

Export Finance Australia

Financial Report

For the year ended 30 June 2023

Statement by Board Members and Chief Financial Officer

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

- (a) the accompanying financial statements are drawn up to give a true and fair view of the performance of Export Finance Australia for the year ended 30 June 2023 and the financial position of Export Finance Australia at 30 June 2023;
- (b) the financial statements for the year ended 30 June 2023 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)*;
- (c) the financial statements have been prepared in accordance with Australian Accounting Standards;
- (d) the financial statements have been prepared based on properly maintained financial records; and
- (e) there are reasonable grounds to believe that Export Finance Australia will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of the Board.



James M Millar AM
Chair
24 August 2023



John Hopkins
Managing Director & Chief Executive Officer
24 August 2023



Sonia Kammel
Chief Financial Officer
24 August 2023

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June	30 June	30 June	30 June
		2023	2022	2023	2022
		\$ m	\$ m	\$ m	\$ m
Interest income	3(i)	144.1	46.0	99.2	-
Other interest income	3(ii)	42.4	8.8	31.0	3.9
Interest expense	3(iii)	(166.1)	(40.1)	(195.0)	(10.7)
Net interest income		20.4	14.7	(64.8)	(6.8)
Fair value movement of loans, bonds, insurances and guarantees	3(iv)	47.1	36.0	32.6	-
Fair value movement of other financial instruments	3(v)	4.3	4.8	(46.5)	-
Unrealised foreign exchange gain/(loss)		(2.8)	(5.5)	4.1	1.0
Realised gain/(loss) on derivatives issued to Borrowers		-	-	2.8	-
Fair value movement of equity investments	3(vi)	-	-	(1.2)	-
Other revenue	3(vii)	4.9	3.6	37.5	33.9
Operating income		73.9	53.6	(35.5)	28.1
Operating expenses	3(viii)	(47.6)	(33.6)	(11.5)	(11.5)
Expected credit loss	3(ix)	-	-	(8.7)	(4.4)
State tax equivalent charges	3(x)	(2.0)	(1.7)	-	-
Net operating income		24.3	18.3	(55.7)	12.2
Specific provision	3(xi)	-	-	(4.1)	(3.6)
Profit/(loss) before tax equivalent		24.3	18.3	(59.8)	8.6
Income tax equivalent charge		(7.3)	(5.5)	-	-
Profit/(loss) from ordinary activities		17.0	12.8	(59.8)	8.6
National Interest Account attributable directly to the Commonwealth		-	-	59.8	(8.6)
Net profit available to the Commonwealth		17.0	12.8	-	-
Other comprehensive income					
<i>Items not subject to subsequent reclassification to profit or loss:</i>					
Gain on revaluation of land and buildings	10	-	37.0	-	-
Total other comprehensive (loss)/income for the period		-	37.0	-	-
Total comprehensive income for the period available to the Commonwealth		17.0	49.8	-	-

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

Statement of Financial Position

as at 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June	30 June	30 June	30 June
		2023	2022	2023	2022
		\$ m	\$ m	\$ m	\$ m
Assets					
Cash and liquid assets	1(h)	40.7	19.0	83.2	-
Receivables from other financial institutions	4, 1(i)	850.0	641.4	96.2	2,506.5
Amounts receivable from the Commonwealth	5	-	-	60.2	-
Investment securities at amortised cost	6, 1(j)	780.3	891.7	-	-
Loans and receivables at amortised cost	7, 1(k)	0.1	0.1	607.7	556.9
Loans and receivables designated at fair value through profit or loss	8, 1(l)	1,161.0	1,100.8	1,161.5	-
Loans to National Interest Account designated at fair value through profit or loss	1(m)	603.7	550.3	-	-
Derivative financial assets	9, 1(n)	29.2	23.3	2.5	-
Equity securities	10, 1(o)	-	-	939.6	-
Property, plant and equipment	11, 1(p)	139.8	143.2	-	-
Other financial assets	12	16.8	19.8	8.4	4.3
Total assets		3,621.6	3,389.6	2,959.3	3,067.7
Liabilities					
Payables to other financial institutions	1(q)	-	-	-	2,511.4
Amounts payable to the Commonwealth	5	-	-	-	0.2
Borrowings from Commercial Account at amortised cost	24, 1(r)	-	-	603.9	552.2
Borrowings designated at fair value through profit or loss	13, 1(s)	2,557.1	2,379.3	2,304.1	-
Guarantees bonds and insurances designated at fair value through profit or loss	14, 1(t)	11.2	8.5	10.8	-
Derivative financial liabilities	9, 1(o)	350.1	340.5	33.6	-
Sundry provisions and allowances	15	18.5	14.5	1.6	1.5
Other financial liabilities	16	87.2	59.9	5.3	2.4
Total liabilities		3,024.1	2,802.7	2,959.3	3,067.7
Net assets		597.5	586.9	-	-
Equity					
Contributed equity		206.0	206.0	-	-
Reserves		227.5	227.5	-	-
Retained profits		164.0	153.4	-	-
Total equity		597.5	586.9	-	-

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

Statement of Cash Flows

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June	30 June	30 June	30 June
		2023	2022	2023	2022
		\$ m	\$ m	\$ m	\$ m
Cash flows from operating activities					
Inflows:					
Premium and fees received*		74.6	46.5	43.8	15.0
Interest received		178.7	52.6	117.2	2.7
Insurance claim recoveries		0.1	0.1	20.5	18.5
Sundry income*		5.1	3.7	-	-
Proceeds from derivatives issued to Borrowers		-	-	33.9	-
Decrease in other debtors and prepayments		25.8	2.7	-	-
Net Increase/(decrease) in payables to the Commonwealth		-	-	2.1	1.1
Outflows:					
Premiums paid to reinsurers (net of commissions)		(2.0)	(2.1)	-	-
Interest and other costs of finance paid		(156.9)	(35.7)	(150.0)	(4.9)
Payments to creditors and employees*		(50.8)	(38.3)	(5.6)	(3.8)
Guarantees paid		(1.3)	-	-	-
Repayments for derivatives issued to Borrowers		-	-	(31.1)	-
Net (disbursements)/repayments of loans		(79.0)	72.4	(1,175.7)	(144.5)
Purchase of equity investments		-	-	(925.0)	-
Net cash from/(used by) operating activities	24	(5.7)	101.9	(2,069.9)	(115.9)
* Grossed up for Goods and Services Tax					
Cash flows from investing activities					
Inflows:					
Proceeds from investment securities		613.5	1,093.5	-	-
Outflows:					
Payments for investment securities		(502.1)	(1,128.9)	-	-
Payments for property, plant and equipment		(0.4)	(0.8)	-	-
Net cash from/(used by) investing activities		111.0	(36.2)	-	-
Cash flows from financing activities					
Inflows:					
Proceeds from payables to other financial institutions	24	-	16.1	2,471.2	3,750.7
Proceeds from other borrowings	24	4,958.1	4,264.5	2,501.5	184.7
Proceeds from derivatives	24	3,077.7	3,523.6	-	-
Receipts from the Commonwealth		-	-	44.9	8.8
Receipts from National Interest Account		7.2	5.0	-	-
Receipts from other Commonwealth entities		1.2	1.8	-	-
Outflows:					
Repayments of payables to other financial institutions	24	-	(16.1)	(5,097.6)	(1,370.5)
Repayments of other borrowings	24	(4,820.3)	(3,889.2)	(117.6)	(39.9)
Repayments of derivatives	24	(3,103.8)	(3,469.5)	-	-
Dividend payments to the Commonwealth		(6.4)	(5.7)	-	-
Other payments to the Commonwealth		(8.2)	(7.9)	(45.5)	(32.7)
Payments to Commercial Account		-	-	(7.2)	(5.0)
Net cash from/(used by) financing activities		105.5	422.6	(250.3)	2,496.1
Net increase/(decrease) in cash and cash equivalents held		210.8	488.3	(2,320.2)	2,380.2
Cash equivalents at beginning of financial year		660.4	150.1	2,506.5	-
Net effects of exchange rate changes on cash equivalent balances held in foreign currencies		19.5	22.0	(6.9)	126.3
Cash and cash equivalents at end of financial year	23	890.7	660.4	179.4	2,506.5

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

Statement of Changes in Equity

for the year ended 30 June 2023

Commercial Account	Retained	Asset		Contributed	Total
	Profits	Revaluation Reserves	Other Reserves	Equity	Equity
	\$ m	\$ m	\$ m	\$ m	\$ m
Opening balance as at 30 June 2022	153.4	161.3	66.2	206.0	586.9
Comprehensive income					
Other comprehensive income	-	-	-	-	-
Profit for the period	17.0	-	-	-	17.0
Total comprehensive income	17.0	-	-	-	17.0
Transactions with the Commonwealth					
Dividends paid	(6.4)	-	-	-	(6.4)
Closing balance available to the Commonwealth as at 30 June 2023	164.0	161.3	66.2	206.0	597.5

Commercial Account	Retained	Asset		Contributed	Total
	Profits	Revaluation Reserves	Other Reserves	Equity	Equity
	\$ m	\$ m	\$ m	\$ m	\$ m
Opening balance as at 30 June 2021	146.3	124.3	66.2	206.0	542.8
Comprehensive income					
Other comprehensive income	-	37.0	-	-	37.0
Profit for the period	12.8	-	-	-	12.8
Total comprehensive income	12.8	37.0	-	-	49.8
Transactions with the Commonwealth					
Dividends paid	(5.7)	-	-	-	(5.7)
Closing balance available to the Commonwealth as at 30 June 2022	153.4	161.3	66.2	206.0	586.9

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

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

Contributed equity comprises of \$6 million of capital advanced by the Commonwealth in November 1991 and an equity injection of \$200 million paid in July 2014 that restored the capital base following a \$200 million special dividend paid in June 2013.

In addition to the contributed equity, section 54 of the EFIC Act provides for \$1.2 billion of callable capital from the Commonwealth, which to date has never been called.

Other reserves of \$66.2 million represent other net assets transferred from the Australian Trade Commission on 1 November 1991.

As agreed with the Minister for Trade, Tourism and Investment (Minister), Export Finance Australia paid a dividend for the year ended 30 June 2022 based on the recommendation from the Board that 50% of the 2021–22 profit be paid as a dividend, and accordingly a dividend of \$6.4 million was paid in December 2022.

Notes to the financial statements

for the year ended 30 June 2023

Note 1 Summary of Significant Accounting Policies

Export Finance Australia (formerly known as the Export Finance and Insurance Corporation or Efic) is the Australian Government's export credit agency. We were established under the *Export Finance and Insurance Corporation Act 1991 (EFIC Act)* and are defined as a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)*. Export Finance Australia is part of the Department of Foreign Affairs and Trade portfolio of agencies, and reports to the Minister for Trade, Tourism and Investment (the Minister).

In recent years, the Government has enhanced Export Finance Australia's mandate to enable us to support a wider range of exporters, assist other government entities, and finance overseas infrastructure development.

These changes have complemented and enhanced Export Finance Australia's core export-focused mandate and enable us to use our specialist financing capabilities to support broader government policy initiatives.

We are a corporate Commonwealth entity with an independent Board who are responsible for managing the affairs of Export Finance Australia. This includes determining strategy, defining risk appetite and monitoring performance.

The continued existence of Export Finance Australia in its present form is dependent on Government policy.

(a) Basis of preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 42 of the PGPA Act.

The financial statements have been prepared in accordance with:

- the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that apply for the reporting period; and
- *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR)*.

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

Export Finance Australia 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

The majority of financial assets and liabilities on the Commercial Account are measured at fair value due to the way derivatives are used to hedge risk. Changes in fair value are taken through profit or loss. Some assets and liabilities, however, are measured at amortised cost. Typically, these transactions either qualify for hedge accounting, are receivables from other financial institutions, are investments in securities, or the transactions are short term and derivatives are not used to hedge the risk.

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

Financial assets and liabilities on the National Interest Account are measured at amortised cost or fair value depending on the nature of the instrument.

The National Interest Account operates on an approval or direction from the Minister for Trade, Tourism and Investment (Minister) enabling Export Finance Australia to undertake business activities under Part 5 of the EFIC Act, which the Minister considers to be in the 'national interest'. Such activities may relate to a class of business which Export Finance Australia is not authorised to undertake, or involve terms and conditions Export Finance Australia would not accept in the normal course of business. Where the Minister directs Export Finance Australia 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. 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 any losses incurred in respect of such business.

The EFIC Act also 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.

Notes to the financial statements

for the year ended 30 June 2023

Note 1 Summary of Significant Accounting Policies

(b) New Australian Accounting Standards (AAS)

Consistent with government policy, no accounting standard has been adopted earlier than the application date as stated in the standard. There has been no new standards that have an application date for this financial year that affect the financial statements. New standards not yet effective are not anticipated to have a material impact.

(c) Recognition of Income and expenses

For assets and liabilities held at fair value under the Commercial Account and the National Interest Account, revenue and expenses are recognised and measured at the fair value of the consideration received/paid or receivable/payable, to the extent it is probable that the economic benefits will flow and the revenue or expense can be reliably measured.

For assets and liabilities held at amortised cost under the National Interest Account, income and expense is recognised in the financial statements as earned or incurred from the date of attachment of risk and taken through the profit or loss using the effective interest method.

(d) Operating segments

Export Finance Australia operates its specialist financing activities through a single business segment - Export and Infrastructure Finance. Export Finance includes support for SME customers as well as larger corporate and sovereign customers by providing them with loans, bonds, guarantees and insurance products.

(e) Foreign currency

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

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

The principal exchange rates affecting the statement of financial position are the US dollar and the euro. The relevant exchange rates used are:

	2023	2022
Average rates during year		
US\$ / A\$	0.6729	0.7257
Euro / A\$	0.6649	0.6437
Rates at 30 June		
US\$ / A\$	0.6622	0.6877
Euro / A\$	0.6093	0.6587
PGK / A\$	2.3885	n/a

(f) Taxation

Under section 63 of the EFIC Act, Export Finance Australia is not subject to income tax and a number of other taxes. Under section 63A, Export Finance Australia is subject to tax-equivalent payments under competitive neutrality arrangements as outlined below.

Export Finance Australia is also 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.

(g) Competitive neutrality

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

Under section 61A of the EFIC Act, a direction dated 18 June 2015 by the Minister requires Export Finance Australia to pay a debt neutrality charge to the Commonwealth that consists of:

- a payment of 10 basis points on Export Finance Australia's cost of borrowing, which applies to all new borrowings and to existing debt that is rolled over or refinanced.
- On 31 January 2020, the Minister advised Export Finance Australia that the debt neutrality charge would no longer apply to new borrowings on the National Interest Account. The charge now applies to new borrowings on the Commercial Account and all existing Commercial Account debt that is rolled over or refinanced.

Notes to the financial statements

for the year ended 30 June 2023

Note 1 Summary of Significant Accounting Policies

Under section 63A of the EFIC Act, a direction dated 18 June 2015 by the Minister requires Export Finance Australia to pay a tax-equivalent payment to the Commonwealth that consists of:

- a payment in lieu of Commonwealth income tax at 30% of accounting profits, and realised capital gains;
- a payment in lieu of New South Wales payroll tax calculated at 4.85% above the relevant threshold; and
- a payment in lieu of New South Wales land tax calculated at 2% above the relevant threshold.

(h) 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.

(i) Receivables from other financial institutions

Receivables from other financial institutions include overnight deposits and short-term fixed deposits with banks and other financial institutions. These are measured at amortised cost. They can be on both Commercial Account and also the National Interest Account if the funding is borrowed directly to fund National Interest loans is greater than the loans and the balance is invested.

(j) Investment securities at amortised cost

The reason for holding investments is to collect the contractual cash flows which are 'solely payments of principal and interest on the principal amount outstanding'. Export Finance Australia's business model is to hold these financial assets until maturity. Investments may be sold due to credit quality issues and in limited cases for cash requirements. 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 amortised cost.

(k) Loans and receivables at amortised cost

On the Commercial Account, transactions that are recorded at amortised cost are floating rate loans and short-term loans. These transactions do not use derivatives to hedge. As such the amortised value approximates their fair value. Loans measured at amortised cost are evaluated for impairment using an expected credit loss model.

On the National Interest Account, export finance loans that meet the definition of amortised cost 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 expected credit loss, 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. An expected credit loss is recognised for corporate National Interest Account exposures.

(l) 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.

Some export finance loans held on the National Interest Account interest are classified as fair value through profit and loss as it fails the solely payment of principal and interest test under AASB 9 due to embedded foreign exchange derivatives features.

For export finance loans and rescheduled credit insurance debts, 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 for loans held in the Commercial and National Interest Account, refer to Note 19.

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

The Commercial Account funds most of the loans on the National Interest Account from the pool of borrowings 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.

Notes to the financial statements

for the year ended 30 June 2023

Note 1 Summary of Significant Accounting Policies

(n) Derivative financial instruments

Export Finance Australia 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, 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 details on the fair value calculation, refer to Note 19.

The National Interest Account uses derivative financial instruments to manage exposure to interest rate risks and certain loans have embedded derivative financial instruments.

(o) Equity securities at fair value through profit or loss

The amounts held in equity investments on the National Interest Account Interest are classified as fair value through profit and loss and are classified as equity as they fall the accounting requirements to meet the definition of a loan. 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 to ensure that the carrying amounts of assets do not differ materially from the assets fair value at the reporting date.

The valuation of property, comprising land and buildings, is made by an independent registered valuer every three years based on an income approach and discounted cash flow analysis with reference to its highest and best use.

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:

· building	3.0% 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 at amortised cost. They can be on both Commercial Account and also the National Interest Account if the funding is borrowed on a direct basis for an National Interest loan rather than from the pool of funds.

(r) Borrowings from Commercial Account

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

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

Commercial paper, medium-term notes, bonds and structured bonds (which may have embedded derivatives) are designated at fair value through profit or loss. They are designated at fair value as this designation significantly reduces the accounting mismatch that would 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. They can be on both Commercial Account and also the National Interest Account if the funding is borrowed on a direct basis for an National Interest loan rather than from the pool of funds. The movement in fair value is recorded separately through profit or loss. For more details 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 details on the fair value calculation, refer to Note 19.

Notes to the financial statements

for the year ended 30 June 2023

Note 1 Summary of Significant Accounting Policies

(u) Employee entitlements

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

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

Export Finance Australia 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 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.

Export Finance Australia staff can also be members of superannuation funds held outside the Australian Government. Export Finance Australia makes employer contributions to these funds as per the superannuation guarantee contribution rate. The liability for superannuation recognised as at 30 June represents outstanding contributions.

(v) Sundry creditors

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

(w) Cash and cash equivalents

For the purpose of the cash flow statement, cash and 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 Export Finance Australia, this will be disclosed as a contingent asset or contingent liability. When the inflow of economic benefits is probable, but not virtually certain, a contingent asset is recognised. When the outflow of economic benefits is probable, a contingent liability is recognised.

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

Export Finance Australia is a respondent in legal proceedings commenced against it (and other parties) which arose in the ordinary course of business. Any liabilities arising from such legal actions are not expected to have a material adverse effect on Export Finance Australia. Provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

(y) Insurance guarantees

Export Finance Australia can issue insurance guarantee contracts to borrowers as part of loan agreements. Premium revenue includes amounts charged to borrowers. Premiums are recognised as revenue from the date of attachment of risk over the period of the insurance policy, which is usually one year.

(z) Events after the reporting period

There have been no material events occurring after the reporting period that impact these financial statements for the year ended 30 June 2023.

Notes to the financial statements

for the year ended 30 June 2023

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 Investment securities at amortised cost

Export Finance Australia holds a number of investment securities. A review of these investments has been undertaken for the year ended 30 June 2023 and it has been determined that no investment is considered to be impaired. These investments have a maturity of less than three years and are held with Australian ADIs rated BBB or above, or foreign financial institutions rates AA- or above.

Property, plant and equipment

The valuation of land and buildings is based on an independent assessment by a registered valuer every three (3) years. The valuation is based on an income approach and discounted cash flow analysis with reference to its highest and best use. A valuation was undertaken June 2023 and the details are in Note 10.

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

The depreciation rate on the building has been evaluated and 33 years (3.0%) is considered the appropriate rate.

Fair value of financial instruments

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

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

Due to the complex nature of transaction entered on the National Interest Account an independent valuation of these loans at fair value and equity investments at fair value was obtained. The fair value provided was based on calculation methods and assumptions which reflect market information that can be distilled from actively traded markets. This provides market related valuations, which are consistent with the market information available. Net present value of cashflows and credit adjusted spreads were taken into account in the valuation.

LIBOR replacement

Export Finance Australia has historically used LIBOR-based prices for transaction with our customers, borrowings, investments and derivative arrangements. Export Finance Australia closely matched its LIBOR-based assets and liabilities to lock in margins. Accordingly changes in LIBOR had minimal impact on margin. Export Finance Australia retained LIBOR on our existing deals for June and used LIBOR forward curves for valuation for June. From July to December all deals will transition from LIBOR to SOFR with the appropriate credit adjustment spread or margin. The impact of the changes are expected to be minimal.

Notes to the financial statements

for the year ended 30 June 2023

	Commercial Account		National Interest Account	
	30 June	30 June	30 June	30 June
	2023	2022	2023	2022
Note	\$ m	\$ m	\$ m	\$ m
Note 3 Revenue and Expenses				
(i) Interest income				
Interest from loans and receivables	52.7	12.4	27.2	-
Interest from Loans to National Interest Account	21.6	2.2	-	-
Derivative interest income	69.8	31.4	72.0	-
Total interest income	144.1	46.0	99.2	-
(ii) Other Interest Income				
Interest from other financial institutions	23.3	1.4	7.0	0.2
Interest from Investment securities	19.1	7.4	-	-
Interest from loans at amortised cost	-	-	24.0	3.7
Total other interest income	42.4	8.8	31.0	3.9
(iii) Interest expense				
Interest to other financial institutions	(1.9)	(0.3)	(0.1)	(7.0)
Interest on borrowings from Commercial Account	-	-	(24.0)	(3.7)
Interest on borrowings	(58.6)	(28.6)	(93.0)	-
Derivative interest expense	(104.1)	(10.1)	(77.9)	-
Debt neutrality charge	(1.5)	(1.1)	-	-
Total interest expense	(166.1)	(40.1)	(195.0)	(10.7)
(iv) Fair value movement of loans, bonds, insurances and guarantees				
Net premium and fees	73.6	33.9	28.9	-
Reinsurance	(5.4)	0.3	-	-
Interest	(1.1)	(6.4)	-	-
Credit risk	(11.4)	17.1	3.7	-
Claims paid	(0.3)	-	-	-
Specific credit risk	(8.3)	(8.9)	-	-
Total fair value movement of loans bonds, insurances and guarantees	47.1	36.0	32.6	-
(v) Fair value movement of other financial instruments				
Loans to National Interest Account designated at fair value through profit or loss	(1.6)	(3.8)	-	-
Borrowings designated at fair value through profit or loss	(0.9)	164.8	(33.9)	-
Derivative financial instruments	6.8	(156.2)	(12.6)	-
Total fair value movement of other financial instruments	4.3	4.8	(46.5)	-
(vi) Fair value movement equity investments				
Fair Value	-	-	(1.2)	-
Total fair value movement equity investments	-	-	(1.2)	-

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June	30 June	30 June	30 June
		2023	2022	2023	2022
		\$ m	\$ m	\$ m	\$ m
Note 3 Revenue and Expenses					
(vii) Other revenue					
Premium and fees from loans		-	-	14.5	15.4
Rental income		4.6	3.3	-	-
Sundry income		0.2	0.2	-	-
Recoveries from credit insurance		0.1	0.1	23.0	18.5
Total other revenue		4.9	3.6	37.5	33.9
(viii) Operating expenses					
Employee costs		(27.5)	(22.2)	-	-
Professional fees		(7.5)	(4.5)	(2.7)	(5.8)
Depreciation and amortisation		(3.8)	(3.4)	-	-
Superannuation costs		(3.0)	(2.4)	-	-
Computer and communication costs		(5.3)	(1.7)	-	-
Provision for employee entitlements		(2.9)	(1.5)	-	-
Property costs		(1.2)	(1.3)	-	-
Advertising and promotional costs		(1.4)	(1.2)	-	-
Insurance		(0.7)	(0.9)	-	-
Credit information		(0.9)	(0.7)	(1.5)	-
Other expenses		(2.1)	(1.1)	-	-
National Interest Account recovery/(expense)		7.3	5.7	(7.3)	(5.7)
Recovery from other Commonwealth entities		1.4	1.6	-	-
Total operating expenses		(47.6)	(33.6)	(11.5)	(11.5)
(ix) Expected credit loss					
Expected credit loss		-	-	(8.7)	(4.4)
Total expected credit loss		-	-	(8.7)	(4.4)
(x) State tax-equivalent charges					
Payroll tax-equivalent charge		(1.5)	(1.2)	-	-
Land tax-equivalent charge		(0.5)	(0.5)	-	-
Total state tax-equivalent charges		(2.0)	(1.7)	-	-
(xi) Specific provision					
Specific provision		-	-	7.2	(3.6)
Write offs		-	-	(11.3)	-
Total specific provision		-	-	(4.1)	(3.6)

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 4 Receivables from other financial institutions					
	1(i)				
Overnight deposits		450.4	376.3	-	2,506.50
Short-term cash deposits		399.6	265.1	96.2	-
Total receivables from other financial institutions		850.0	641.4	96.2	2,506.5
Maturity analysis of receivables from other financial institutions					
At call		450.4	376.3	96.2	2,506.50
Due in less than 3 months		179.3	236.5	-	-
Due after 3 months to 1 year		220.3	28.6	-	-
Total receivables from other financial institutions		850.0	641.4	96.2	2,506.5

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

Notes to the financial statements

for the year ended 30 June 2023

	Commercial Account		National Interest Account	
	30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 5 Amounts receivable/ (payable) to the Commonwealth				
Commonwealth opening balance payable	-	-	(0.2)	(15.5)
Net payments to the Commonwealth	-	-	0.6	23.9
Less Profit/(loss) for the year on National Interest Account	-	-	59.8	(8.6)
Total amounts receivable/ (payable) to the Commonwealth	-	-	60.2	(0.2)

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 6 Investment securities					
Investment securities at amortised cost					
	1(j)				
Discount securities		-	257.4	-	-
Floating rate notes		352.0	256.0	-	-
Fixed rate bonds		428.3	378.3	-	-
Total investment securities at amortised cost		780.3	891.7	-	-
Maturity analysis of investment securities at amortised cost					
Due in 3 months or less		100.0	53.0	-	-
Due after 3 months to 1 year		137.8	264.9	-	-
Due after 1 year to 5 years		542.5	573.8	-	-
Total investment securities at amortised cost		780.3	891.7	-	-

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

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 7 Loans and receivables at amortised cost					
	1(k)				
Gross export finance loans		-	-	612.7	561.1
Gross rescheduled credit insurance debts		0.3	0.4	94.0	108.6
Loans and receivables gross		0.3	0.4	706.7	669.7
Unearned premiums		-	-	(4.0)	(3.5)
Expected credit loss		-	-	(24.1)	(15.2)
Specific provision for impairment		(0.2)	(0.3)	(70.9)	(94.1)
Total loans and receivables at amortised cost		0.1	0.1	607.7	556.9
Maturity analysis loans and receivables gross					
Overdue		-	-	0.1	5.4
Due in 3 months or less		-	-	39.4	14.2
Due after 3 months to 1 year		0.1	0.1	64.7	98.1
Due after 1 year to 5 years		0.2	0.3	258.0	298.3
Due after 5 years		-	-	344.5	253.7
Total loans and receivables gross		0.3	0.4	706.7	669.7
Restructured exposures included above		0.3	0.4	102.8	117.5
Overdue by:					
30 to 60 days		-	-	0.1	-
61 to 90 days		-	-	-	0.9
Over 90 days		-	-	-	4.5
Total overdue loans and receivables gross		-	-	0.1	5.4
Loans and receivables are considered restructured when the original contractual terms are modified. Restructured loans and receivables continue to accrue interest.					
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. For these overdue loans, Export Finance Australia has either received the payments in July 2023 or is working with the customer to receive payment in full or the amount has been fully provided for as a specific provision.					
Expected credit loss					
Expected credit loss opening balance		-	-	15.2	12.0
Expected credit loss created		-	-	16.2	7.8
Expected credit loss written back		-	-	(7.0)	(4.9)
Expected credit loss remeasurement		-	-	(0.6)	-
Foreign exchange movement		-	-	0.3	0.3
Expected credit loss closing balance		-	-	24.1	15.2
Specific provision for impairment					
Specific provision for impairment opening balance		0.3	0.4	94.1	100.1
Specific impairment created		-	-	-	8.5
Foreign exchange movement		-	-	2.7	7.8
Loans written off		-	-	(11.0)	-
Specific impairment written back		(0.1)	(0.1)	(14.9)	(22.3)
Specific provision closing balance		0.2	0.3	70.9	94.1
Impaired loans					
Impaired loans		0.3	0.4	104.5	130.2
Specific provision for impairment		(0.2)	(0.3)	(70.9)	(94.1)
Carrying value of impaired loans		0.1	0.1	33.6	36.1

The carrying value of impaired loans represent amounts expected to be recovered.

Amounts shown under the National Interest Account represent loans made by Export Finance Australia under Part 5 of the EFIC Act.

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 8 Loans and receivables designated at fair value through profit or loss					
Gross export finance loans		1,277.3	1,148.0	1,147.2	-
Gross funded export finance guarantees		-	44.5	-	-
Loans and receivables gross	1(l)	1,277.3	1,192.5	1,147.2	-
Fair value net premium and fees		26.2	34.8	-	-
Fair value interest income		(4.9)	(4.7)	-	-
Fair value of credit risk		(109.0)	(100.3)	1.7	-
Fair value of specific credit risk		(28.6)	(21.5)	-	-
Initial valuation adjustment for loans held at FVPL		-	-	12.6	-
Total loans and receivables at fair value		1,161.0	1,100.8	1,161.5	-
Maturity analysis loans and receivables gross					
Overdue		46.7	15.6	-	-
Due in 3 months or less		42.0	38.2	-	-
Due after 3 months to 1 year		148.9	186.3	5.9	-
Due after 1 year to 5 years		632.1	628.4	111.4	-
Due after 5 years		407.6	324.0	1,029.9	-
Total loans and receivables gross		1,277.3	1,192.5	1,147.2	-
Restructured exposures included above		7.8	7.5	-	-
Overdue by:					
Less than 30 days		4.1	3.7	-	-
30 to 60 days		9.1	9.0	-	-
61 to 90 days		1.8	2.0	-	-
Over 90 days		31.7	0.9	-	-
Total overdue loans and receivables gross		46.7	15.6	-	-

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

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 these overdue loans, Export Finance Australia has either received the payments in July 2023 or is working with the customer to receive payment in full or the amount has a specific credit risk allowance. A Paris club rescheduling is anticipated for \$41.9 million of the overdue amounts on commercial account.

The fair value of loans and receivables is based on unobservable inputs (i.e. Level 3) with the principal components being expectations of cash flows, time value of money and credit. As a result, the difference between the transaction price and fair value on initial recognition is not recognised in the statement of comprehensive income and is instead recognised in the statement of financial position. The deferred initial valuation adjustment is then subsequently amortised on a straight line amortisation basis over ten years. In the current year, EFA has amortised an expense of \$1.4 million (2022- nil) into the statement of comprehensive income.

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

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 9 Derivative financial instruments					
	1(n)				
Derivative financial assets					
Interest rate swaps		11.9	8.6	2.5	-
Cross-currency swaps		15.2	8.2	-	-
Forward foreign exchange contracts		2.1	6.5	-	-
Total derivative financial assets	24	29.2	23.3	2.5	-
Maturity analysis of derivative financial assets					
Due in 3 months or less		8.5	5.0	2.5	-
Due after 3 months to 1 year		5.3	5.4	-	-
Due after 1 year to 5 years		11.3	8.7	-	-
Due after 5 years		4.1	4.2	-	-
Total derivative financial assets		29.2	23.3	2.5	-
Derivative financial liabilities					
Interest rate swaps		70.0	82.8	33.6	-
Cross-currency swaps		278.7	257.7	-	-
Forward foreign exchange contracts		1.4	-	-	-
Total derivative financial liabilities	25	350.1	340.5	33.6	-
Maturity analysis of derivative financial liabilities					
Due in 3 months or less		(3.1)	42.1	-	-
Due after 3 months to 1 year		105.7	33.0	34.3	-
Due after 1 year to 5 years		165.2	179.2	(0.7)	-
Due after 5 years		82.3	86.2	-	-
Total derivative financial liabilities		350.1	340.5	33.6	-

A derivative financial asset arises when the underlying value of the contract results in a overall receipt of funds by Export Finance Australia, and a derivative liability arises when the underlying value of the contract results in a overall payment of funds by Export Finance Australia.

Derivatives are undertaken to hedge borrowings, loans or investments. Derivatives may create anomalies when looking at maturities in certain periods. While a contract may be an asset or a liability, cash received in certain periods may change the nature of the underlying asset or liability in that period.

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

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 10 Equity securities					
	1(o)				
Initial proceeds for issuance of equity security		-	-	940.8	-
Initial valuation adjustment for equity security		-	-	(461.7)	-
Initial fair value of equity investment		-	-	479.1	-
Subsequent fair value movement for equity security		-	-	23.0	-
Fair value of equity security as at 30 June 2023				502.1	-
Reconciliation to equity securities recognised on balance sheet					
Fair value of equity security as at 30 June		-	-	502.1	-
Initial valuation adjustment after amortisation		-	-	437.5	-
Equity Securities as at 30 June 2023		-	-	939.6	-
Maturity analysis equity securities initial proceeds					
Due after 5 years		-	-	940.8	-

The fair value of equity investments is based on unobservable inputs (i.e. Level 3) with the principal components being expectations of cash flows, time value of money and credit. As a result, the difference between the transaction price and fair value on initial recognition is not recognised in the statement of comprehensive income and is instead recognised in the statement of financial position. The initial valuation is different from the transaction prices due to deferred event based repayment terms.

The deferred initial valuation adjustment is then subsequently recognised as a loss only to the extent that it arises from a change in factor (including time) that market participants would take into account when pricing the related equity instruments. In the current year, EFA has amortised an expense of \$24.2 million (2022- nil) into the statement of comprehensive income.

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023	30 June 2022	30 June 2023	30 June 2022
		\$ m	\$ m	\$ m	\$ m
Note 11 Property, plant and equipment					
	1(p)				
Freehold land and building, at valuation		140.0	140.0	-	-
Accumulated depreciation		(2.7)	-	-	-
Net book value - land and building		137.3	140.0	-	-
Plant and equipment, at valuation		13.1	18.9	-	-
Accumulated depreciation		(10.6)	(15.7)	-	-
Net book value - plant and equipment		2.5	3.2	-	-
Total property, plant and equipment		139.8	143.2	-	-
			Land and buildings	Plant and equipment	Total
			\$ m	\$ m	\$ m
Gross value					
Balance as at 30 June 2022			140.0	18.9	158.9
Additions			-	0.4	0.4
Disposals				(6.2)	
Gross value as at 30 June 2023			140.0	13.1	159.3
Accumulated depreciation					
Balance as at 30 June 2022			-	(15.7)	(15.7)
Depreciation charged for assets held at 1 July 2022			(2.7)	(0.9)	(3.6)
Disposals			-	6.0	6.0
Depreciation as at 30 June 2023			(2.7)	(10.6)	(13.3)
Net book value as at 1 July 2022			140.0	3.2	143.2
Net book value as at 30 June 2023			137.3	2.5	139.8
			Land and buildings	Plant and equipment	Total
			\$ m	\$ m	\$ m
Gross value					
Balance as at 30 June 2021			110.0	18.1	128.1
Additions			-	0.8	0.8
Revaluation increment			37.0		37.0
Write back on revaluation			(7.0)		(7.0)
Gross value as at 30 June 2022			140.0	18.9	158.9
Accumulated depreciation					
Balance as at 30 June 2021			(4.9)	(14.4)	(19.3)
Depreciation charged for assets held at 1 July 2021			(2.1)	(1.3)	(3.4)
Write back on revaluation			7.0	-	7.0
Depreciation as at 30 June 2022			-	(15.7)	(15.7)
Net book value as at 1 July 2021			105.1	3.7	108.8
Net book value as at 30 June 2022			140.0	3.2	143.2

An independent valuation of land and buildings was carried out in June 2022 by Mr Benjamin Masters AAPI, Registered Valuer No. 16930. On an income approach and discounted cash flow analysis with reference to its highest and best use, the land and buildings were valued at \$140,000,000.

Leased accommodation

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

The allocated valuation, accumulated depreciation, written-down value and depreciation expense of the leased space is based on a pro rata of floor space:

	30 June 2023	30 June 2022
	\$ m	\$ m
Leased accommodation		
Freehold land and building, at valuation	108.6	107.6
Accumulated depreciation	(2.1)	-
Written-down value	106.5	107.6
Depreciation expense	2.1	1.6

Notes to the financial statements

for the year ended 30 June 2023

	Commercial Account		National Interest Account	
	30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 12 Other financial assets				
Accrued interest receivable	12.3	14.2	6.9	1.7
Loan fees receivable	-	-	1.1	1.2
Sundry debtors and prepayments	4.5	5.6	0.4	1.4
Total other financial assets	16.8	19.8	8.4	4.3
Maturity analysis other financial assets				
No more than 12 months	16.8	19.8	8.4	4.3
Total equity investments	16.8	19.8	8.4	4.3

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 13 Borrowings designated at fair value through profit or loss					
Borrowings	1(s)	2,557.1	2,379.3	2,304.1	-
Total borrowings at fair value	24	2,557.1	2,379.3	2,304.1	-
Borrowings designated at fair value through profit or loss					
Australian dollar		1,310.3	1,410.8	-	-
Fijian Dollar		7.2	7.3	-	-
US Dollar		-	-	2,304.1	-
Total borrowings		1,317.5	1,418.1	2,304.1	-
Euro commercial paper					
US dollar		1,150.8	877.7	-	-
Euro		88.8	83.5	-	-
Total euro commercial paper		1,239.6	961.2	-	-
Total borrowings at fair value		2,557.1	2,379.3	2,304.1	-
Maturity analysis of borrowings					
Due in 3 months or less		932.5	879.4	-	-
Due after 3 months to 1 year		961.9	205.5	101.4	-
Due after 1 year to 5 years		266.3	892.5	2,202.7	-
Due after 5 years		396.4	401.9	-	-
Total borrowings at fair value		2,557.1	2,379.3	2,304.1	-

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

A debt neutrality charge of 10 basis points on new borrowings and on existing debt that is rolled over or refinanced is payable to the Commonwealth. This neutrality charge is not charged if the borrowing is for a National Interest Loan.

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

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 14 Guarantees, bonds and insurance designated at fair value through profit and loss					
	1(t)				
Fair value of credit risk		17.8	10.5	10.8	-
Fair value of specific events		6.3	4.6	-	-
Fair value of net premium receivable		(12.9)	(6.6)	-	-
Total guarantees designated at fair value through profit or loss		11.2	8.5	10.8	-

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.

In July 2022, Export Finance Australia issued a series of debt and equity like securities to a Borrower As part of this financing package, Export Finance Australia also issued a Political Risk Insurance guarantee contract to the Borrower.

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

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June	30 June	30 June	30 June
		2023	2022	2023	2022
		\$ m	\$ m	\$ m	\$ m
Note 15 Sundry provisions and allowances					
Employee entitlements	1(u)	7.6	6.3	-	-
Provision for guarantees		-	-	1.6	1.5
Provision for tax equivalent charges		10.9	8.2	-	-
Total sundry provisions and allowances		18.5	14.5	1.6	1.5
Maturity sundry provisions and allowances					
No more than 12 months		14.7	10.7	-	-
More than 12 months		3.8	3.8	1.6	1.6
Total sundry provisions and allowances		18.5	14.5	1.6	1.6

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 16 Other financial liabilities					
Sundry creditors	1(v)	14.6	10.5	0.6	1.2
Security bond deposits		72.6	49.4	-	-
Interest payable		-	-	4.7	1.2
Total other financial liabilities		87.2	59.9	5.3	2.4
Maturity analysis other financial liabilities					
No more than 12 months		87.2	59.9	5.3	2.4
Total other financial liabilities		87.2	59.9	5.3	2.4

Notes to the financial statements

for the year ended 30 June 2023

	Commercial Account		National Interest Account	
	30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m

Note 17 Contingencies and commitments

Contingent liabilities

Guarantees*	172.2	115.5	52.1	46.5
Bonds	230.6	155.0	-	-
Insurance guarantee policies	-	-	663.2	-
Total contingent liabilities	402.8	270.5	715.3	46.5

* Guarantees include facilities signed under risk participation agreements.

These contingent liabilities commit Export Finance Australia to make payments should a default occur by a customer.

Commitments to provide financial facilities

Loans	375.0	92.4	2,162.8	1,998.4
Bonds	56.5	14.3	-	-
Equity	-	-	78.5	-
Guarantees*	11.7	57.0	12.6	16.8
Total commitments to provide financial facilities	443.2	163.7	2,253.9	2,015.2

* Guarantees include facilities signed under risk participation agreements.

Commitments to provide financial facilities are contractually based.

Commitments payable

Capital commitments				
Due in 1 year or less	0.1	0.1	-	-
Operating lease payable				
Due in 1 year or less	0.1	0.1	-	-
Due after 1 year to 2 years	-	-	-	-
Total commitments payable	0.2	0.2	-	-

Commitments receivable

Operating lease receivable				
Due in 1 year or less	4.3	4.7	-	-
Due after 1 year to 2 years	2.4	4.3	-	-
Due after 2 years to 5 years	2.2	4.6	-	-
Due after 5 years	0.5	0.5	-	-
Total commitments receivable	9.4	14.1	-	-

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

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

(i) General

As part of its normal operations, Export Finance Australia enters into a variety of transactions, including loans, guarantees, insurance, and bonds, which can be denominated in various currencies.

Export Finance Australia enters into a number of financial derivative transactions on the Commercial Account to protect against interest rate, foreign exchange and funding risks associated with normal operations, including funding the National Interest Account. The derivative instruments are not entered into for speculative or trading purposes. Derivative transactions include:

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

Export Finance Australia also conducts detailed stress testing, including examining the impact on the credit portfolio of slower economic growth in emerging markets and adverse movements in foreign exchange rates and commodity prices.

(ii) Credit risk

(a) Commercial Account exposures

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

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

		30 June 2023	30 June 2022
	Note	\$ m	\$ m
Credit risk exposures			
Receivables from other financial institutions	4, 1(i)	850.0	641.4
Investment securities at amortised cost	6, 1(j)	780.3	891.7
Loans and receivables at amortised cost	7, 1(k)	0.1	0.1
Loans and receivables designated at fair value through profit or loss	8, 1(l)	1,161.0	1,100.8
Derivative financial assets	9, 1(n)	29.2	23.3
Total*		2,820.6	2,657.3
Contingent liabilities	17	402.8	270.5
Commitments	17	443.2	163.7
Total		846.0	434.2
Total credit risk exposure		3,666.6	3,091.5

* Cash and liquid assets, loans to National Interest Account designated at fair value through profit or loss, other financial 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 Export Finance Australia through its investment portfolios and from interest rate and foreign exchange management is limited to Commonwealth and state or territory governments, ADIs rated BBB- or above and other entities with credit ratings the equivalent of AA- or above. However, if after purchase or a contracting 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).

The PGPA Act limits investment by Export Finance Australia of surplus monies to:

- (i) money with ADIs in Australia rated BBB- or above;
- (ii) securities issued by or guaranteed by the Commonwealth, a state or territory;
- (iii) money with other entities with credit ratings the equivalent of AA- or better;
- (iv) deposits with, or securities issued by, the above ADIs;
- (v) deposits with, or securities issued or guaranteed by, the above entities;

subject to:

- (a) investments in ADIs with a rating lower than A- must not exceed 25% of total investments;
- (b) investments in ADIs with a term longer than six months and a rating lower than A- must be able to be traded in the secondary market and must not exceed a term of three years;
- (c) investments in an individual ADI with a rating lower than A- must not exceed 10% of total investments.

In addition to the PGPA Act requirements, the Board does not permit proprietary trading and has set further controls for Export Finance Australia treasury operations which consist of:

- (i) a cap on foreign exchange open positions;
- (ii) a cap on interest rate exposure to asset maturity;

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

- (iii) minimum levels for committed funding over the life of assets;
- (iv) a cap on the structured borrowing component of funding;
- (v) limits relating to individual counterparty exposures and terms;
- (vi) limits relating to portfolio exposures and terms;
- (vii) limits on investments in structured, multi-credit entities;
- (viii) performance benchmarks relating to specific portfolios; and
- (ix) derivative limits and a CSA collateral policy.

All individual counterparty limits and sub-limits required by treasury are approved in line with the policies and the usage against limits is monitored independently of treasury.

All limits set by the Board are monitored by management. The Board also sets triggers that require information to be notified to the Board. A treasury report, addressing prudential controls, risk, limits and triggers is submitted to the Board Audit and Risk Committee meeting quarterly, which then reports to the Board. A treasury update is provided at each Board meeting.

Credit risk on treasury derivative transactions is mitigated by the fact that most of the contracts have a mutual five-year right to break clause. In addition, some contracts include a clause that allows the contract to be terminated if the counterparty rating falls below an agreed credit rating. Some contracts also have CSAs in operation where Export Finance Australia receives collateral to offset the exposure.

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

		30 June 2023	30 June 2022
	Note	\$ m	\$ m
Investment securities			
Australian authorised deposit-taking institutions			
AA-		382.8	647.7
A+		45.4	-
A-		47.4	-
BBB+		90.0	90.0
BBB		9.5	-
Other financial institutions or foreign entities			
AA-		205.2	154.0
Exposure to credit risk of investment securities	1(l), 6	780.3	891.7

		30 June 2023	30 June 2022
	Note	\$ m	\$ m
Derivative financial assets			
Australian authorised deposit-taking institutions			
AA-		13.3	7.8
Other financial institutions or foreign entities			
AA-		15.9	15.5
Exposure to credit risk for derivative financial assets	1(o), 9	29.2	23.3

For treasury exposures there are no overdue or restructured amounts.

> Exposures to customers

Export Finance Australia's principal exposure to credit risk arises from the financing and credit facilities extended to customers. On the Commercial Account, loans written off during the year or called credit facilities that were not subsequently recovered within the year were \$1.6 million (2022: nil).

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

		30 June 2023	30 June 2022
	Note	\$ m	\$ m
Gross exposures			
Export finance loans	8, 1(l)	1,277.3	1,148.0
Funded export finance guarantees	8, 1(l)	-	44.5
Rescheduled credit insurance debts at amortised cost	7	0.3	0.4
Guarantees	17	172.2	115.5
Bonds	17	230.6	155.0
Total gross exposures		1,680.4	1,463.4
Reinsured exposures included above		118.5	118.3

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

Gross exposures are also monitored by country of risk (not country of export). On the Commercial Account the country exposures are as follows:

Country exposures*	30 June	30 June	30 June	30 June
	2023	2023	2022	2022
	\$ m	% of total	\$ m	% of total
Australia**	930.5	55.4	801.5	54.8
Trinidad & Tobago	147.6	8.8	157.4	10.8
Mongolia	138.1	8.2	142.5	9.7
Vietnam	97.9	5.8	56.8	3.9
Papua New Guinea	95.1	5.7	77.1	5.3
Chile	90.6	5.4	52.0	3.5
Norway	88.0	5.2	83.1	5.7
Bermuda	41.9	2.5	42.5	2.9
United Kingdom	25.5	1.5	24.7	1.7
Sri Lanka	16.9	1.0	15.7	1.1
Bangladesh	4.7	0.3	2.1	0.1
New Zealand	2.0	0.1	1.8	0.1
Saudi Arabia	0.8	0.1	5.8	0.4
India	0.5	-	-	-
Iraq	0.3	-	0.4	-
Total country exposures	1,680.4	100.0	1,463.4	100.0

Reinsured exposures included above	118.5	118.3
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* Underlying country exposures are shown after applying reinsurance which does not change gross exposures but reallocates risk to the reinsurers' country of risk.

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

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

Allowance for credit risk by product	30 June	30 June
	2023	2022
	\$ m	\$ m
Export finance loans	(109.0)	(100.3)
Guarantees	(7.7)	(3.8)
Bonds	(10.1)	(6.7)
Allowance for credit risk closing balance	(126.8)	(110.8)

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

Allowance for credit risk for gross exposures	30 June	30 June
	2023	2022
	\$ m	\$ m
Allowance for credit risk opening balance	(110.8)	(122.0)
New exposures	(41.7)	(37.4)
Repayments	20.6	28.3
Change in risk grade	1.4	4.3
Change in term to maturity	6.2	17.9
Change in probability of default rates	2.0	4.0
Exchange rate movements	(4.5)	(5.9)
Allowance for credit risk closing balance	(126.8)	(110.8)

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

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

Export Finance Australia uses nine broad categories of risk grade, with category 1 representing the lowest risk. Within categories 1 to 6, an outlook modifier of plus or minus is used if the counterparty is particularly strong or weak for that risk grade. The equivalent risk, based on Standard and Poor's risk rating, is stated in brackets. The gross exposures (before fair value adjustments) for the Commercial Account after reinsurance under each category are as follows:

		30 June 2023	30 June 2022
	Note	\$ m	\$ m
Gross exposures loans and receivables			
Risk category 1 (AA- to AAA)		29.2	27.2
Risk category 2 (A- to A+)		88.8	89.6
Risk category 3 (BBB- to BBB+)		59.5	-
Risk category 4 (BB- to BB+)		344.8	328.7
Risk category 5 (B- to B+)		292.8	305.9
Risk category 6 (CCC+)		342.7	331.4
Risk category 7 (C to CCC)		107.2	99.8
Risk category 8 doubtful		12.3	9.9
Risk category 9 impaired		0.3	0.4
Gross exposures loans and receivables	1(n), 7, 8	1,277.6	1,192.9

As part of its normal operations, Export Finance Australia enters into a variety of transactions that give rise to contingent liabilities, including guarantees, insurance, and bonds. The maximum exposure to credit risk for these types of transactions is the maximum amount that Export Finance Australia would pay if called upon to do so. The exposures for the Commercial Account after reinsurance under each risk category are as follows:

		30 June 2023	30 June 2022
	Note	\$ m	\$ m
Contingent liabilities*			
Risk category 1 (AA- to AAA)		74.0	51.3
Risk category 3 (BBB- to BBB+)		0.5	-
Risk category 4 (BB- to BB+)		119.1	84.9
Risk category 5 (B- to B+)		45.3	40.4
Risk category 6 (CCC+)		119.2	85.7
Risk category 7 (C to CCC)		37.5	1.5
Risk category 8 doubtful		7.2	6.7
Total contingent liabilities	17	402.8	270.5

* There are no exposures in category 2 and 9.

As part of its normal operations, Export Finance Australia enters into a variety of transactions that give rise to commitments, including loans, guarantees, insurance and bonds. The maximum exposure to credit risk on Commercial Account is the full amount of the commitment.

		30 June 2023	30 June 2022
	Note	\$ m	\$ m
Commitments*			
Risk category 4 (BB- to BB+)		275.3	46.2
Risk category 5 (B- to B+)		94.2	65.4
Risk category 6 (CCC+)		72.7	52.0
Risk category 7 (C to CCC)		1.0	0.1
Total commitments	17	443.2	163.7

* There are no exposures in categories 1, 2, 3, 8 and 9.

> Retained sector exposure

The sectors that represents more than 15% of Export Finance Australia's Commercial Account retained exposure are the Mining - LNG, the Transport, Postal and Warehousing, Mining and Manufacturing sectors. At 30 June 2023, the exposure to the Mining was \$247million, representing 18.4% of total retained exposure (2022 \$206.1, representing 15.3%), Transport, Postal and Warehousing sector was \$242.1 million, representing 18% of total retained exposure (2022: \$241.7 million, representing 18.4%), Mining - LNG sector was \$227.2 million, representing 16.9% of total retained exposure (2022: \$255 million, representing 19%), and the exposure to the Manufacturing sector was \$213.0 million, representing 15.8% of total retained exposure (2022: \$203.7 million, representing 15.1%).

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for the year ended 30 June 2023

Note 18 Financial risk management

> Reinsured exposure

To reduce Export Finance Australia's exposure to counterparties in the higher risk categories or to reduce concentration risk, contracts are entered into 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 that will be in lower risk categories, or reduce concentration risk to a counterparty with the same or lower risk. As can be seen from the table below, Export Finance Australia has reinsured exposures with counterparties in risk category 6 or 8 to reinsurers in risk categories 1 or 2.

	30 June 2023	30 June 2022
	\$ m	\$ m
Reinsurance		
Reinsured to		
Risk category 1 (AA- to AAA)	29.7	28.8
Risk category 2 (A- to A+)	88.8	89.6
Reinsured from		
Risk category 6 (CCC+)	(69.1)	(71.3)
Risk category 8 doubtful	(49.4)	(47.1)
Total reinsurance	-	-

The above tables do not take into account the value of any collateral or security held which may include first-ranking mortgage over assets financed by Export Finance Australia, standby documentary credits, third-party guarantees and recourse to companies and company directors. No collateral has been called and held at year end. For the bond product in the normal course of business, we do hold cash security deposits which at 30 June 2023 were \$72.6 million (2022: \$49.4 million).

(b) National Interest Account exposures

Under the National Interest Account (NIA), the Minister can direct Export Finance Australia to support transactions that are in the national interest. The Commonwealth receives all income on NIA transactions and bears all risks and losses.

Section 66 of the *Export Finance and Insurance Corporation Act 1991 (Efic Act)* details loans made in the national interest and 66(6)(b) provides that the Commonwealth is liable to pay Export Finance Australia an amount equal to any defaulted amount under an NIA loan. Section 66(7) & 66(8) empowers the Minister to direct Export Finance Australia to access the market to borrow an amount equal to that due by the Commonwealth. Any such borrowings would then be supported by the Commonwealth Guarantee at Section 62.

Decisions under the NIA are the responsibility of the Government.

The National Interest Account principal exposure to credit risk arises from the financing and credit facilities extended to customers. Loans written off during the year were \$11.4 million (2022: nil).

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

		30 June 2023	30 June 2022
	Note	\$ m	\$ m
Gross exposures			
Export finance loans at amortised cost	1(k), 7	612.7	561.1
Rescheduled credit insurance debts	1(k), 7	94.0	108.6
Export finance loans	8, 1(l)	1,147.2	-
Equity securities	10, 1(o)	940.8	-
Guarantees	17	715.3	46.5
Total gross exposures		3,510.0	716.2

Gross exposures are also monitored by country of risk (not country of export) and on the National Interest Account the country exposures are as follows:

	30 June 2023	30 June 2023	30 June 2022	30 June 2022
	\$ m	% of total	\$ m	% of total
Country exposures				
Papua New Guinea	2,941.0	83.8	288.4	40.3
Australia*	183.0	5.2	136.6	19.1
Trinidad & Tobago	100.7	2.9	106.6	14.9
Iraq	94.0	2.7	108.6	15.2
Japan	74.6	2.1	-	-
Fiji	80.3	2.3	53.1	7.4
Palau	27.2	0.8	13.1	1.8
Cuba	8.8	0.2	9.0	1.2
Indonesia	0.4	0.0	0.8	0.1
Total country exposures	3,510.0	100.0	716.2	100.0
Reinsured exposures included above	74.6		-	

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

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for the year ended 30 June 2023

Note 18 Financial risk management

Expected credit loss on the above gross exposures on the National Interest Account is as follows:

	30 June 2023	30 June 2022
	\$ m	\$ m
Expected credit loss by product		
Export finance loans	(24.1)	(15.2)
Guarantees	(1.6)	(1.5)
Expected credit loss closing balance	(25.7)	(16.7)

(c) Rescheduled debt exposures

Iraq: The rescheduled debt balance at 30 June 2023 is US\$62.3 million (2022: US\$74.7 million) on the National Interest Account and US\$0.2 million (2022: US\$0.3 million) on the Commercial Account. The situation was assessed as significantly impacting the likelihood of future payments from Iraq. During 2022-23, the impairment provision was reduced in line with EFA model to 71.39% against the rescheduled debt and this treatment will be reviewed on an annual basis. Future payments from Iraq are recognised as income on receipt and booked as a recovery and the provision reversed, consistent with current practice. Recoveries made during the year under this agreement were \$23.0 million on the National Interest Account. These debts arose from credit insurance claims between 1987 and 1992 in respect of non-payment by the Iraqi Government on wheat exports from Australia. These debts were subject to rescheduling, with 80% debt forgiveness in three stages at the Paris Club. The repayment schedule for the remaining rescheduled amounts call for six-monthly payments until January 2028. At 30 June 2022, all rescheduled amounts have been paid on time as per the rescheduling.

Cuba: At 30 June 2023, the rescheduled debt balance on the National Interest Account was \$8.8 million (2022: \$8.8 million). In June 2021, the 'Group of Creditors of Cuba' at the Paris Club (of which Australia is a member) agreed to defer principal and interest payments due in 2020, 2021 and 2022, together with interest in 2023 and 2024. Export Finance Australia executed a bilateral agreement with Cuba in late December 2021 to document those arrangements. The maturity date of the debt remains October 2033. The debt has a 100% provision in place and this is maintained at 30 June 2023.

(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 Export Finance Australia. Export Finance Australia 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. 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, on behalf of the Commonwealth, 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, Export Finance Australia has funded its activities under section 59 and does not borrow directly from the Commonwealth of Australia. Notwithstanding the above, a liquid investment portfolio is maintained.

The liquidity table below is based on estimated future cash flows for principal and interest and is not their fair value as is shown on the statement of financial position. For the Commercial Account, the contractual undiscounted amounts comprise principal and interest repayment obligations and are as follows:

	Contractual undiscounted principal and interest			
	3 months or less \$ m	3 months to 1 year \$ m	1 year to 5 years \$ m	Greater than 5 years \$ m
30 June 2023				
Undiscounted financial assets				
Cash and liquid assets	40.7	-	-	-
Receivables from other financial institutions	556.3	303.7	-	-
Investment securities at amortised cost	107.7	138.7	598.9	-
Loans and receivables at amortised cost	-	0.1	0.3	-
Loans and receivables designated at fair value through profit or loss	46.2	241.0	823.6	471.8
Loans to National Interest Account designated at fair value through profit or loss	35.5	82.6	355.3	294.3
Derivative financial instruments receivable				
- Contractual amounts receivable	245.4	868.3	530.4	498.7
Total undiscounted financial assets	1,031.8	1,634.4	2,308.5	1,264.8
Undiscounted financial liabilities				
Borrowings designated at fair value through profit or loss				
- Euro commercial paper	930.5	321.3	-	-
- Borrowings	8.6	664.2	298.9	548.8
Derivative financial instruments payable				
- Contractual amounts payable	233.3	975.6	701.7	576.4
Total undiscounted financial liabilities	1,172.4	1,961.1	1,000.6	1,125.2
Net undiscounted financial assets/(liabilities)	(140.6)	(326.7)	1,307.9	139.6

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

Export Finance Australia has legally enforceable master netting arrangements which apply on default and as such have not been taken into account. If these master netting arrangements were considered then the derivative assets would be \$7.8 million and the derivative liabilities would be \$323.6 million.

30 June 2022	Contractual undiscounted principal and interest			
	3 months or less \$ m	3 months to 1 year \$ m	1 year to 5 years \$ m	Greater than 5 years \$ m
Undiscounted financial assets				
Cash and liquid assets	19.0	-	-	-
Receivables from other financial institutions	613.7	28.9	-	-
Investment securities at amortised cost	57.4	281.3	605.3	-
Loans and receivables at amortised cost	-	0.1	0.3	-
Loans and receivables designated at fair value through profit or loss	41.1	243.9	777.7	370.4
Loans to National Interest Account designated at fair value through profit or loss	37.8	78.5	273.5	301.3
Derivative financial instruments receivable				
- Contractual amounts receivable	315.8	346.0	1,200.3	515.6
Total undiscounted financial assets	1,084.8	978.7	2,857.1	1,187.3
Undiscounted financial liabilities				
Borrowings designated at fair value through profit or loss				
- Euro commercial paper	770.7	192.6	-	-
- Borrowings	110.6	14.2	962.3	557.9
Derivative financial instruments payable				
- Contractual amounts payable	352.8	374.0	1,377.4	579.6
Total undiscounted financial liabilities	1,234.1	580.8	2,339.7	1,137.5
Net undiscounted financial assets/(liabilities)	(149.3)	397.9	517.4	49.8

The liquidity table below is based on estimated future cash flows for principal and interest and is not their fair value as is shown on the statement of financial position. For the National Interest Account, the contractual undiscounted amounts comprise principal and interest repayment obligations and are as follows:

30 June 2023	Contractual undiscounted principal and interest			
	3 months or less \$ m	3 months to 1 year \$ m	1 year to 5 years \$ m	Greater than 5 years \$ m
Undiscounted financial assets				
Cash and liquid assets	83.2	-	-	-
Receivables from other financial institutions	96.2	-	-	-
Loans and receivables at amortised cost	47.4	94.9	441.3	300.3
Loans and receivables designated at fair value through profit or loss	-	66.6	248.6	1,183.2
Derivative financial instruments receivable				
- Contractual amounts receivable	-	107.3	360.5	-
Total undiscounted financial assets	226.8	268.8	1,050.4	1,483.5
Undiscounted financial liabilities				
Borrowings designated at fair value through profit or loss	-	104.8	2,631.9	-
Borrowings from Commercial Account at amortised cost	35.5	82.6	355.3	294.3
Derivative financial instruments payable				
- Contractual amounts payable	-	137.8	350.9	-
Total undiscounted financial liabilities	35.5	325.2	3,338.1	294.3
Net undiscounted financial assets/(liabilities)	191.3	(56.4)	(2,287.7)	1,189.2

A new borrowing will be entered on maturity of the current borrowing, to continue to fund the outstanding loans.

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for the year ended 30 June 2023

Note 18 Financial risk management

(iv) Market risk

(a) Interest rate risk

As Export Finance Australia is involved in lending and borrowing activities, interest rate risks arise. Interest rate swaps, forward rate agreements, and cross-currency swaps are used on the Commercial Account as the primary methods of reducing exposure to interest rate movements.

Export Finance Australia'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, there are no outstanding cash flow hedges.

Fair value hedges are intended to hedge the exposure to variability in fair value movements that are attributable to future interest cash flows only. At year end, there are no outstanding fair value hedges.

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'. Management sets a benchmark for the 'duration' of the capital and reserves portfolio. Other fixed interest portfolios, loan and investments and borrowing portfolios are not impacted by changes in the general level of interest rates due to duration hedging.

The table below is based on actual or notional principal balances for the Commercial Account and is not their fair value as shown on the statement of financial position. The amounts shown are the undiscounted principal exposure and notional principal amounts outstanding.

30 June 2023	Contractual undiscounted principal exposure				
	Floating interest rate	Fixed Less than 1 year	Fixed 1 to 5 years	Fixed More than 5 years	Fixed Total
	\$ m	\$ m	\$ m	\$ m	\$ m
Undiscounted principal exposures					
Financial assets					
Cash and liquid assets	40.7	-	-	-	-
Receivables from other financial institutions	850.0	-	-	-	-
Investment securities at amortised cost	352.0	123.3	305.0	-	428.3
Loans and receivables designated at amortised cost	0.3	-	-	-	-
Loans and receivables designated at fair value through profit or loss	1,232.3	2.7	11.9	30.4	45.0
Loans to National Interest Account designated at fair value through profit or loss	596.8	0.4	6.7	-	7.1
Total financial assets	3,072.1	126.4	323.6	30.4	480.4
Financial liabilities					
Derivative financial instruments					
- Cross-currency swaps	737.1	-	(235.0)	(280.0)	(515.0)
- Foreign exchange swaps	(1.5)	-	-	-	-
- Interest rate swaps*	833.4	(650.4)	9.9	(192.9)	(833.4)
Borrowings designated at fair value through profit or loss	1,251.8	650.0	241.7	530.0	1,421.7
Other monetary liabilities	87.8	-	-	-	-
Total financial liabilities	2,908.6	(0.4)	16.6	57.1	73.3
Net interest exposures	163.5	126.8	307.0	(26.7)	407.1
Capital and reserves portfolio	107.3	123.3	305.0	-	428.3
Net interest exposures	56.2	3.5	2.0	(26.7)	(21.2)

* Notional principal amounts.

The capital and reserves portfolio is the investment of the cash equity. The investment of these funds is exposed to interest rate movements and the tables below in the interest margin (duration) section show the analysis of the sensitivity 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 the assets and liabilities. Other areas are indirectly affected by the change in future anticipated interest rates due to the discounting factor when calculating the net present value of future cash flows.

Fixed Interest rate swaps have been entered to hedge fixed interest rate loans. The loans have not drawn as expected and remain undrawn and this has created a temporary fixed exposure.

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

30 June 2022	Contractual undiscounted principal exposures				
	Floating interest rate	Fixed Less than 1 year	Fixed 1 to 5 years	Fixed More than 5 years	Fixed Total
	\$ m	\$ m	\$ m	\$ m	\$ m
Undiscounted principal exposures					
Financial assets					
Cash and liquid assets	19.0	-	-	-	-
Receivables from other financial institutions	641.4	-	-	-	-
Investment securities at amortised cost	515.0	60.5	317.8	-	378.3
Loans and receivables designated at amortised cost	0.4	-	-	-	-
Loans and receivables designated at fair value through profit or loss	1,146.6	2.5	11.0	32.4	45.9
Loans to National Interest Account designated at fair value through profit or loss	544.8	0.4	7.0	-	7.4
Total financial assets	2,867.2	63.4	335.8	32.4	431.6
Financial liabilities					
Derivative financial instruments					
- Cross-currency swaps	837.0	(100.0)	(235.0)	(280.0)	(615.0)
- Foreign exchange swaps	(6.9)	-	-	-	-
- Interest rate swaps*	849.9	6.3	(638.6)	(217.6)	(849.9)
Borrowings designated at fair value through profit or loss	963.2	100.0	891.6	530.0	1,521.6
Other monetary liabilities	49.4	-	-	-	-
Total financial liabilities	2,692.6	6.3	18.0	32.4	56.7
Interest exposures	174.6	57.1	317.8	-	374.9
Capital and reserves portfolio	155.3	60.5	317.8	-	378.3
Net interest exposures	19.3	(3.4)	-	-	(3.4)

* Notional principal amounts.

The table below is based on actual or notional principal balances for the National Interest Account and is not their fair value as shown on the statement of financial position. The amounts shown are the undiscounted principal exposure and notional principal amounts outstanding.

30 June 2023	Contractual undiscounted principal exposure				
	Floating interest rate	Fixed Less than 1 year	Fixed 1 to 5 years	Fixed More than 5 years	Fixed Total
	\$ m	\$ m	\$ m	\$ m	\$ m
Undiscounted principal exposures					
Financial assets					
Cash and liquid assets	83.2	-	-	-	-
Receivables from other financial institutions	96.2	-	-	-	-
Loans and receivables designated at amortised cost	699.6	0.4	6.7	-	7.1
Loans and receivables designated at fair value through profit or loss	1,147.2	-	-	-	-
Total financial assets	2,026.2	0.4	6.7	-	7.1
Financial liabilities					
Derivative financial instruments					
- Interest rate swaps*	2,265.2	-	(2,265.2)	-	(2,265.2)
Borrowings designated at fair value through profit or loss	-	-	2,265.2	-	2,265.2
Borrowings from Commercial Account at amortised cost	596.8	0.4	6.7	-	7.1
Monetary liabilities	102.8	-	-	-	-
Total financial liabilities	2,964.8	0.4	6.7	-	7.1
Net interest exposures	(938.6)	-	-	-	-

* Notional principal amounts.

The floating exposure is primarily due to the borrowings are being used to fund an equity investment held a fair value through profit and loss, which has no contractual cash flows.

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

> Interest margin (duration)

To ensure consistency and a common approach to interest rate sensitivity analysis, the recommendations provided by the Commonwealth as to the sensitivity rates to use in the analysis have been adopted. 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. The net interest exposure after these investments show that there is insignificant interest rate exposure in the rest of the assets and liabilities. Other areas are indirectly affected by the change in future anticipated interest rates due to the discounting factor when calculating the net present value of future cash flows.

	Exposure at risk	Increase in basis points Change in market value	Decrease in basis points Change in market value	Increase in basis points Effect on equity	Decrease in basis points Effect on equity
30 June 2023	\$ m	\$ m	\$ m	\$ m	\$ m
Capital and reserve portfolio					
Fixed rate investments	428.3				
Change of 104 basis points interest margin		8.2	(8.2)	-	-
Floating rate investments	107.3				
Change of 104 basis points interest margin		1.0	(1.0)	-	-

	Exposure at risk	Increase in basis points Effect on profit	Decrease in basis points Effect on profit	Increase in basis points Effect on equity	Decrease in basis points Effect on equity
30 June 2022	\$ m	\$ m	\$ m	\$ m	\$ m
Capital and reserve portfolio					
Fixed rate investments	378.3				
Change of 74 basis points interest margin		6.5	(6.5)	-	-
Floating rate investments	155.3				
Change of 74 basis points interest margin		1.2	(1.2)	-	-

For the National Interest Account the only interest exposure is the net floating rate on the variance between the assets and liabilities:

	Exposure at risk	Increase in basis points Change in market value	Decrease in basis points Change in market value
30 June 2023	\$ m	\$ m	\$ m
Net exposure			
Change of 104 basis points interest margin	(938.6)	(6.9)	6.9

> Credit margin (term to maturity)

For Export Finance Australia'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.

As at 30 June 2023, Export Finance Australia's investment approval is derived from the PGPA Act. This authority requires Export Finance Australia to invest its surplus money in only Australian Commonwealth and state or territory government securities, on deposit with or in securities issued by ADIs rated at least BBB- or above, and on deposit with or in securities of other entities with credit ratings the equivalent of AA- or above. However, if after purchase a counterparty subsequently falls below the minimum credit rating, management evaluates the risk and will decide on the applicable action, which may include selling the asset, holding the asset to maturity, or obtaining security through CSA's.

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

Notwithstanding such a high level of credit quality in investments, the portfolio is exposed to movements in credit spreads. Unrealised marked to market movements are minimised by having an average life to maturity of approximately two years. As investments are classified at amortised cost, mark to market movements are not reflected in the financial statements, and assuming no credit defaults, losses or gains would not be realised in the profit or loss.

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

	Exposure at risk	Exposure at risk	Increase in basis points change in market value	Decrease in basis points change in market value	Increase in basis points Effect on equity	Decrease in basis points Effect on equity
	2023	2022	2023	2023	2022	2022
	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m
Investment portfolio						
Fixed rate investments	428.3	378.3				
Change of 50 basis points credit margin			(3.9)	3.9	(4.3)	4.3
Change of 120 basis points credit margin			(8.5)	9.5	(10.3)	10.3
Change of 200 basis points credit margin			(15.7)	15.8	(17.1)	17.2
Floating rate investments	1,202.0	1,156.4				
Change of 50 basis points credit margin			(3.5)	3.5	(3.3)	3.3
Change of 120 basis points credit margin			(8.3)	8.3	(7.9)	7.9
Change of 200 basis points credit margin			(13.8)	13.8	(13.2)	13.2

(b) Foreign exchange risk

Export Finance Australia extends facilities in various currencies, principally in US dollars, euros and Papua New Guinea kina. Where the borrowing currency is different from the currency of the assets being funded, cross-currency swaps or foreign exchange contracts are used to offset the exposure (before allowances and provisions).

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

	Foreign currency fair value exposures		
	USD A\$ m	EUR A\$ m	Other A\$ m
30 June 2023			
Financial assets exposure in foreign currencies			
Cash and liquid assets	20.2	2.9	2.9
Receivables from other financial institutions	759.4	-	-
Loans and receivables at amortised cost	0.1	-	-
Loans and receivables designated at fair value through profit or loss	928.5	75.8	-
Loans to National Interest Account designated at fair value through profit or loss	413.4	-	7.3
Derivative financial instruments receivable	387.8	-	-
Other financial assets	2.4	-	-
Total financial assets exposure in foreign currencies	2,511.8	78.7	10.2
Financial liabilities exposure in foreign currencies			
Borrowings designated at fair value through profit or loss	1,150.8	88.8	7.2
Guarantees designated at fair value through profit or loss	5.2	3.2	0.7
Derivative financial instruments payable	1,371.6	-	-
Other financial liabilities	56.7	0.9	-
Total financial liabilities exposure in foreign currencies	2,584.3	92.9	7.9
Net foreign exchange exposures in foreign currencies	(72.5)	(14.2)	2.3

As shown in the above table, the net foreign exchange exposure as at 30 June 2023 is minimal in value for all currencies other than USD with an exposure of \$72.5 million and EUR with an exposure of \$14.2 million. The exposure in this currency is largely due to movements in credit risk provisioning.

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

30 June 2022	Foreign currency fair value exposures		
	USD A\$ m	EUR A\$ m	Other A\$ m
Financial assets exposure in foreign currencies			
Cash and liquid assets	2.6	9.3	1.8
Receivables from other financial institutions	568.3	-	-
Loans and receivables at amortised cost	0.1	-	-
Loans and receivables designated at fair value through profit or loss	834.3	72.1	-
Loans to National Interest Account designated at fair value through profit or loss	410.6	-	7.3
Derivative financial instruments receivable	693.6	-	-
Other financial assets	0.6	-	-
Total financial assets exposure in foreign currencies	2,510.1	81.4	9.1
Financial liabilities exposure in foreign currencies			
Borrowings designated at fair value through profit or loss	877.7	83.5	7.3
Guarantees designated at fair value through profit or loss	3.8	2.6	(0.1)
Derivative financial instruments payable	1,661.1	6.1	-
Other financial liabilities	37.4	1.1	0.3
Total financial liabilities exposure in foreign currencies	2,580.0	93.3	7.5
Net foreign exchange exposures in foreign currencies	(69.9)	(11.9)	1.6

Export Finance Australia's business creates foreign exchange exposures in relation to future income and expense. The current policy is only to hedge 'realised' income and expense, not to hedge 'unrealised' or future foreign currency income and expense. There is also unrealised exposure to the discounting factor applied to the future cash flows. The discount factor can be affected by the anticipated future interest rates, which then can give rise to a profit or loss movement based on the discounted rate used to net present value the future anticipated cash flows.

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 customers. The three main components that are exposed to foreign exchange movements relate to:

- (i) future fixed interest profit that has been taken to income in foreign currency;
- (ii) future risk premiums and other residual components taken to income in foreign currency; and
- (iii) the allowance for credit risk which is held in Australian-dollar equivalents against loans predominantly in foreign currency.

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

Sensitivity analysis for foreign exchange on the Commercial Account:

	Change in foreign exchange (FX) rate	Exposure at risk	Increase in FX rate Effect on profit	Decrease in FX rate Effect on profit
30 June 2023	%	A\$ m	A\$ m	A\$ m
Exposure to USD	8.5	(72.5)	5.7	(6.7)
Exposure to EUR	8.5	(14.2)	1.1	(1.3)
	Change in foreign exchange (FX) rate	Exposure at risk	Increase in FX rate Effect on profit	Decrease in FX rate Effect on profit
30 June 2022	%	A\$ m	A\$ m	A\$ m
Exposure to USD	8.3	(69.9)	5.4	(6.4)
Exposure to EUR	8.3	(11.9)	0.9	(1.1)

Notes to the financial statements

for the year ended 30 June 2023

Note 18 Financial risk management

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

	USD	FJD	PGK	USD	FJD
	30 June	30 June	30 June	30 June	30 June
	2023	2023	2023	2022	2022
	A\$ m	A\$ m	A\$ m	A\$ m	A\$ m
Financial assets exposure					
Cash and liquid assets	-	-	83.2	-	-
Receivables from other financial institutions	96.2	-	-	2,506.5	-
Loans and receivables at amortised cost	436.3	6.5	-	437.3	6.4
Loans and receivable designated at fair value through profit and loss	1,161.5	-	-	-	-
Equity securities at fair value through profit and loss	939.6	-	-	-	-
Derivative financial instruments receivable	2.5	-	-	-	-
Other financial assets	7.8	0.2	-	0.1	0.2
Total financial assets exposure	2,643.9	6.7	83.2	2,943.7	6.6
Financial liabilities exposure					
Payables to other financial institutions	-	-	-	2,511.4	-
Borrowings designated at fair value through profit or loss	2,304.1	-	-	-	-
Borrowings from Commercial Account	414.2	6.7	-	413.2	6.6
Derivative financial instruments payable	33.6	-	-	-	-
Guarantees bonds and insurances designated at fair value	10.8	-	-	-	-
Sundry provisions and allowances	-	1.6	-	-	1.5
Other financial liabilities	3.6	-	-	0.9	-
Total financial liabilities exposure	2,766.3	8.3	-	2,925.5	8.1
Net foreign exchange exposures	(122.4)	(1.6)	83.2	18.2	(1.5)

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	Increase in FX rate Effect on profit	Decrease in FX rate Effect on profit
	%	A\$ m	A\$ m	A\$ m
30 June 2023				
Exposure to USD	8.5	(122.4)	(9.6)	11.3
Exposure to PGK	8.5	83.2	6.5	(7.7)
	Change in foreign exchange (FX) rate	Exposure at risk	Increase in FX rate Effect on profit	Decrease in FX rate Effect on profit
	%	A\$ m	A\$ m	A\$ m
30 June 2022				
Exposure to USD	8.3	18.2	1.4	(1.7)

Notes to the financial statements

for the year ended 30 June 2023

Note 19 Fair value of financial instruments

(i) Determination of fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs significantly affecting the recorded fair value are observable, either directly or indirectly; and
- Level 3: other techniques for which inputs significantly affecting the recorded fair value are not based on observable market data.

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

The following table shows an analysis of financial instruments in the Commercial Account recorded at fair value for level for levels 2 or 3 fair value hierarchy:

	Carrying amount	Fair value exposures by hierarchy		
	Total \$ m	Level 2 \$ m	Level 3 \$ m	Total \$ m
30 June 2023				
Financial assets measured at fair value				
Loans and receivables designated at fair value through profit or loss	1,161.0	-	1,161.0	1,161.0
Loans to National Interest Account designated at fair value through profit or loss	603.7	603.7	-	603.7
Interest rate swaps	11.9	11.9	-	11.9
Cross-currency swaps	15.2	15.2	-	15.2
Forward foreign exchange contracts	2.1	2.1	-	2.1
Non financial assets				
Property, plant and equipment	139.8	139.8	-	139.8
Investment securities measured at amortised cost				
Floating rate notes	352.0	358.3	-	358.3
Fixed rate bonds	428.3	422.9	-	422.9
Total	2,714.0	1,553.9	1,161.0	2,714.9
Financial liabilities				
Borrowings designated at fair value through profit or loss	(2,557.1)	-	-	(2,557.1)
Guarantees designated at fair value through profit or loss	(11.2)	-	(11.2)	(11.2)
Interest rate swaps	(70.0)	(70.0)	-	(70.0)
Cross-currency swaps	(278.7)	(278.7)	-	(278.7)
Total	(2,918.4)	(2,907.2)	(11.2)	(2,918.4)

Notes to the financial statements

for the year ended 30 June 2023

Note 19 Fair value of financial instruments

30 June 2022	Carrying amount	Fair value exposures by hierarchy		
	Total \$ m	Level 2 \$ m	Level 3 \$ m	Total \$ m
Financial assets measured at fair value				
Loans and receivables designated at fair value through profit	1,226.9	-	1,226.9	1,226.9
Loans to National Interest Account designated at fair value	390.2	390.2	-	390.2
Interest rate swaps	0.1	0.1	-	0.1
Cross-currency swaps	51.3	51.3	-	51.3
Forward foreign exchange contracts	15.1	15.1	-	15.1
Investment securities measured at amortised cost				
Discount securities	207.8	207.9	-	207.9
Floating rate notes	231.0	232.9	-	232.9
Fixed rate bonds	417.2	437.6	-	437.6
Total	2,539.6	1,335.1	1,226.9	2,562.0
Financial liabilities				
Borrowings designated at fair value through profit or loss	(2,379.3)	(2,379.3)	-	(2,379.3)
Guarantees designated at fair value through profit or loss	(4.8)	-	(4.8)	(4.8)
Interest rate swaps	(2.4)	(2.4)	-	(2.4)
Cross-currency swaps	(94.2)	(94.2)	-	(94.2)
Forward foreign exchange contracts	(5.0)	(5.0)	-	(5.0)
Total	(2,485.7)	(2,480.9)	(4.8)	(2,485.7)

The following table shows an analysis of financial instruments in the National Interest Account recorded at fair value by level of the fair value hierarchy level 2 or 3:

30 June 2023	Carrying amount	Fair value exposures by hierarchy		
	Total \$ m	Level 2 \$ m	Level 3 \$ m	Total \$ m
Financial assets measured at fair value				
Loans and receivables designated at fair value through profit	1,161.5	-	1,148.8	1,148.8
Equity Securities at fair value through profit and loss	939.6	-	502.1	502.1
Interest rate swaps	2.5	2.5	-	2.5
Total	2,103.6	2.5	1,650.9	1,653.4
Financial liabilities				
Borrowings designated at fair value through profit or loss	(2,304.1)	(2,304.1)	-	(2,304.1)
Forward foreign exchange contracts	(33.6)	(33.6)	-	(33.6)
Guarantees designated at fair value through profit or loss	(10.8)	-	(10.8)	(10.8)
Total	(2,348.5)	(2,337.7)	(10.8)	(2,348.5)

Notes to the financial statements

for the year ended 30 June 2023

Note 19 Fair value of financial instruments

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 2022	New Deals	Repayments	Foreign exchange	Profit/(loss) deals matured	Profit/(loss) deals existing	At 30 June 2023
	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m
Level 3 financial assets							
Loans and receivables designated at fair value through profit or loss	1,100.8	370.3	(328.9)	41.1	-	(22.3)	1,161.0
	1,100.8	370.3	(328.9)	41.1	-	(22.3)	1,161.0
Level 3 financial liabilities							
Guarantees designated at fair value through profit or loss*	(8.5)	-	-	3.6	-	(6.3)	(11.2)
	(8.5)	-	-	3.6	-	(6.3)	(11.2)
Total net level 3	1,092.3	370.3	(328.9)	44.7	-	(28.6)	1,149.8

Movement in level 3 fair value exposures							
	At 1 July 2021	New Deals	Repayments	Foreign Exchange	Profit/(loss) deals matured	Profit/(loss) deals existing	At 30 June 2022
	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m
Level 3 financial assets							
Loans and receivables designated at fair value through profit or loss	1,226.9	348.7	(547.6)	81.8	-	(8.9)	1,100.8
	1,226.9	348.7	(547.6)	81.8	-	(8.9)	1,100.8
Level 3 financial liabilities							
Guarantees designated at fair value through profit or loss*	(4.8)	-	-	(0.3)	-	(3.4)	(8.5)
	(4.8)	-	-	(0.3)	-	(3.4)	(8.5)
Total net level 3	1,222.1	348.7	(547.6)	81.5	-	(12.3)	1,092.3

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

The profit or loss on the above level 3 financial assets and liabilities is recorded in the statement of profit or loss or other comprehensive income in either the category fair value of third party loans and guarantees or the category fair value of other financial instruments.

Notes to the financial statements

for the year ended 30 June 2023

Note 19 Fair value of financial instruments

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

	Movement in level 3 fair value exposures						At 30 June 2023 \$ m
	At 1 July 2022	New Deals	Repayments	Foreign exchange	Valuation Adjustment	Profit/(loss) deals existing	
	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m	
Level 3 financial assets							
Loans and receivables designated at fair value through profit or loss	-	1,130.4	(2.6)	19.4	(12.7)	14.3	1,148.8
Equity Securities at fair value through profit and loss	-	925.0	-	15.8	(437.5)	(1.2)	502.1
	-	2,055.4	(2.6)	35.2	(450.2)	13.1	1,650.9
Level 3 financial liabilities							
Guarantees designated at fair value through profit or loss*	-	-	-	(0.2)	-	(10.6)	(10.8)
	-	-	-	(0.2)	-	(10.6)	(10.8)
Total net level 3	-	2,055.4	(2.6)	35.0	(450.2)	2.5	1,640.1

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

	Sensitivity of level 3 fair value exposures			
	At 30 June 2023	Effect of reasonable alternative assumptions	At 30 June 2022	Effect of reasonable alternative assumptions
	\$ m	\$ m	\$ m	\$ m
Level 3 financial assets				
Loans and receivables designated at fair value through profit or loss	1,161.0	(24.4)	1,100.8	(23.5)
Level 3 financial liabilities				
Guarantees designated at fair value through profit or loss	(11.2)	(5.4)	(8.5)	(3.7)

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 (e.g. risk category 5 flat to 5 negative) across the entire portfolio, which is considered a reasonable alternative assumption.

The following table shows the quantitative information of significant unobservable inputs for level 3 fair value exposures on the National Interest Account:

	Sensitivity of level 3 fair value exposures			
	At 30 June 2023	Effect of reasonable	At 30 June 2022	Effect of reasonable
	\$ m	\$ m	\$ m	\$ m
Level 3 financial assets				
Loans and receivables designated at fair value through profit or loss	1,148.8	(13.5)	-	-
Equity Securities at fair value through profit and loss	502.1	(15.7)	-	-
Level 3 financial liabilities				
Guarantees designated at fair value through profit or loss	(10.8)	(2.3)	-	-

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 equity securities designated at fair value through profit or loss, the model assumptions were adjusted. To obtain the sensitivity, inputs such as the discounting rate and the credit risk were adjusted to what is considered the lower end of reasonable assumptions in the same model that was used to value the transactions, which is considered a reasonable alternative assumption.

Notes to the financial statements

for the year ended 30 June 2023

Note 19 Fair value of financial instruments

(f) Determination of fair value

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

Export Finance Australia is closely monitoring technical and regulatory developments offshore affecting the replacement of LIBOR and expects to adopt the market consensus as it emerges.

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

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

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

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

Fair value is determined by applying market rates and using a discounted cash flow valuation through an external valuation system. These loans are classified as level 2.

Derivative financial instruments

The fair value of derivative financial instruments is determined by applying market rates and using a discounted cash flow valuation. For derivatives that are associated with borrowings, an adjusted curve is derived from the London Inter-bank Offered Rate (LIBOR) or risk-free curve and then adjusted to calculate a margin based on Export Finance Australia'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. Derivatives are classified as level 2.

Borrowings designated at fair value through profit or loss

The fair value of borrowings is determined by applying market interest rates and using a discounted cash flow valuation. An adjusted curve is derived from the LIBOR or risk-free curve and then adjusted to calculate a margin based on Export Finance Australia's current ability to issue debt at a margin to LIBOR. These valuations are being obtained from an external valuation system. The borrowings are classified as level 2.

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

Investment securities measured at amortised cost

The indicative fair value quoted in the above table are for information purposes only and are determined by applying market interest rates and using a discounted cash flow valuation. These valuations are being obtained from an external valuation system and are classified as level 2. The assets are held at amortised costs in the financial statements.

National interest account loans and receivables designated at fair value through profit or loss

Due to the complex nature of these transaction Export finance Australia obtained an independent valuation of these loans. The fair value provided was based on calculation methods and assumptions which reflect market information that can be distilled from actively traded markets. This provides market related valuations, which are consistent with the market information available. Net present value of cashflows and credit adjusted spreads were taken into account in the valuation.

Equity investments at fair value through profit and loss

Due to the complex nature of these transaction Export finance Australia obtained an independent valuation of these equity investments. The fair value provided was based on calculation methods and assumptions which reflect market information that can be distilled from actively traded markets. This provides market related valuations, which are consistent with the market information available.

Notes to the financial statements

for the year ended 30 June 2023

	Commercial Account		National Interest Account	
	30 June	30 June	30 June	30 June
	2023	2022	2023	2022
	\$ m	\$ m	\$ m	\$ m
Note 20 Capital equivalent				
Capital available				
Equity at start of period	586.9	542.8	-	-
Profit	17.0	12.8	-	-
Asset revaluation reserve	11	37.0	-	-
Dividend payable/paid	(6.4)	(5.7)	-	-
Equity at end of period	597.5	586.9	-	-
Eligible allowance for credit risk in capital	19.6	16.8	-	-
Export Finance Australia capital	617.1	603.7	-	-
Callable capital	1,200.0	1,200.0	-	-
Capital available (including callable capital)	1,817.1	1,803.7	-	-

Commercial Account

Capital management

Under section 56 of the EFIC Act, the Board is required 'to ensure, according to sound commercial principles, that the capital and reserves of Export Finance Australia at any time are sufficient'. This requirement relates only to our Commercial Account activities, and this provides guidance in fulfilling the obligation by setting 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.

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

Export Finance Australia has modelled its large exposure policy on Basel and APRA guidelines. Our large exposures limits are 25% of eligible capital for internal risk grades 1 and 2 (A- and above), and 15% for internal risk grades 3 and worse (below A-). Any exceptions above these limits are subject to Board approval. In addition, the Board allows a small tolerance above these limits for foreign exchange movements given the majority of the large exposures are in foreign currency against an AUD capital base.

Export Finance Australia's approach to 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 the 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 the Government, may call additional cash capital up to a prescribed amount. Export Finance Australia is also supported by a Commonwealth guarantee that protects third parties from any financial loss in the event Export Finance Australia cannot meet its obligations. This guarantee has never been called.

The Board treats the 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. Changes to the EFIC Act in 2013, which gave the Minister power under section 55A(2) to 'direct Efic to pay specified dividends within a specific period', means the capital base may not meet the regulatory definition of 'capital'.

When making this assessment, the Board is required to include as equity the \$1.2 billion of callable capital that is available from the Commonwealth in accordance with the provisions of section 54(8)(a) of the EFIC Act.

National Interest Account

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

Notes to the financial statements

for the year ended 30 June 2023

	Commercial Account		National Interest Account	
	30 June	30 June	30 June	30 June
	2023	2022	2023	2022
	\$	\$	\$	\$

Note 21 Remuneration of external auditors

Auditor's remuneration

Amounts received or due and receivable by Export Finance Australia's auditors for:

Other services	-	-	-	-
An audit or review of the annual report	252,000	252,000	-	-
Total audit remuneration	252,000	252,000	-	-

Export Finance Australia's auditor is the Australian National Audit Office (ANAO).

Notes to the financial statements

for the year ended 30 June 2023

	Commercial Account		National Interest Account	
	30 June	30 June	30 June	30 June
	2023	2022	2023	2022
	\$	\$	\$	\$

Note 22 Related party disclosures

Key management remuneration expenses for the reporting period

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

Short-term employee benefits	4,460,294	3,893,769	-	-
Post-employment benefits	373,323	281,042	-	-
Long-term employee benefits	87,776	60,215	-	-
Termination benefits	-	-	-	-
Total remuneration	4,921,393	4,235,026	-	-
Total number of senior management personnel	18	17	-	-

The table has been based on the requirements stipulated in the Resource Management Guide No. 138 *Commonwealth Entities Executive Remuneration Reporting Guide for Annual Reports*.

The number of key management personnel at 30 June 2023 were 16 positions comprising 7 Board Members, the Managing Director & Chief Executive Officer, and 8 Executives. There has been one position added to KMPs this year compared to the prior year. The numbers that hold these positions vary depending on how many positions had departures and new starters within the year.

Transactions with key management personnel

Export Finance Australia has not entered into any direct transactions with key management personnel.

Under the EFIC Act, Export Finance Australia 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 Export Finance Australia of any money that becomes payable to a third party.

Notes to the financial statements

for the year ended 30 June 2023

	Note	Commercial Account		National Interest Account	
		30 June 2023 \$ m	30 June 2022 \$ m	30 June 2023 \$ m	30 June 2022 \$ m
Note 23 Reconciliation of operating profit to net cash flows from operating activities					
Profit from ordinary activities		17.0	12.8	(59.8)	8.6
Changes for non-cash items					
Depreciation	3(vii)	3.8	3.4	-	-
Employee entitlements	3(vii)	2.9	1.5	-	-
Amortisation of deferred income		5.8	(6.3)	-	0.1
Movement in accruals		3.0	-	31.1	7.2
Credit risk movement	3(iv),(viii)	11.4	(17.1)	5.0	4.4
Unrealised foreign exchange losses		2.8	5.5	(4.1)	(1.0)
Unearned premium		-	-	(0.4)	0.6
Operating expenses		-	-	7.2	5.0
Fair value movement of third-party loans and guarantees		(12.7)	16.0	-	-
Fair value movement of other financial instruments	3(v)	(4.3)	(4.8)	46.5	-
Fair value movement of equity investments		-	-	1.2	-
Specific provision for credit risk	3(iv)	8.3	8.9	4.1	3.6
Provision for competitive neutrality charges	15	10.9	8.2	-	-
Other		(1.4)	(1.3)	-	0.1
Adjustment for non-cash items					
Net movement in receivables/payables		25.8	2.7	-	-
Net repayments of loan balances		(79.0)	72.4	(1,175.7)	(144.5)
Purchase of equity investments		-	-	(925.0)	-
Net cash inflows/(outflows) from operating activities		(5.7)	101.9	(2,069.9)	(115.9)
Reconciliation of cash					
Cash at end of financial year is reconciled to the related items in the statement of financial position as follows:					
Cash		40.7	19.0	83.2	-
Receivables from other financial institutions	4	850.0	641.4	96.2	2,506.5
Cash (including liquid funds) at end of financial year		890.7	660.4	179.4	2,506.5
Financing facilities					
Borrowing facilities available at end of financial year					
Overdraft facilities		0.3	0.3	-	-
Amount of facilities used		-	-	-	-
Amount of facilities unused		0.3	0.3	-	-

Notes to the financial statements

for the year ended 30 June 2023

Note 24 Reconciliation of liabilities arising from financing activities

Commercial Account	Note	At 1 July 2022 \$ m	Cash Proceeds \$ m	Cash Repayments \$ m	Net Proceeds/ (Repayments) \$ m	Fair Value/ Foreign Exchange \$ m	At 30 June 2023 \$ m
Derivative assets and liabilities							
Derivative financial assets	9	23.3	1,697.1	(1,653.2)	43.9	(38.0)	29.2
Derivative financial liabilities	9	(340.5)	1,380.6	(1,450.6)	(70.0)	60.4	(350.1)
		(317.2)	3,077.7	(3,103.8)	(26.1)	22.4	(320.9)
Borrowings designated at fair value through profit and loss							
Borrowings	13	1,418.1	-	(100.0)	(100.0)	(0.6)	1,317.5
Euro commercial paper	13	961.2	4,958.1	(4,720.3)	237.8	40.6	1,239.6
		2,379.3	4,958.1	(4,820.3)	137.8	40.0	2,557.1
National Interest Account							
Payables to other financial institutions							
Payables to other financial institutions		2,511.4	2,471.2	(5,097.6)	(2,626.4)	115.0	-
Borrowings designated at fair value through profit and loss							
Borrowings	13	-	2,346.9	-	2,346.9	(42.8)	2,304.1
Borrowings from Commercial Account							
Borrowings from Commercial Account		552.2	154.6	(117.6)	37.0	14.7	603.9

Notes to the financial statements

for the year ended 30 June 2023

Note 24 Reconciliation of liabilities arising from financing activities

		At 1 July 2021	Cash proceeds	Cash repayments	Net proceeds/ (repayments)	Fair value/ foreign exchange	At 30 June 2022
	Note	\$ m	\$ m	\$ m	\$ m	\$ m	\$ m
Commercial Account							
Derivative assets and liabilities							
Derivative financial assets	9	66.5	2,196.3	(2,162.2)	34.1	(77.3)	23.3
Derivative financial liabilities	9	(96.6)	1,327.3	(1,307.3)	20.0	(263.9)	(340.5)
		(30.1)	3,523.6	(3,469.5)	54.1	(341.2)	(317.2)
Payables to other financial institutions							
Payables to other financial institutions		-	16.1	(16.1)	-	-	-
Borrowings designated at fair value through profit and loss							
Structured borrowings							
Non-structured borrowings		1,325.1	256.5	-	256.5	(163.5)	1,418.1
Euro commercial paper		780.6	4,008.0	(3,889.2)	118.8	61.8	961.2
	13	2,105.7	4,264.5	(3,889.2)	375.3	(101.7)	2,379.3
National Interest Account							
Payables to other financial institutions							
Payables to other financial institutions		-	3,750.7	(1,370.5)	2,380.2	131.2	2,511.4
Borrowings from Commercial Account							
Borrowings from Commercial Account		389.2	184.7	(39.9)	144.8	18.2	552.2

Notes to the financial statements

for the year ended 30 June 2023

	Commercial Account		National Interest Account	
	30 June 2023 \$m	30 June 2022 \$ m	30 June 2023 \$m	30 June 2022 \$ m
Note 25 Aggregate assets and liabilities				
Assets expected to be recovered in:				
No more than 12 months	1,510.2	1,364.6	228.5	2,593.2
More than 12 months	2,111.4	2,025.0	2,730.8	474.5
Total assets	3,621.6	3,389.6	2,959.3	3,067.7
Liabilities expected to be settled in:				
No more than 12 months	2,098.9	1,230.6	228.5	2,593.2
More than 12 months	925.2	1,572.1	2,730.8	474.5
Total liabilities	3,024.1	2,802.7	2,959.3	3,067.7
Net assets and liabilities	597.5	586.9	-	-