due after 3 months to 1 year		**37.4**	34.8	-	-
Total receivables from other financial institutions		**129.6**	552.1	-	-

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

Note 5: Amounts receivable from the Commonwealth

	Commercial Account		National Interest Account	
	30 June 2013 $ m	30 June 2012 $ m	**30 June 2013 $ m**	30 June 2012 $ m
Commonwealth opening balance receivable	-	-	**10.7**	21.1
Net (receipts from)/payments to the Commonwealth	-	-	**7.1**	6.2
	-	-	**17.8**	27.3
Less: Profit/(loss) for the year on National Interest Account	-	-	**14.0**	16.6
Total amounts receivable from the Commonwealth	-	-	**3.8**	10.7

Note 6: Available-for-sale investment securities

	Note	Commercial Account		National Interest Account	
		30 June 2013 $ m	30 June 2012 $ m	**30 June 2013 $ m**	30 June 2012 $ m
	1(k)				
Discount securities		**265.5**	112.5	-	-
Floating rate notes		**249.3**	427.0	-	-
Fixed rate bonds		**230.4**	302.3	-	-
Total available-for-sale investment securities		**745.2**	841.8	-	-
Maturity analysis of available-for-sale investment securities					
Due in 3 months or less		**24.4**	114.6	-	-
Due after 3 months to 1 year		**354.0**	216.7	-	-
Due after 1 year to 5 years		**366.8**	510.5	-	-
Total available-for-sale investment securities		**745.2**	841.8	-	-

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

Note 7: Loans and receivables at amortised cost

	Note	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
	1(l)				
Gross export finance loans		-	-	674.9	599.6
Gross funded export finance guarantees		36.9	39.7	-	-
Gross rescheduled credit insurance debts		-	-	72.1	87.0
Loans and receivables gross		36.9	39.7	747.0	686.6
Unearned premiums		-	-	(8.9)	(10.5)
Specific provision for impairment		-	-	(9.7)	(9.7)
Deferred income		-	-	(7.9)	(11.9)
Unamortised grants	1(e)	-	-	(34.9)	(42.8)
Total loans and receivables at amortised cost		36.9	39.7	685.6	611.7
Maturity analysis loans and receivables gross					
Overdue - impaired		-	-	9.7	9.7
Due in 3 months or less		-	-	21.3	19.2
Due after 3 months to 1 year		6.7	6.1	75.7	72.4
Due after 1 year to 5 years		26.8	24.4	289.3	297.1
Due after 5 years		3.4	9.2	351.0	288.2
Total loans and receivables gross		36.9	39.7	747.0	686.6
Restructured exposures included above		-	-	233.7	245.9
Specific provision					
Specific provision opening balance		-	-	9.7	9.7
Charge against profit		-	-	-	-
Specific provision closing balance		-	-	9.7	9.7
Impaired loans					
Impaired loans		-	-	9.7	9.7
Specific provision for impairment		-	-	(9.7)	(9.7)
Carrying value of impaired loans		-	-	-	-
Interest foregone on impaired loans		-	-	0.3	0.4

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

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

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

There are no overdue amounts for non-impaired loans.

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

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

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

	Note	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
	1(m)				
Gross export finance loans		564.0	473.8	-	-
Gross funded export finance guarantees		218.7	149.0	-	-
Gross rescheduled credit insurance debts		16.4	20.4	-	-
Loans and receivables gross		799.1	643.2	-	-
Fair value net premium and fees		18.6	19.2	-	-
Fair value interest income		2.5	1.2	-	-
Fair value of credit risk		(30.6)	(31.5)	-	-
Fair value of specific events		(6.4)	(5.4)	-	-
Total loans and receivables at fair value		783.2	626.7	-	-
Maturity analysis loans and receivables gross					
Overdue - impaired		6.4	5.4	-	-
Overdue		1.5	1.2	-	-
Due in 3 months or less		53.8	13.6	-	-
Due after 3 months to 1 year		56.7	81.9	-	-
Due after 1 year to 5 years		303.8	231.0	-	-
Due after 5 years		376.9	310.1	-	-
Total loans and receivables gross		799.1	643.2	-	-
Restructured exposures included above		65.9	30.1	-	-
Impaired loans					
Impaired loans		6.4	5.4	-	-
Fair value of specific events on impaired loan		(6.4)	(5.4)	-	-
Carrying fair value of impaired loans		-	-	-	-

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

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

The overdue amount of $1.4m relates to a payment due in December 2012, for which EFIC paid a claim to the Lender under an Export Finance Guarantee. EFIC is in the process of negotiating terms and conditions with the Borrower to restructure this payment.

There is a loan for $0.1m overdue by three months and which has been repaid in July 2013.

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

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

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

Note 9: Derivative financial instruments

	Note	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
	1(o)				
Derivative financial assets					
Interest rate swaps		**66.2**	81.5	-	-
Cross-currency swaps		**113.9**	364.5	-	-
Forward foreign exchange contracts		**13.2**	1.5	-	-
Total derivative financial assets		**193.3**	447.5	-	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		**4.0**	132.3	-	-
Due after 3 months to 1 year		**55.6**	97.0	-	-
Due after 1 year to 5 years		**87.1**	191.5	-	-
Due after 5 years		**46.6**	26.7	-	-
Total derivative financial assets		**193.3**	447.5	-	-
Derivative financial liabilities					
Interest rate swaps		**64.0**	78.6	-	-
Cross-currency swaps		**114.2**	35.5	-	-
Forward foreign exchange contracts		**0.8**	4.1	-	-
Total derivative financial liabilities		**179.0**	118.2	-	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		**2.6**	6.6	-	-
Due after 3 months to 1 year		**3.4**	18.4	-	-
Due after 1 year to 5 years		**12.9**	83.8	-	-
Due after 5 years		**160.1**	9.4	-	-
Total derivative financial liabilities		**179.0**	118.2	-	-

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

Note 10: Property, plant and equipment

	Note	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
	1(p)				
Freehold land and building, at valuation		**38.9**	38.9	-	-
Accumulated depreciation		**(1.9)**	-	-	-
Net book value - land and building		**37.0**	38.9	-	-
Plant and equipment, at valuation		**13.6**	10.4	-	-
Accumulated depreciation		**(2.9)**	(1.6)	-	-
Net book value - plant and equipment		**10.7**	8.8	-	-
Total property, plant and equipment		**47.7**	47.7	-	-

	Land and buildings $ m	Plant and equipment $ m	Total $ m
Gross value			
Balance as at 30 June 2012	38.9	10.4	49.3
Additions	-	3.3	3.3
Disposals	-	(0.1)	(0.1)
Balance as at 30 June 2013	**38.9**	**13.6**	**52.5**
Accumulated depreciation			
Balance as at 30 June 2012	-	(1.6)	(1.6)
Depreciation charged for assets held at 1 July 2012	(1.9)	(1.2)	(3.1)
Depreciation charged for additions	-	(0.1)	(0.1)
Depreciation recovered on disposals	-	-	-
Balance as at 30 June 2013	**(1.9)**	**(2.9)**	**(4.8)**
Net book value as at 1 July 2012	38.9	8.8	47.7
Net book value as at 30 June 2013	**37.0**	**10.7**	**47.7**

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

	30 June 2013 $ m	30 June 2012 $ m
Leased accommodation		
Freehold land and building, at valuation	**20.7**	20.8
Accumulated depreciation	**(1.0)**	-
Written-down value	**19.7**	20.8
Depreciation expense	**1.0**	0.9

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

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

Note 11: Other assets

	Commercial Account		National Interest Account	
	30 June 2013 $ m	30 June 2012 $ m	30 June 2013 $ m	30 June 2012 $ m
Accrued interest receivable	-	0.1	6.0	6.8
Sundry debtors and prepayments	1.4	1.1	12.5	11.5
Total other assets	1.4	1.2	18.5	18.3

Note 12: Payables to other financial institutions

	Note	Commercial Account		National Interest Account	
		30 June 2013 $ m	30 June 2012 $ m	30 June 2013 $ m	30 June 2012 $ m
	1(q)				
Overnight borrowings		25.4	17.7	-	-
Floating rate borrowing*		36.8	39.7	-	-
Total payables to other financial institutions		62.2	57.4	-	-
Maturity analysis of payables to other financial institutions					
At call		25.4	17.7	-	-
Due in less than 3 months		-	-	-	-
Due after 3 months to 1 year		6.7	6.1	-	-
Due after 1 year to 5 years		26.8	24.4	-	-
Due after 5 years		3.3	9.2	-	-
Total payables to other financial institutions		62.2	57.4	-	-

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

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

	Note	Commercial Account		National Interest Account	
		30 June 2013 $ m	30 June 2012 $ m	30 June 2013 $ m	30 June 2012 $ m
	1(s)				
Borrowings		2,193.8	2,603.0	-	-
Total borrowings at fair value		2,193.8	2,603.0	-	-
Borrowings designated at fair value through profit or loss					
Structured borrowings					
Australian dollar		-	57.8	-	-
Japanese yen		303.1	536.4	-	-
US dollar		83.9	40.0	-	-
Total structured borrowings		387.0	634.2	-	-

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

	Commercial Account		National Interest Account	
	30 June 2013 $ m	30 June 2012 $ m	30 June 2013 $ m	30 June 2012 $ m
Borrowings designated at fair value through profit or loss				
Non-structured borrowings				
Australian dollar	1,172.2	1,353.0	-	-
Euro	17.4	24.8	-	-
New Zealand dollar	110.1	103.1	-	-
US dollar	43.7	41.6	-	-
Total non-structured borrowings	1,343.4	1,522.5	-	-
Euro commercial paper				
US dollar	463.4	446.3	-	-
Total euro commercial paper	463.4	446.3	-	-
Total borrowings at fair value	2,193.8	2,603.0	-	-
Maturity analysis of borrowings				
Due in 3 months or less	512.6	1,036.4	-	-
Due after 3 months to 1 year	249.5	345.4	-	-
Due after 1 year to 5 years	446.1	519.9	-	-
Due after 5 years	985.6	701.3	-	-
Total borrowings at fair value	2,193.8	2,603.0	-	-

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

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

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

	Note	Commercial Account		National Interest Account	
		30 June 2013 $ m	30 June 2012 $ m	30 June 2013 $ m	30 June 2012 $ m
	1(t)				
Fair value of credit risk		29.2	29.0	-	-
Fair value of specific events		9.9	0.2	-	-
Fair value of net premium receivable		(7.0)	(4.7)	-	-
Total guarantees designated at fair value through profit or loss		32.1	24.5	-	-

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

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

Note 15: Sundry provisions and allowances

	Note	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
Employee entitlements	1(u)	**3.5**	3.2	-	-
Dividend Payable		-	30.2	-	-
Allowances for unrecoverable costs		**0.1**	0.1	-	-
Total sundry provisions and allowances		**3.6**	33.5	-	-

Note 16: Other liabilities

	Note	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
Sundry creditors	1(v)	**19.7**	19.2	-	0.1
Interest payable		-	-	**5.4**	6.5
Total other liabilities		**19.7**	19.2	**5.4**	6.6

Note 17: Contingencies and commitments

	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
Contingent liabilities				
Guarantees	**336.8**	242.7	**10.6**	6.2
Bonds	**206.8**	185.5	-	0.1
Political risk insurance	**45.4**	41.4	-	-
Medium-term insurance	**291.0**	265.4	-	-
EFIC Headway guarantees	-	1.3	-	-
Total contingent liabilities	**880.0**	736.3	**10.6**	6.3
Contingent assets				
Potential recoveries of claims paid	**0.7**	0.7	**194.6**	189.4
Total contingent assets	**0.7**	0.7	**194.6**	189.4
Commitments to provide financial facilities				
Loans	**95.2**	4.7	**33.4**	116.8
Funded guarantees	**38.8**	80.0	-	-
Guarantees*	**333.6**	338.9	**2.7**	7.1
Bonds	**137.7**	205.2	-	-
Total commitments to provide financial facilities	**605.3**	628.8	**36.1**	123.9

* Guarantees include facilities signed under risk participation agreements.

Note 17: Contingencies and commitments *(continued)*

	Commercial Account 30 June 2013 $ m	Commercial Account 30 June 2012 $ m	National Interest Account 30 June 2013 $ m	National Interest Account 30 June 2012 $ m
Commitments payable				
Capital commitments				
Due in 1 year or less	-	0.8	-	-
Operating lease payable				
Due in 1 year or less	**0.2**	0.4	-	-
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	**0.4**	1.4	-	-
Commitments receivable				
Operating lease receivable				
Due in 1 year or less	**1.6**	1.8	-	-
Due after 1 year to 2 years	**1.2**	1.1	-	-
Due after 2 years to 5 years	**1.5**	1.2	-	-
Total commitments receivable	**4.3**	4.1	-	-

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

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

During the year recoveries from Iraq of $14.9 million were taken to income on the National Interest Account.

Commitments to provide financial facilities are contractually based.

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

Note 18: Financial risk management

(i) General

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

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

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

Note 18: Financial risk management *(continued)*

(ii) Credit risk

(a) Commercial Account exposures

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

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

	Note	30 June 2013 $ m	30 June 2012 $ m
Credit risk exposures			
Receivables from other financial institutions	4, 1(j)	**129.6**	552.1
Available-for-sale investment securities	6, 1(k)	**745.2**	841.8
Loans and receivables at amortised cost	7, 1(l)	**36.9**	39.7
Loans and receivables designated at fair value through profit and loss	8, 1(m)	**783.2**	626.7
Derivative financial instruments	9, 1(o)	**193.3**	447.5
Total*		**1,888.2**	2,507.8
Contingent liabilities	17	**880.0**	736.3
Commitments	17	**605.3**	628.8
Total		**1,485.3**	1,365.1
Total credit risk exposure		**3,373.5**	3,872.9

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

> *Exposures to Treasury counterparties*

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

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

(i) EFIC can invest surplus money with Authorised Deposit-taking Institutions (ADIs) in Australia rated BBB- or above
(ii) EFIC can invest surplus money in securities issued by or guaranteed by the Commonwealth, a State or Territory
(iii) EFIC can invest surplus money with other entities with credit ratings the equivalent of AA- or better
(iv) the investment of surplus money is limited to deposits with, or securities issued, by the above ADIs
(v) the investment of surplus money is limited to deposits with, or securities issued or guaranteed, by the above entities
(vi) investments in ADIs with a rating lower than A- must not exceed 25% of EFIC's total investments
(vii) investments in ADIs with a term longer than 6 months and a rating lower than A- must be able to be traded in the secondary market and must not exceed a term of 3 years
(viii) investments in an individual ADI with a rating lower than A- must not exceed 10% of EFIC's total investments.

Note 18: Financial risk management *(continued)*

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

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

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

All limits set by the Board are monitored by management. A Treasury Report, addressing prudential controls and risk is submitted to the Board Audit meeting quarterly, which then reports to the Board. A Treasury Report to each Board meeting on performance and strategy also addresses risk.

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 allow the contract to be terminated if the counterparty rating falls below an agreed credit rating and some contracts also have Credit Support Annexes in operation where EFIC receives collateral to offset the exposure.

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

	Note	30 June 2013 $ m	30 June 2012 $ m
Available-for-sale investment securities			
Authorised Deposit-taking Institutions in Australia			
AA-		**389.7**	276.4
A+		**20.2**	75.2
A		**-**	41.6
A-		**98.5**	-
BBB+		**63.8**	78.7
Other financial institutions or foreign entities			
AA+		**-**	56.7
AA		**-**	124.1
AA-		**152.8**	127.9
A+		**20.2**	51.1
A-		**-**	10.1
Exposure to credit risk of available-for-sale investment securities	6, 1(k)	**745.2**	841.8

Note 18: Financial risk management *(continued)*

	Note	30 June 2013 $ m	30 June 2012 $ m
Derivative financial instruments			
Authorised Deposit-taking Institutions in Australia			
AA-		**111.4**	169.4
Other financial institutions or foreign entities			
AAA		**12.1**	55.8
AA		**-**	0.6
AA-		**13.5**	92.3
A+		**40.1**	58.5
A		**16.2**	70.9
Exposure to credit risk for derivative financial instruments	9, 1(o)	**193.3**	447.5

For Treasury exposures there are no overdue or restructured amounts.

> *Exposures to clients*

EFIC's principal exposure to credit risk arises from the financing and credit facilities extended to clients. On the Commercial Account, loans written off during the year or credit facilities called was $0.2 million (2012: $1.6 million).

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

	Note	30 June 2013 $ m	30 June 2012 $ m
Gross exposures			
Export finance loans	8, 1(m)	**564.0**	473.8
Funded export finance guarantees	8, 1(m)	**218.7**	149.0
Rescheduled credit insurance debts	8, 1(m)	**16.4**	20.4
Funded export finance guarantees	7	**36.9**	39.7
Guarantees	17	**336.8**	242.7
Bonds	17	**206.8**	185.5
Political risk insurance	17	**45.4**	41.4
Medium-term insurance	17	**291.0**	265.4
EFIC Headway guarantees	17	**-**	1.3
Total gross exposures		**1,716.0**	1,419.2
Reinsured exposures included above		**362.4**	326.8

Note 18: Financial risk management *(continued)*

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

	30 June 2013 $ m	30 June 2013 % of total	30 June 2012 $ m	30 June 2012 % of total
Country exposures				
Australia*	**526.9**	**30.7**	448.6	31.6
Canada	**194.0**	**11.3**	176.7	12.5
United Arab Emirates	**132.0**	**7.7**	122.7	8.7
China	**111.5**	**6.5**	103.8	7.3
Indonesia	**78.5**	**4.6**	70.2	5.0
Trinidad and Tobago	**74.1**	**4.3**	79.7	5.6
Luxemburg	**59.4**	**3.5**	-	-
Denmark	**56.4**	**3.3**	54.4	3.8
Papua New Guinea	**52.4**	**3.0**	47.7	3.4
Russia	**50.7**	**3.0**	5.2	0.4
Sri Lanka	**49.9**	**2.9**	33.3	2.4
Turkey	**48.2**	**2.8**	51.0	3.6
United Kingdom	**44.7**	**2.6**	39.8	2.8
Japan	**42.9**	**2.5**	4.6	0.3
United States of America	**67.0**	**3.9**	79.4	5.6
Bermuda	**24.4**	**1.4**	17.4	1.2
Belgium	**21.3**	**1.2**	-	-
Vietnam	**16.9**	**1.0**	17.4	1.2
Egypt	**16.4**	**1.0**	20.4	1.4
Greece	**16.2**	**0.9**	14.2	1.0
France	**11.9**	**0.7**	-	-
Spain	**9.0**	**0.5**	17.6	1.2
French Polynesia	**6.4**	**0.4**	5.4	0.4
Philippines	**4.8**	**0.3**	8.2	0.6
Other	**0.1**	**0.0**	1.5	0.0
Total country exposures	**1,716.0**	**100.0**	1,419.2	100.0
Reinsured exposures included above	**362.4**		326.8	

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

Note 18: Financial risk management *(continued)*

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

	30 June 2013 $ m	30 June 2012 $ m
Allowance for credit risk by product		
Export finance loans	**(26.6)**	(26.5)
Funded export finance guarantees	**(6.9)**	(5.1)
Rescheduled credit insurance debts	**(4.0)**	(4.9)
Guarantees	**(19.9)**	(20.8)
Bonds	**(1.4)**	(2.0)
Medium Term Insurances	**(1.0)**	(1.0)
Political risk insurance	**-**	(0.1)
EFIC Headway guarantees	**-**	(0.1)
Allowance for credit risk closing balance	**(59.8)**	(60.5)

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

	30 June 2013 $ m	30 June 2012 $ m
Allowance for credit risk for gross exposures		
Allowance for credit risk opening balance	**(60.5)**	(51.9)
New exposures	**(12.9)**	(19.3)
Repayments	**11.5**	18.1
Change in risk grade	**(4.7)**	(8.5)
Change in term to maturity	**5.1**	4.6
Change in allowance rates	**(0.5)**	(3.2)
Transfer to specific events	**7.5**	-
Exchange rate movements	**(5.3)**	(0.3)
Allowance for credit risk closing balance	**(59.8)**	(60.5)

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

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

Note 18: Financial risk management *(continued)*

	Note	30 June 2013 $ m	30 June 2012 $ m
Loans and receivables designated at fair value through profit and loss			
Risk category 1 (AA- to AAA)		**134.2**	118.3
Risk category 2 (A- to A+)		**116.4**	87.0
Risk category 3 (BBB- to BBB+)		**353.1**	272.7
Risk category 4 (BB- to BB+)		**7.2**	6.2
Risk category 5 (B- to B+)		**104.7**	95.0
Risk category 6 (CCC+)		**51.8**	33.7
Risk category 7 (C to CCC)		**11.7**	13.8
Risk category 8 Doubtful		**4.1**	-
Risk category 9 Impaired		**-**	-
Loans and receivables designated at fair value through profit and loss	8, 1(m)	**783.2**	626.7

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

	Note	30 June 2013 $ m	30 June 2012 $ m
Contingent liabilities			
Risk category 1 (AA- to AAA)		**228.5**	223.8
Risk category 2 (A- to A+)		**111.3**	104.3
Risk category 3 (BBB- to BBB+)		**138.9**	170.4
Risk category 4 (BB- to BB+)		**179.5**	54.4
Risk category 5 (B- to B+)		**149.0**	128.4
Risk category 6 (CCC+)		**49.1**	28.3
Risk category 7 (C to CCC)		**9.1**	26.4
Risk category 8 Doubtful		**14.6**	-
Risk category 9 Impaired		**-**	0.3
Total contingent liabilities	17	**880.0**	736.3

Note 18: Financial risk management *(continued)*

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

	Note	30 June 2013 $ m	30 June 2012 $ m
Commitments			
Risk category 1 (AA- to AAA)		**20.9**	9.8
Risk category 2 (A- to A+)		**143.6**	114.9
Risk category 3 (BBB- to BBB+)		**269.2**	294.8
Risk category 4 (BB- to BB+)		**106.5**	138.6
Risk category 5 (B- to B+)		**42.3**	50.0
Risk category 6 (CCC+)		**22.8**	20.7
Total commitments	17	**605.3**	628.8

> *Retained sector exposure*

The sectors that represent more than 15% of EFIC's Commercial Account retained exposure are the construction, sovereign and manufacturing sectors. At 30 June 2013, the exposure to the construction sector accounted for $255.9 million, representing 18.9% of EFIC's total retained exposure (2012: $239.5 million, representing 21.9% of the total), the exposure to the sovereign sector accounted for $243.2 million, representing 18.0% of EFIC's total retained exposure (2012: $237.7 million, representing 21.8% of the total), the exposure to the manufacturing sector accounted for $278.4 million, representing 20.6% of EFIC's total retained exposure (2012: $208.8 million, representing 19.1% of the total).

The retained exposure is based on industry of risk, which may be different from the industry that is being supported. For the ship sector while the industry of risk is $97.0 million representing 7.2% of EFIC's retained exposure, a number of ships are sovereign risk due the the debt being with a Government owned entity. The ship sector based on industry of support and not industry of risk would be $247.8 million, representing 18.3% of EFIC's Commercial Account retained exposure.

> *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 3, 4, 5, 6, and 7 to reinsurers in risk categories 1 or 2.

Note 18: Financial risk management *(continued)*

	30 June 2013 $ m	30 June 2012 $ m
Reinsurance		
Reinsured to		
Risk category 1 (AA- to AAA)	**285.2**	280.7
Risk category 2 (A- to A+)	**77.2**	46.1
Reinsured from		
Risk category 2 (A- to A+)	**(215.3)**	(176.7)
Risk category 3 (BBB- to BBB+)	**(53.1)**	(50.6)
Risk category 4 (BB- to BB+)	**-**	(16.9)
Risk category 5 (B- to B+)	**-**	-
Risk category 6 (CCC+)	**(94.0)**	(81.4)
Risk category 7 (C to CCC)	**-**	(1.2)
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.

(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 $8.3 million during the year (2012: $8.1 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 2013 $ m	30 June 2012 $ m
Gross exposures			
Export finance loans	7, 1(l)	**674.9**	599.6
Rescheduled credit insurance debts	7, 1(l)	**72.1**	87.0
Guarantees	17	**10.6**	6.2
Bonds	17	**-**	0.1
Total gross exposures		**757.6**	692.9
Reinsured exposures included above		**5.0**	9.9

Note 18: Financial risk management *(continued)*

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

	2013 $ m	2013 % of total	2012 $ m	2012 % of total
Country exposures*				
Indonesia	**400.7**	**52.9**	424.5	61.3
Papua New Guinea	**114.7**	**15.1**	62.5	9.0
United States of America	**83.4**	**11.0**	52.6	7.6
Egypt	**72.1**	**9.5**	87.0	12.5
Australia**	**42.5**	**5.6**	23.6	3.4
China	**21.4**	**2.8**	22.7	3.3
Japan	**11.0**	**1.5**	6.0	0.9
Cuba	**9.7**	**1.3**	9.7	1.4
Philippines	**2.1**	**0.3**	4.2	0.6
Other	**-**	**-**	0.1	-
Total country exposures	**757.6**	**100.0**	692.9	100.0
Reinsured exposures included above	**5.0**		9.9	

* Excludes Iraq which is treated as a contingent asset.
** Includes performance bonds and guarantees issued on behalf of Australian companies.

(c) Rescheduled debt exposures

Indonesia: Scheduled payments from Indonesia for December 1998 to December 2003 have been rescheduled on three occasions in the Paris Club. The rescheduled payments totalled US$21 million on EFIC's Commercial Account and US$93 million and Euro 108 million on the National Interest Account. The repayment schedule for the rescheduled debts requires six-monthly payments until June 2019, June 2016, and June 2021 respectively depending on the rescheduling agreement. As at 30 June 2013 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Egypt: EFIC is owed $16.4 million by Egypt on the Commercial Account and US$21.4 million and $49.0 million on the National Interest Account. These debts arose from credit insurance claims in respect of wheat exports in the mid-1980s. These debts were subject to rescheduling (with partial forgiveness) at the Paris Club meetings of Egypt's government creditors in 1987 and 1991. The repayment schedule for the rescheduled debts calls for six-monthly payments until July 2016. As at 30 June 2013 all rescheduled amounts have been paid on time as per the rescheduling agreements.

Note 18: Financial risk management *(continued)*

(iii) Liquidity risk

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

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

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

Note 18: Financial risk management *(continued)*

While the above maturity profile shows a refinancing shortfall in the next 3 months, this is predominately due to the Euro commercial paper borrowing facility which comprises short term borrowings that are in part funding marketable available-for-sale investments securities with a maturity of no longer than two and half years. The majority of the Euro commercial paper maturing ($436.5 million) in the next 3 months will be reissued which will cover any refinancing shortfall shown in the maturity profile.

	Contractual undiscounted principal and interest			
30 June 2012	3 months or less $ m	3 months to 1 year $ m	1 year to 5 years $ m	Greater than 5 years $ m
Undiscounted financial assets				
Cash and liquid assets	0.6	-	-	-
Receivables from other financial institutions	517.8	34.9	-	-
Available-for-sale investment securities	123.4	238.4	535.0	-
Loans and receivables at amortised cost	-	6.4	25.2	9.3
Loans and receivables designated at fair value through profit or loss	14.3	97.3	304.5	342.4
Loans to National Interest Account designated at fair value through profit or loss	22.7	84.1	347.7	308.9
Derivative financial instruments				
- Contractual amounts receivable	832.4	517.4	829.7	1,005.9
Total undiscounted financial assets	1,511.2	978.5	2,042.1	1,666.5
Undiscounted financial liabilities				
Payables to other financial institutions	17.7	6.4	25.2	9.3
Borrowings designated at fair value through profit or loss				
- Euro commercial paper	387.7	58.9	-	-
- Non structured borrowings	519.0	40.5	410.9	807.9
- Structured borrowings	136.4	263.5	150.2	108.3
Derivative financial instruments				
- Contractual amounts payable	700.5	417.6	696.3	861.1
Total undiscounted financial liabilities	1,761.3	786.9	1,282.6	1,786.6
Net undiscounted financial assets/(liabilities)	(250.1)	191.6	759.5	(120.1)

Note 18: Financial risk management *(continued)*

(iv) Market risk

(a) Interest rate risk

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

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

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

Movement in cash flow hedge reserve:

	30 June 2013 $ m	30 June 2012 $ m
Cash flow hedge reserve		
Opening balance cash flow hedge reserve	**1.9**	2.3
Transferred to interest expense	**(0.7)**	(0.8)
Transferred to interest income	**1.2**	1.5
Net unrealised change in cash flow hedges	**(0.9)**	(1.1)
Closing balance cash flow hedge reserve	**1.5**	1.9

Fair value hedges are intended to hedge the exposure to variability in fair value movements that are attributable to future interest cash flows only. The financial instruments hedged for interest rate risk are available-for-sale investments. Interest rate swaps are used to hedge the interest rate risk. For the year ended June 2013, a $0.4 million ($0.3 million for 2012) loss was recognised on hedging instruments. The total gain on hedged items attributable to the hedged risks for June 2013 was $0.4 million ($0.3 million for 2012).

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

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

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

Note 18: Financial risk management *(continued)*

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

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

* Notional principal amounts.

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

Note 18: Financial risk management *(continued)*

	Contractual undiscounted principal exposure					
30 June 2012	Floating interest rate $ m	Non interest bearing $ m	Fixed Less than 1 year $ m	Fixed 1 to 5 years $ m	Fixed More than 5 years $ m	Fixed total $ m
Undiscounted principal exposures						
Financial assets						
Cash and liquid assets	0.6	-	-	-	-	-
Receivables from other financial institutions	551.6	-	-	-	-	-
Available-for-sale investment securities	539.5	-	21.8	261.2	-	283.0
Loans and receivables designated at amortised cost	39.7	-	-	-	-	-
Loans and receivables designated at fair value through profit or loss	563.7	-	14.7	57.7	7.0	79.4
Loans to National Interest Account designated at fair value through profit or loss	355.0	-	51.4	146.3	81.4	279.1
Total financial assets	2,050.1	-	87.9	465.2	88.4	641.5
Financial liabilities						
Payables to other financial institutions	57.4	-	-	-	-	-
Derivative financial instruments						
- Cross-currency swaps	37.3	-	(66.6)	(129.7)	(209.2)	(405.5)
- Interest rate swaps*	510.9	-	(248.1)	148.1	(410.9)	(510.9)
Borrowings designated at fair value through profit or loss	1,252.8	-	380.9	213.8	709.2	1,303.9
Other monetary liabilities	7.9	7.2	-	-	-	-
Total financial liabilities	1,866.3	7.2	66.2	232.2	89.1	387.5
Interest exposures	183.8	(7.2)	21.7	233.0	(0.7)	254.0
Capital and reserves portfolio	171.9	-	21.0	232.7	-	253.7
Net interest exposures	11.9	(7.2)	0.7	0.3	(0.7)	0.3

* Notional principal amounts.

Note 18: Financial risk management *(continued)*

> *Interest margin (duration)*

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

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

2013	Exposure at risk 2013 $ m	Increase in basis points Effect on profit 2013 $ m	Decrease in basis points Effect on profit 2013 $ m	Increase in basis points Effect on equity 2013 $ m	Decrease in basis points Effect on equity 2013 $ m
Capital and reserve portfolio					
Fixed rate investments	183.8				
Change of 120 basis points interest margin		-	-	(4.2)	4.3
Floating rate investments	24.1				
Change of 120 basis points interest margin		0.3	(0.3)	(0.3)	0.3
2012					
Capital and reserve portfolio					
Fixed rate investments	253.7				
Change of 120 basis points interest margin		-	-	(7.6)	7.9
Floating rate investments	171.9				
Change of 120 basis points interest margin		1.8	(1.8)	(0.2)	0.2

> *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.

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

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

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

Note 18: Financial risk management *(continued)*

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

	Exposure at risk 2013 $ m	Exposure at risk 2012 $ m	Increase in basis points Effect on equity 2013 $ m	Decrease in basis points Effect on equity 2013 $ m	Increase in basis points Effect on equity 2012 $ m	Decrease in basis points Effect on equity 2012 $ m
Investment portfolio						
Fixed rate investments	215.1	283.0				
Change of 50 basis points credit margin			(2.0)	2.0	(3.6)	3.6
Change of 120 basis points credit margin			(4.7)	4.8	(8.5)	8.8
Change of 200 basis points credit margin			(7.7)	8.1	(14.0)	14.8
Floating rate investments	645.9	1,091.1				
Change of 50 basis points credit margin			(2.6)	2.6	(3.2)	3.2
Change of 120 basis points credit margin			(6.1)	6.1	(7.8)	7.8
Change of 200 basis points credit margin			(10.2)	10.2	(13.0)	13.0

Note 18: Financial risk management *(continued)*

(b) Foreign exchange risk

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

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

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

As shown by the above table the net foreign exchange exposure as at 30 June 2013 is minimal in value for all currencies other than EUR of $19.9m and USD of $13.9m. The variance in these currencies is largely due to credit risk.

	Foreign currency fair value exposures			
30 June 2012	USD A$ m	EUR A$ m	JPY A$ m	Other A$ m
Financial assets exposure in foreign currencies				
Cash and liquid assets	0.1	-	-	0.1
Receivables from other financial institutions	523.6	-	-	-
Available-for-sale investment securities	79.3	63.5	-	-
Loans at amortised cost	39.7	-	-	-
Loans and receivables designated at fair value through profit or loss	525.1	50.1	-	-
Loans to National Interest Account designated at fair value through profit or loss	508.0	146.4	-	-
Derivative financial instruments	709.0	-	549.1	103.1
Total financial assets exposure in foreign currencies	2,384.8	260.0	549.1	103.2
Financial liabilities exposure in foreign currencies				
Payables to other financial institutions	54.4	3.0	-	-
Borrowings designated at fair value through profit or loss	527.9	24.7	536.4	103.1
Guarantees designated at fair value through profit or loss	11.5	10.4	0.7	0.3
Derivative financial instruments	1,791.1	242.1	12.7	-
Other liabilities	-	-	-	-
Total financial liabilities exposure in foreign currencies	2,384.9	280.2	549.8	103.4
Net foreign exchange exposures in foreign currencies	(0.1)	(20.2)	(0.7)	(0.2)

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

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

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

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

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

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

Note 18: Financial risk management *(continued)*

Sensitivity analysis for foreign exchange on the Commercial Account:

	Change in foreign exchange (FX) rate %	Exposure at risk 2013 A$ m	Increase in FX rate Effect on profit 2013 A$ m	Decrease in FX rate Effect on profit 2013 A$ m	Exposure at risk 2012 A$ m	Increase in FX rate Effect on profit 2012 A$ m	Decrease in FX rate Effect on profit 2012 A$ m
Exposure to USD	15.7	(13.9)	1.9	(2.6)	(0.1)	-	-
Exposure to EUR	15.7	(19.9)	2.7	(3.7)	(20.2)	2.7	(3.8)
Exposure to JPY	15.7	(0.4)	0.1	(0.1)	(0.7)	0.1	(0.1)

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

	USD 30 June 2013 A$ m	EUR 30 June 2013 A$ m	USD 30 June 2012 A$ m	EUR 30 June 2012 A$ m
Financial assets exposure				
Loans and receivables	530.8	120.5	437.7	132.4
Total financial assets exposure	530.8	120.5	437.7	132.4
Financial liabilities exposure				
Borrowings from Commercial Account	533.0	120.5	440.8	132.4
Total financial liabilities exposure	533.0	120.5	440.8	132.4
Net foreign exchange exposures	(2.2)	-	(3.1)	-

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

Sensitivity analysis for foreign exchange on the National Interest Account:

	Change in foreign exchange (FX) rate %	Exposure at risk 2013 A$ m	Increase in FX rate Effect on profit 2013 A$ m	Decrease in FX rate Effect on profit 2013 A$ m	Exposure at risk 2012 A$ m	Increase in FX rate Effect on profit 2012 A$ m	Decrease in FX rate Effect on profit 2012 A$ m
Exposure to USD	15.7	(2.2)	0.3	(0.4)	(3.1)	0.4	(0.6)

Note 19: Fair value of financial instruments

(i) Determination of fair value hierarchy

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

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

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

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

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

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

30 June 2012	Fair value exposures by hierarchy Level 1 $ m	Level 2 $ m	Level 3 $ m	Total $ m
Financial assets				
Loans and receivables designated at fair value through profit or loss	-	-	626.7	626.7
Loans to National Interest Account designated at fair value through profit or loss	-	716.6	-	716.6
Interest rate swaps	-	81.5	-	81.5
Cross-currency swaps	-	214.2	150.3	364.5
Forward foreign exchange contracts	-	1.5	-	1.5
Available-for-sale financial assets				
Discount securities	-	112.5	-	112.5
Floating rate notes	-	312.7	114.3	427.0
Fixed rate bonds	-	302.3	-	302.3
Total	-	1,741.3	891.3	2,632.6
Financial liabilities				
Borrowings designated at fair value through profit or loss	-	(1,968.8)	(568.3)	(2,537.1)
Guarantees designated at fair value through profit or loss	-	-	(24.5)	(24.5)
Interest rate swaps	-	(78.6)	-	(78.6)
Cross-currency swaps	-	(28.5)	(7.0)	(35.5)
Forward foreign exchange contracts	-	(4.1)	-	(4.1)
Total	-	(2,080.0)	(599.8)	(2,679.8)

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

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

Movement in level 3 fair value exposures

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

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

Movement in level 3 fair value exposures

	At 1 July 2011 $ 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 2012 $ m
Level 3 Financial assets								
Loans and receivables designated at fair value through profit or loss	480.8	195.4	(70.4)	23.6	-	-	(2.7)	626.7
Cross-currency swaps	147.4	-	(41.2)	14.9	-	7.4	21.8	150.3
Available-for-sale financial assets								
Floating rate notes	90.2	91.0	(68.6)	1.6	0.1	-	-	114.3
Fixed rate bonds	29.1	-	(30.2)	1.0	-	0.1	-	0.0
	747.5	286.4	(210.4)	41.1	0.1	7.5	19.1	891.3
Level 3 Financial liabilities								
Borrowings designated at fair value through profit or loss	(664.4)	-	161.0	(36.0)	-	(8.0)	(20.9)	(568.3)
Guarantees designated at fair value through profit or loss*	(25.7)	-	-	-	-	-	1.2	(24.5)
Cross-currency swaps	(7.1)	-	(1.7)	0.2	-	-	1.6	(7.0)
	(697.2)	-	159.3	(35.8)	-	(8.0)	(18.1)	(599.8)
Total net level 3	50.3	286.4	(51.1)	5.3	0.1	(0.5)	1.0	291.5

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

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

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

The following table shows sensitivity of level 3 fair value exposures on the Commercial Account:

	Sensitivity of level 3 Fair value exposures			
	At 30 June 2013 $ m	**Effect of reasonable alternative assumptions $ m**	At 30 June 2012 $ m	Effect of reasonable alternative assumptions $ m
Level 3 Financial assets				
Loans and receivables designated at fair value through profit or loss	**783.2**	**(9.2)**	626.7	(9.1)
Cross-currency swaps	**44.2**	**0.1**	150.3	0.6
Available-for-sale financial assets				
Floating rate notes	**148.5**	**(0.2)**	114.3	(0.2)
Level 3 Financial liabilities				
Borrowings designated at fair value through profit or loss	**(380.2)**	**(0.8)**	(568.3)	(2.0)
Guarantees designated at fair value through profit or loss	**(32.1)**	**(8.0)**	(24.5)	(5.7)
Cross-currency swaps	**(6.6)**	**0.0**	(7.0)	0.0

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

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

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

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

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

(ii) Determination of fair value

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

Available-for-sale investment securities

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

Commercial Account loans and receivables designated at fair value through profit 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. A 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 rates and using the valuation techniques of discounted cash flows through an external valuation system.

Derivative financial instruments

The fair value of derivative financial instruments is determined using market 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.

Commercial Account borrowings designated at fair value through profit or loss

The fair value of borrowings is determined using market 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.

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. A credit risk component is included in the valuation through an internal model to reflect the impact of expected loss on the fair value of each guarantee. A residual margin covering prepayment risks, other risks and servicing costs is also included in the fair value of the guarantee. When it is likely that a guarantee will be called, a specific event is recognised and recorded using the discounted cash flow method. All individual facilities are reviewed regularly.

Note 20: Capital equivalent

	Commercial Account		National Interest Account	
	30 June 2013 $ m	30 June 2012 $ m	**30 June 2013 $ m**	30 June 2012 $ m
Capital available				
Equity at start of period	**418.1**	408.1	-	-
Profit	**22.6**	26.8	-	-
Revaluation of land and buildings	-	10.9	-	-
Net gain on cash flow hedges	**(0.4)**	(0.4)	-	-
Net gain/(loss) on available-for-sale investments	**2.8**	2.9	-	-
Special dividend paid	**(200.0)**	-	-	-
Dividend payable/paid	**(26.8)**	(30.2)	-	-
Equity at end of period	**216.3**	418.1	-	-
Eligible allowance for credit risk in capital	**12.1**	12.2	-	-
EFIC capital	**228.4**	430.3	-	-
Callable capital	**200.0**	200.0	-	-
Capital available (including callable capital)	**428.4**	630.3	-	-
Capital required				
Export finance	**112.5**	102.1	-	-
Treasury	**30.9**	42.0	-	-
Other assets	**3.9**	3.9	-	-
Operational capital	**6.1**	6.1	-	-
Capital before concentration capital	**153.4**	154.1	-	-
Concentration capital	**185.7**	200.4	-	-
Total capital required	**339.1**	354.5	-	-
Capital ratios				
Risk weighted assets	**2,024.6**	2,033.9	-	-
Capital adequacy ratio (excluding callable capital)	**11.3%**	21.2%	-	-
Capital adequacy ratio (including callable capital)	**21.2%**	31.0%	-	-

Note 20: Capital equivalent *(continued)*

Commercial Account

Special dividend payment

EFIC's capital base has fallen from $630.3 million to $428.4 million principally as a result of the payment of the $200m special dividend announced by the Treasurer in the May 2012 Federal Budget. The special dividend was deferred until June 2013 as it could not be paid until the EFIC Act was amended. Previously under section 55(4) of the EFIC Act the dividend payable for a financial year could not exceed EFIC's profit for that year. Section 55A(1) was introduced into the EFIC Act giving power to the Minister to direct EFIC to pay a one-off dividend of $200 million, which was paid on 28 June 2013 in accordance with the amended legislation. Section 55A(2) was also introduced which gives the Minister power to direct EFIC to pay further specified dividends within a specific period.

The payment of special dividends reduces EFIC's cash capital (retained earnings) which currently generates investment earnings that help underpin EFIC's financial performance.

EFIC's model for assessing capital adequacy

Under section 56 of the EFIC Act the Board is required 'to ensure, according to sound commercial principles, that the capital and reserves of EFIC at any time are sufficient'. This requirement relates only to our Commercial Account activities. EFIC guides itself in fulfilling this obligation by setting its own regulatory standards drawing upon both the standards of APRA and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision.

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

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

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

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

EFIC requires a minimum capital adequacy ratio of 16% as set by the Board, which includes its callable capital of $200 million, and a ratio of 8% excluding the callable capital.

At 30 June 2013, EFIC's capital requirement based on risk weighted assets of $2.0 billion (2012 - $2.0 billion) is $339.1 million (2012 - $354.5 million) compared with available capital of $428.4 million (2012- $630.3 million). Whilst EFIC has the same level of risk weighted assets and similar capital required as 2012, it has $201.9 million less available capital to support growth in the portfolio. The capital adequacy ratio of 11.3% excluding callable capital and 21.2% including callable capital is lower than in 2012 (21.2% and 31.0% respectively).

Note 20: Capital equivalent *(continued)*

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. Recent changes to the EFIC Act which give 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.

Section 54(8) was also recently amended which gives the Minister power to increase EFIC's callable capital above $200 million. The Board has written to the Minister requesting an additional $200 million of callable capital to replace the $200 million of cash capital paid out for the special dividend. This would bring the total callable capital to $400 million if approved in full and restore EFIC's adherence to risk tolerance limits. The decision on the maximum level of exposure to hold at any one time is based on a certain level of known capital. These risk tolerances apply to an individual counterparty, a specific country or a specific industry.

As a consequence of the special dividend payment and the reduction in capital, EFIC has a number of exposures to individual counterparties and countries that have or will exceed previously approved Board limits. In the absence of additional capital, these exposures will need to be managed within lower risk tolerance limits.

EFIC's model for assessing large exposures

EFIC has modelled its large exposure policy on Basel and APRA guidelines and has limited large exposures to 25% of eligible capital for ERS grades 1 and 2 (A- and above) and adopted a more conservative guideline of 15% of eligible capital for ERS grades 3 and worse (below A-), with exceptions subject to Board approval. Given EFIC's reduced capital base from $630.3 million to $428.4 million, this means now a maximum large exposure of $107 million (previously $158 million) for an ERS 1 or 2 and $64 million (previously $95 million) for ERS 3 and worse.

Following the announcement that EFIC was required to pay a special dividend, the Board wrote to the Minister and held discussions with government officials outlining that a number of EFIC's existing exposures would exceed Board approved prudential limits unless replaced with an equivalent amount of callable capital. The Board highlighted that EFIC would have limited or no capacity to consider new exposures to some counterparties and reduced capacity in some emerging and frontier markets. Those discussions on additional callable capital are ongoing and the Board will continue to monitor its exposures to individual counterparties and countries consistent with the above limits.

National Interest Account

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

Note 21: Remuneration of external auditors

	Commercial Account		National Interest Account	
	30 June 2013 $	30 June 2012 $	**30 June 2013 $**	30 June 2012 $
Auditor's remuneration				
Amounts received or due and receivable by the corporation's auditors for:				
An audit or review of the financial report of the corporation	238,845	232,727	-	-
Other services in relation to the entity	-	-	-	-
Total audit remuneration	238,845	232,727	-	-

Note 22: Related party disclosures

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

	Commercial Account		National Interest Account	
	30 June 2013 $	30 June 2012 $	**30 June 2013 $**	30 June 2012 $
Senior Executive Remuneration Expenses for the Reporting Period				
Short-term employee benefits	2,357,446	2,390,941	-	-
Post-employment benefits	173,312	192,193	-	-
Termination benefits	-	141,115	-	-
Total remuneration	2,530,758	2,724,249	-	-

2013	Senior Executives No.	Reportable Salary	Contributed Super	Bonus Paid	Total
Average Annual Reportable Remuneration Paid to Substantive Senior Executives During the Reportable Period					
Commercial Account Total Remuneration					
less than $180,000	2	56,370	7,416	33,150	96,936
$270,000 to $299,999	1	274,117	16,470	6,500	297,087
$330,000 to $359,999	1	277,519	24,977	38,375	340,871
$360,000 to $389,999	1	306,084	24,951	48,323	379,358
$390,000 to $419,999	1	337,024	20,083	52,329	409,436
$450,000 to $479,999	1	382,975	25,000	69,575	477,550
$600,000 to $629,999	1	411,536	62,991	151,929	626,456
Total	8				

Note 22: Related party disclosures *(continued)*

2012	Senior Executives No.	Reportable Salary	Contributed Super	Bonus Paid	Total
Average Annual Reportable Remuneration Paid to Substantive Senior Executives During the Reportable Period					
Commercial Account Total Remuneration					
less than $150,000	2	93,993	17,599	16,778	128,370
$150,000 to $179,999	1	125,070	3,454	50,000	178,524
$240,000 to $269,999	1	235,310	21,178	-	256,488
$330,000 to $359,999	1	292,722	25,000	37,519	355,241
$360,000 to $389,999	1	283,171	34,435	61,299	378,905
$390,000 to $419,999	1	317,115	28,397	57,550	403,062
$420,000 to $449,999	1	344,991	47,482	56,636	449,109
$630,000 to $659,999	1	408,834	47,323	197,302	653,459
Total	9				

2013	Staff No.	Reportable Salary	Contributed Super	Bonus Paid	Total
Average Annual Reportable Remuneration Paid to Other Highly Paid Staff					
Commercial Account Total Remuneration					
$180,000 to $209,999	7	158,345	20,754	16,160	195,259
$210,000 to $239,999	12	170,167	25,048	25,946	221,161
$240,000 to $269,999	3	205,543	24,849	26,433	256,825
$270,000 to $299,999	4	228,736	23,600	29,250	281,586
$300,000 to $329,999	3	229,135	47,288	42,019	318,442
Total	29				

2012	Staff No.	Reportable Salary	Contributed Super	Bonus Paid	Total
Average Annual Reportable Remuneration Paid to Other Highly Paid Staff					
Commercial Account Total Remuneration					
$150,000 to $179,999	9	137,969	20,163	8,570	166,702
$180,000 to $209,999	11	155,292	22,438	18,917	196,647
$210,000 to $239,999	7	171,289	32,688	20,846	224,823
$240,000 to $269,999	6	214,002	19,088	17,659	250,749
$300,000 to $329,999	2	232,511	53,041	30,260	315,812
Total	35				

Note 22: Related party disclosures *(continued)*

	Commercial Account		National Interest Account	
	30 June 2013 No.	30 June 2012 No.	**30 June 2013 No.**	30 June 2012 No.
Non-executive Board Members				
$0 to $29,999	2	5	-	-
$30,000 to $59,999	4	3	-	-
$60,000 to $89,999	1	1	-	-
Total remuneration	7	9	-	-
Total remuneration received or receivable by Non-executive Board Members of EFIC	293,505	289,595	-	-

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

Mr A Mohl, Ms S Pitkin, Mr A Armour, Ms J Adams, Mr B Brook, Mr D Evans, Mr B Gosper, Mr N Minogue, Mr D Richardson, Ms J Seabrook, Ms D Shiff, and Mr P Varghese.

Changes in Board membership during the year:		
17 October 2012	Mr D Richardson	Appointment Ended
31 January 2013	Mr B Gosper	Appointment Ended
11 February 2013	Mr P Varghese	Appointed
1 March 2013	Mr B Brook	Reappointed
7 May 2013	Ms J Adams	Appointed

Subsequent to 30 June 2013, Ms A Chaplain was appointed to the Board on the 1st August 2013 and Ms S Pitkin's appointment ended on the 31st July 2013.

Transactions with Board Members and Board Member related entities

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

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

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

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

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

	Commercial Account		National Interest Account	
	30 June 2013 $ m	30 June 2012 $ m	30 June 2013 $ m	30 June 2012 $ m
Operating profit from ordinary activities	**22.6**	26.8	**14.0**	16.6
Reclassification on non-cash items				
Depreciation	**3.2**	2.5	-	-
Employee entitlements	**0.4**	0.5	-	-
Amortisation of deferred income	-	-	**(14.7)**	(18.0)
Credit risk movement	**6.8**	8.6	-	-
Foreign exchange (gains)/losses	**(0.6)**	1.6	**0.1**	0.2
Unearned premium	-	-	**(1.6)**	(1.8)
Fair value movement	**2.3**	(1.5)	-	-
Specific provision	**3.4**	(0.2)	**8.3**	8.1
Other	**(0.3)**	(0.4)	**(0.4)**	(0.3)
Reclassification on cash items				
Net movement in receivables/payables	**0.4**	(17.1)	**(0.6)**	(4.5)
Net repayments of loan balances	**(90.4)**	(132.4)	**(17.6)**	(14.1)
Rescheduled debt repayments	**4.0**	3.7	**16.9**	15.6
Net cash inflows/(outflows) from operating activities	**(48.2)**	(107.9)	**4.4**	1.8
Reconciliation of cash				
Cash at end of financial year is reconciled to the related items in the Balance Sheet as follows:				
Cash	**0.6**	0.6	-	-
Receivables from other financial institutions	**129.6**	552.1	-	-
Cash (including liquid funds) at end of financial year	**130.2**	552.7	-	-
Financing facilities				
Borrowing facilities available to EFIC at end of financial year				
Overdraft facilities	**0.3**	0.3	-	-
Amount of facilities used	-	-	-	-
Amount of facilities unused	**0.3**	0.3	-	-

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Table 9: Index of statutory reporting requirements

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