Efic

Finance for Australian Exporters

Efic 4 YEAR

CORPORATE PLAN

2015-16 to 2018-19

CONTENTS

Introduction

As the Chairman of the Export Finance and Insurance Corporation (Efic), I am pleased to present our 2015-16 Corporate Plan (the Plan), which covers the 4 year period from 2015-16 to 2018-2019, as required under paragraph 35 (1) (b) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act), and section 49 of the Export Finance and Insurance Corporation Act 1991 (Efic Act).

The Plan sets out how we will deliver on our purpose of supporting Australian exporters over the coming year and beyond. However, as our mandate is to operate in the ‘market gap’, which means we complement rather than compete with the private sector, our planned outcomes are influenced by the risk appetite of the private sector.

Typically the market gap occurs for SMEs and even larger companies conducting business in emerging markets, where banks traditionally have less risk appetite. When we step forward, our participation often encourages the participation of other financiers. This catalytic role is consistent with our mandate to ‘crowd in’ the private sector. In that case, Efic will step back but if our early involvement means our clients’ needs can now be met by the private sector, then we have been successful, even though our involvement is not always reflected in our planned outcomes.

The Plan assumes the market gap will continue, and in particular it builds on our solid performance this year, notably in our increased support for SMEs. We expect that the number of transactions supporting SMEs will continue to grow in 2015-16, but increase significantly by 2018-19, as we develop our online capability. Importantly, we expect well over 50 per cent of our SME clients in 2015-16 will be new to us.

Our corporate business will grow more modestly. We will continue to provide finance to resource projects in emerging markets where there is a need for significant Australian subcontracting, including for Australian SMEs, as well as assisting larger Australian companies facilitate their export business opportunities.

We expect to sign over $400 million worth of business next year, supporting export contracts worth in excess of $1.8 billion. Our pre-tax profit is forecast to be $19.8 million, and post tax $13.9 million, although a 10 per cent movement in exchange rates can impact profitability by up to $5 million.

Our profit over the period of the Plan will also be impacted by the introduction of competitive neutrality arrangements. The Plan includes a Debt Neutrality and Tax Neutrality charge that takes effect from July 1 2015. Notwithstanding these charges, our capital position remains strong and our ongoing profitability should allow us to pay a regular dividend to the Government.

The Board welcomed recent legislative changes made to the Efic Act. These enable us to lend directly for the export of all goods, not just ‘capital goods’, allowing us to better support small and medium-sized Australian exporters. Previously our support for exporters of consumable goods requiring working capital was to provide a guarantee to the exporter’s bank.

This new lending flexibility is consistent with the Government’s focus on having Efic help more Australian SMEs, through reducing red tape and the costs associated with accessing Efic’s services. Our greater ability to lend directly to SMEs will help to lower the fees and charges SMEs pay when accessing finance from us, due to the current duplication of credit and legal costs associated with having two parties (Efic as guarantor and the SME’s bank as beneficiary) involved in each transaction.

These changes will also help to make our application and approval process more efficient, as well as increasing the number of SMEs, particularly smaller businesses, which can now access our products and services more cost-effectively. As we continue to grow our SME business, our risk management systems will adapt to the higher volumes of activity, and our investment in an online portal will greatly reduce the cost and time taken to assess risk.

In 2014-15 we increased our national SME origination team, with additional staff in Perth, Melbourne, Brisbane and Sydney. We also expect to be represented in Adelaide later this year. Together with recent marketing initiatives, we anticipate this will allow us to reach even more SMEs, especially in regional areas and those in global supply chains. This investment in the business has increased our expense base by 8 per cent, however the Board is confident the expenditure is necessary to effectively assist SMEs.

We will also continue to work collaboratively with other Government departments and agencies, as well as industry groups, to help generate referrals and boost awareness of our services, particularly to SMEs.

Our Plan also recognises that our people are our greatest asset and we remain committed to creating programs that promote their ongoing learning and development. We will continue to promote diversity across the organisation, strive for better representation of women in senior leadership positions and support Australia's indigenous community by promoting awareness of indigenous culture and supporting reconciliation.

Our research shows that while optimism among Australian exporters remains high, access to finance will continue to remain difficult for Australian SMEs looking to export. The funding challenge for SMEs is not necessarily regulatory. The commercial impediments to smaller businesses accessing finance are:

- Funding requirements of many SMEs are quite specialised
- The amounts involved are typically small
- Many SMEs export to perceived 'high risk' emerging markets
- Where the competitive advantage of the exporting SME is intangible intellectual property, they lack the traditional collateral like property that banks seek.

That is why it is important we continue to operate in a 'market gap' capacity, providing financial support.

Australia's exporters are among the best companies in this country and we look forward to helping even more receive the financial support they need to win business, grow internationally and achieve export success.

James M Millar AM
Chairman

27 August 2015

Purpose

Purpose

Our primary purpose is to facilitate and encourage Australian export trade on a commercial basis. We provide financial support to Australian-based companies that are exporting, integral to a global supply chain or seeking to grow internationally. Our primary focus is SMEs, as this is where the need for our support is greatest.

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

Functions and responsibilities

Under the Efic Act, Efic has four key functions:

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

In performing its functions Efic is required to:

- do so in a manner to best assist the development of Australian export trade
- comply with any directions from the Minister given under section 9 of the Efic Act
- have regard to improving and extending the range of financial services and products available to people involved in Australian export trade
- provide services and products as efficiently and economically as possible
- have regard to Australia's obligations under international agreements.

Role

Our role is to support the growth of Australian businesses internationally. We are a specialist financier that delivers simple and creative solutions for Australian companies to enable them to win business, grow internationally and achieve export success.

Quite simply we are committed to unlocking finance for export success.

We operate on a commercial basis and partner, but do not compete, with banks to provide financial solutions for:

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

Recent amendments to the Efic Act now provide us with greater flexibility to lend for the export of all goods and services, not just capital goods.

Our financial solutions include:

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

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

We also provide financial services to Australian exporters that the Government considers are in the national interest. For all transactions written on the National Interest Account, the Commonwealth receives all net income and must reimburse us for any losses.

Environment

Operating environment

Efic is a statutory authority operating in accordance with commercial principles. We operate in the financial services sector, although the Minister has expressly limited our activities to a market gap mandate. Our Statement of Expectations (Appendix 5) states "*Efic should ensure its activities fill the 'market gap' where private sector finance is not forthcoming. I expect Efic to monitor the capacity of the commercial markets and to take this into account*."

The market gap mandate means that we do not compete with the private sector, instead we fill the 'market gap' by only helping those eligible businesses that are unable to receive the finance they need. Indeed, we complement the private sector, notably the banks, by working with them or encouraging them to participate in various transactions.

In our experience, SMEs and even larger companies operating in emerging markets are consistently unable to access the finance they need to grow their business or fulfil export-related contracts. Our point of difference is that we adopt a capability-focused approach to due diligence when assessing applications for finance, which includes an assessment of the contract terms.

In the SME segment for example, this approach is different to the banks, which take a more traditional view and base their risk assessment on the tangible security that the SME can provide, even if it has a track record and the technical capacity to generate a profitable business.

This results in a 'market gap' because banks typically prefer to lend to businesses with the best collateral, rather than those with the best business prospects. We will often rank behind an exporter's bank against tangible security, after being satisfied with the exporter's ability to perform the contract. However, this ensures SMEs that lack tangible security still have access to finance to secure export contracts. Our involvement also signals to private financiers that these businesses may represent an acceptable risk.

Larger Australian companies looking to take advantage of opportunities in emerging markets also face financing hurdles. The international focus of Australia's banks is more limited than that of many of Australia's exporters, resulting in financing shortfalls. Financial flows into emerging markets also suffer from short-termism, exposing exporters and investors to abrupt and wholesale credit withdrawals when sentiment changes.

We can also help with 'crowding in' when it comes to providing finance, given some providers feel our participation helps to lower the risk, due to:

- our Government ownership and 'AAA' rating
- our understanding of the Australian legal and environmental framework, and knowledge of various international obligations
- our strong relationships with other countries.

A good example is our ability to obtain reinsurance from the private market for transactions in emerging markets, where those reinsurers would not normally take the risk without our participation.

The ‘market gap’ mandate however means that it is difficult to predict the levels of business activity that we undertake in any particular year. The market gap is a dynamic concept and largely outside the control of Efic, as it is dependent on the amount of private sector finance available for viable export opportunities at any one time.

Success for Efic is therefore not always reflected through greater profitability or increased levels of business activity as outlined under Planned Performance. When we step forward, our participation often encourages the participation of other financiers. This catalytic role is consistent with our mandate to ‘crowd in’ the private sector.

Statutory environment

The Efic Act and PGPA Act provide the legislative framework for the governance, reporting and accountability of Efic. The PGPA Act also confers on directors various responsibilities and powers to promote high standards of accountability and performance, responsibility for the financial management of Efic and compliance with reporting requirements. The directors’ duties are broadly consistent with the duties of directors under the Corporations Act 2001 (Cth).

We are also subject to a series of other specific statutory and regulatory requirements that influence our operations such as Freedom of Information, Work Health and Safety, Anti-Money Laundering, Fair Work, Privacy, Competition and Consumer Protection, and Financial Services Licensing.

Regulatory environment

We are not subject to any specific oversight by a regulator such as APRA or ASIC. Instead we regularly report to the Minister and Government on our activities. The Board is responsible for corporate governance, managing our affairs and overseeing the operations. This includes establishing strategies, defining risk appetite, monitoring performance, making decisions on capital usage (including large exposures) and making dividend recommendations to the Government.

As Efic is part of the Australian Government’s Foreign Affairs and Trade portfolio, the Minister for Trade and Investment (Minister for Trade) is responsible for Efic. Communication with the Government occurs at many levels and in a variety of ways.

We seek to have an open, constructive and transparent relationship with key departments. Regular and effective communication enables us to understand the priorities of Government across trade and investment, treasury, finance, small business and employment.

Although we are not subject to any specific prudential controls by a regulator, the Board has instead adopted best practice and guides itself by setting its own regulatory standards, drawing upon both the standards of APRA and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision.

The key prudential controls established relate to capital management, including managing capital adequacy and large exposures. This is covered in more detail in the section on Risk oversight and management.

Corporate Responsibility

We are committed to supporting the growth of Australian businesses internationally, in a way that is ethically, environmentally and socially responsible. We are committed to our stakeholders – our clients, the Government, our employees and the wider community.

We take our responsibilities to these stakeholders seriously. Our corporate responsibility strategy outlines the ways in which we fulfil these responsibilities. The key components of our corporate responsibility strategy are:

- environmental and social responsibility – we practise responsible lending in the transactions we support
- minimising the environmental footprint of our operations
- stakeholder engagement – we interact with our stakeholders in all that we do
- business ethics – we conduct our operations fairly, transparently and with integrity.

In particular, our corporate values include a commitment to uphold best-practice environmental and social standards in the transactions that we support.

Our Policy for environmental and social review of transactions adopts the International Finance Corporation's Performance Standards as its general benchmark for environmental and social review. The policy is reviewed on a regular basis.

The policy and procedure define how Efic integrates the principles of ecologically sustainable development into transaction considerations. We have also voluntarily joined two other initiatives: the United Nations Environmental Programme Finance Initiative and the Equator Principles.

Capabilities

The specific business activities that will help us achieve our strategic goals during the Plan period are:

STRATEGY	ACTIVITY
More 'on the ground' support for Australian exporters	We have increased our national origination team to provide more effective support to SMEs, especially in regional areas where many exporting SMEs and those in global supply chains are based. Having these roles co-located in Austrade's office in Brisbane, Melbourne, Perth and Adelaide will also ensure a steady flow of information and referrals between to the two agencies. To help engage and inform the Australian export community, we will continue to publish our quarterly SME Exporter Sentiment Index, which researches the current trends and issues within the SME export market.
Make it easier for Australian exporters to do business with us	We will continue to refine our standard form documentation and accelerated execution process to improve our average turnaround on SME transactions. We have simplified the legal documentation for our two most used products, the export working capital guarantee and performance bond. We have also created new simple form documentation for the export contract loan. We launched our new website in late 2014, and continue to make improvements to ensure it is client-centric, easy to navigate and provides information about our financial solutions based around the needs of our clients. We have commenced work on an online end-to-end loan process, which will help to streamline the application, credit assessment, credit decision and documentation elements of the process for small exporters. We will continue to have a specialist underwriter for each industry sector and geographic region to ensure ongoing engagement with larger, globally-competitive Australian companies looking to do business in emerging markets. We will continue to assess export-related opportunities where there is a significant capital gap that could be filled by our project finance facilities.
Improve brand awareness across all audiences	We have made substantial changes across everything we do – our 'look and feel', our website, how we communicate – to make us more accessible and ensure higher engagement with our clients. We will continue to build on our new brand through increased marketing efforts around acquisition campaigns, like our national road shows, and loyalty/retention programs like the SME Leaders Lunches.

The specific business activities that will help us achieve our strategic goals during the Plan period are:

STRATEGY	ACTIVITY
Develop products that meet the needs of Australian exporters	We have reduced our minimum support thresholds from $500,000 to $100,000, which will allow us to support smaller exporters. With the introduction of the new loan flexibility, we have launched the Export Contract Loan for our SME business. Our new online portal is due to be implemented during 2015-16, and this will target SMEs requiring loans of less than $250,000. We continue to provide guarantees to Australian banks to approve funding for SMEs for overseas direct investment. This is in response to SMEs increasingly needing to be present in overseas markets to get closer to their clients and successfully grow their international operations. We will continue to engage with exporters requiring funding (up to $5m) for late stage commercialisation and take the lead to assess, execute and manage these opportunities.
Expand relationships with business partners to help more Australian exporters	We will look to establish more risk sharing and partnership agreements with banks and other financiers that will give SME exporters more options and assistance in different overseas markets. We will broaden our distribution channels through using our relationships with industry groups to generate referrals and boost awareness of our services among their members. We will continue to work alongside the Department of Foreign Affairs and Trade, Austrade and other Government departments and agencies to help us support exporters efficiently and effectively.
Staff development and engagement	We will continue to promote diversity and develop people-related initiatives that are consistent with being a best employer. Recent internal surveys confirm that we are rated in the top quartile of companies in the financial services industry and we continue to offer a flexible and agile work environment to attract and retain high quality staff.
Corporate responsibility	We have introduced efficiencies to reduce our corporate footprint, such as electronic documentation and “follow-me” printers, to reduce paper consumption. We are committed to examining the impacts that our day-to-day operations have on the environment and identifying ways to reduce these impacts.
Long term sustainability of Efic	In some ways this is the overarching theme of the Plan – whatever Efic does is designed for the benefit of Australian exporters, but it must be done in a way that is sustainable. That means generating a profit over the business cycle and paying a return to the Government by way of tax and dividends.

Planned performance

This is what we are aiming to achieve over the next 4 years:

Year ended 30 June		2014/15 Actual	2015/16 Plan	2016/17 Plan	2017/18 Plan	2018/19 Plan
Number of transactions entered into:	No.	234	205 - 265	275 - 335	430 - 490	555 - 615
- SME	No.	221	200 - 250	270 - 320	425 - 475	550 - 600
- Corporate, Sovereign & Project Finance	No.	13	5 -15	5 -15	5 -15	5 -15
Number of facilities entered into:	No.	104	125 - 160	225 - 260	385 - 420	545 - 580
- SME	No.	100	120 - 150	220 - 250	380 - 410	540 - 570
- Corporate, Sovereign & Project Finance	No.	4	5 -10	5 -10	5 -10	5 -10
Value of facilities signed		179	400 - 450	410 - 460	430 - 480	450 - 500
- SME	$m	112	140 - 160	150 - 170	170 - 190	190 - 210
- Corporate, Sovereign & Project Finance	$m	67	260 - 290	260 - 290	260 - 290	260 - 290
Exports contracts supported	$m	823	1800 - 1950	1900 – 2050	2000 – 2150	2050 – 2200
- SME	$m	575	750 - 800	850 - 900	950 - 1000	1000 - 1050
- Corporate, Sovereign & Project Finance	$m	248	1050 - 1150	1050 - 1150	1050 - 1150	1050 - 1150
Commercial Account Profit (pre tax)	$m	**18.2**	**19.8**	**26.3**	**29.0**	**32.2**
Commercial Account Profit (post tax)	$m	* **18.2**	**13.9**	**18.4**	**20.3**	**22.5**
Total capital	$m	649.6	650.1	662.4	673.6	686.6
Risk weighted assets	$m	2,131.4	2,388.2	2,679.9	2,762.1	2,900.4
Capital adequacy ratio	%	30.5%	27.2%	24.7%	24.4%	23.7%

* Competitive neutrality, comprising a debt neutrality and tax equivalent charge (federal and state) was introduced effective 1 July 2015. For comparative purposes, if these charges were applied to the 2014/15 profit, the after tax profit would be $11.5m.

As a self-funding organisation with commercial principles, we support Australian exporters regardless of the market conditions. Even during times when the private sector may withdraw from capital markets, we will continue to support commercially-viable export activity. Large exposures, concentration risks and potential currency movements all impact on our business. Some risks however are beyond our control. Growth opportunities for Australian exporters in a globally competitive world, geopolitical tensions impacting emerging markets and ongoing regulatory changes, particularly in the banking environment, all impact on our ability to deliver on expected outcomes. So despite our best intentions our actual performance relative to our planned performance can be materially different.

Our mandate from Government is to operate in the ‘market gap’ so our planned outcomes are also influenced by the risk appetite of the private sector. So for example, if the private sector is willing to provide finance, we step away from the transaction, however if the private sector is unwilling or unable to provide finance, we step in.

Similarly, when we take part in a transaction, our involvement often encourages other financiers to participate, which is consistent with our mandate to 'crowd in' the private sector. When we need to step away from a transaction we may have already performed significant due diligence and incurred costs in order to provide the client with an indicative offer. However, our mandate is met when our client can access funds, even though our involvement is not always reflected in our planned performance.

Therefore in assessing how we may perform against our planned performance, it is important to note that success for us is not always reflected by an increase in profitability or the number and value of facilities provided. Success for us is supporting as many commercially-viable exporters as we can in an environment characterised by uncertainty.

For that reason our planned outcomes are in a range and the planned outcomes in the latter years of the Plan are dependent on achieving planned outcomes in 2015-16.

Our plan for 2015-16 forecasts:

- between 200 and 250 new SME transactions supporting between 120 and 150 facilities on the Commercial Account, valued between $130 - $160 million, supporting export contracts of over $750 million.

- between 5 and 15 new corporate, sovereign and project finance facilities, supporting between 5 and 10 facilities on the Commercial Account, valued at between $260 - $290 million, supporting export contracts of over $1.1 billion.

- pre tax profit on the Commercial Account of $19.8 million and post tax profit of $13.9 million.

- risk weighted assets growing from $2.1 billion to $2.4 billion.

- capital available growing from $649.6 million to $650.1 million, assuming a 75 per cent dividend payout ratio, giving a capital adequacy ratio of 18.8 per cent and 27.2 percent (including callable capital).

- no new facilities written on the National Interest Account.

We expect beyond 2015-16 that:

- SME transactions on the Commercial Account will grow to over 540 facilities, valued at over $180 million after 4 years, supporting export contracts of over $1.0 billion. The majority of this growth will be in the $100,000 to $250,000 facility range. As a consequence, the average size of facilities signed will decline from about $570,000 to $290,000, which is consistent with the Government's Statement of Expectations for Efic to focus on SMEs.

- corporate, sovereign and project finance facilities on the Commercial Account to be broadly steady over the Plan period, with no more than 10 facilities per annum valued at between $260 - $290 million, supporting projects of over $1.1 billion.

- profit on the Commercial Account rising to $32.2 million pre-tax and $22.5 million post-tax in Year 4, after taking into account a conservative write-off for credit losses in the SME portfolio.

- risk weighted assets growing to $2.9 billion, with cash capital growing modestly through retained earnings from $450 million to $487 million.

- capital available growing to $687 million after 4 years, giving a capital adequacy ratio of 16.8 per cent and 23.7 per cent (including callable capital).

- capital required (economic capital) growing from $334 million to $360 million after 4 years, giving a capital required to risk weighted asset ratio of 12.4 per cent.

Facilities signed

We expect modest growth in the number and value of transactions for SMEs, with most of the growth being in short-dated facilities (3-6 months), with a significant number of the facilities expected to be in the range of $100,000 to $250,000. Importantly, we are forecasting strong growth in the number of new SME exporters supported.

We also forecast that signings for corporate, sovereign and project finance will remain relatively flat, with signings of $260 - $290 million (around US$210 million) per annum expected over the Plan period. The nature of these larger transactions means we could experience a material permanent shortfall in growth if one or more falls away.

Competitive neutrality

A ‘Debt Neutrality’ charge of 10 basis points and a ‘Tax Equivalent’ charge of 30 per cent on accounting profit, in addition to an equivalent ‘state tax’ that covers payroll and land tax, has been introduced under competitive neutrality arrangements agreed with Government to start effective 1 July 2015.

The Debt Neutrality and state tax expenses are considered part of normal operating costs. We continue to pay GST and Fringe Benefits Tax. If those charges were applied to the 2014-15 profit of $18.2m, profit after tax would fall to $11.5m.

Pre-tax profit

We are budgeting for a pre-tax profit on the Commercial Account of $19.8 million, which may vary up to $2.5 million to be in the range of $17.3m - $22.3m, depending on the value of business signed and movement in foreign exchange rates.

The relatively modest increase in expected profit compared to $18.2 million in 2014-15 is partly explained by increased costs (from $31.5m to $35.7m), due in part to the competitive neutrality arrangements (payroll tax and land tax equivalent) adding $1.3 million to costs from which Efic was previously exempt, a full year costing of new SME origination staff who commenced part way through the last financial year in Melbourne, Brisbane and Perth, opening an Adelaide office, expanding our online presence with an updated website and also higher expected write-offs in the SME portfolio as we support the smaller SME companies.

Revenue

We expect premium and fee income from our SME and corporate, sovereign and structured trade business, net of reinsurance and allowances for funding, liquidity and credit risk to be $36.7 million in 2015-16, compared to $30.6 million in 2014-15.

Of the $36.7 million, a significant proportion is annuity income from the existing portfolio, with a smaller proportion from new business expected to be signed in 2015-16.

Treasury income from funding and investing (other than capital and reserves) is expected to decline as the debt neutrality charge is introduced, although once fully implemented, revenue should stabilise between $3.0 million and $4.0 million.

Due to relatively low interest rates, revenue from the investment of our capital and reserves is budgeted to be around $15 million in 2015-16, based on an average yield of 3.7 per cent.

Operating costs

Most of the growth in expenses is related to marketing activities aimed at increasing our support for SMEs, including a substantial investment in web-based technology.

We expect operating costs to increase from $31.5 million in 2013-14 to $35.7 million (inclusive of all taxes except the tax equivalent payment) in 2015-16 as shown below:

	Actual 2014-15	Plan 2015-16
Commercial Account	$31.5m	$35.7m
National Interest Account	$1.0m	$1.2m
TOTAL	$32.5m	$36.9m

Dividend

We provide our Board with a detailed analysis of our current and forecast capital requirements each year to support any proposed dividend. Following the restoration of capital, it is forecast that we will pay a dividend of between 50-75 per cent of profit over the period. The budget assumes 75 per cent for 2015-16 and 50 per cent thereafter.

Risk oversight and management

Our Risk Management Framework sets out core principles and the types of risks that Efic face, and forms the basis of our Risk Appetite Statement and the Risk Control Matrix. The Risk Management Framework is a high level public document and is available on Efic's website.

The Risk Appetite Statement is not a public document, as it describes in detail the manner in which our risk appetite and tolerances, and qualitative and quantitative limits, are established and subsequently controlled. Our approach to risk management and capital management is based around assessing the level of, and appetite for, risk and ensuring that the level and quality of capital is appropriate to that risk profile.

Similarly, the Risk Control Matrix (RCM) is not a public document, as it sets out each of the individual risks that the business faces, as well as the mitigants in place and the people responsible for managing the risks. It also includes Management's ratings regarding the likelihood and consequences of each risk. By assigning practical responsibilities to individuals and management, the RCM engenders a culture of risk awareness. Risks are classified depending on their nature – strategic, reputation, credit/country, market and operational/financial.

Operational and financial risks are broken down into a number of subcategories: general processes, external regulation, internal policies, domestic and international laws, and events. Various probability factors are allocated to each risk event, as well as the likelihood of the risk event occurring given existing controls. In this regard, the RCM attempts to capture all of the risks that we are managing.

Reflecting this, the RCM is reviewed on a regular basis to capture new risks or identify changes to existing risks from changes in strategic direction identified in the Corporate Plan. This interaction with strategy is central to a consistent approach to risk and strategic management across Efic.

In order to ensure effective monitoring and governance, our risk appetite incorporates a balanced mix of both quantitative and qualitative measures. These are monitored within well-established risk policies, risk tolerances and operational limits set by the Board, the PGPA Act, and the Efic Act and Regulations.

The development of the Risk Management Framework and regular discussions with the Board and Audit Committee underlines Efic's commitment to continuously improve its risk management practices, with particular emphasis on planning to identify new risks.

The assessment and underwriting of risk is central to Efic's financial management framework. All transactions underwritten by Efic are reviewed by the Board or by Management in accordance with delegated authorities from the Board.

Country risk is assessed through the Office of the Chief Economist. Large or complex transactions are reviewed by a Credit Committee.

Contingent liability and loan ceilings

Efic operates within a strong regulatory environment. The controls imposed on Efic include:

- regulations under sections 68 and 69 of the Efic Act, which limit the total amount of Commercial Account loans Efic can make and the maximum contingent liability Efic can carry under Commercial Account insurance contracts and guarantees given. The total amount of loans permitted under Efic's Commercial Account is currently set at $1.8 billion.
- approvals from the Finance Minister under section 59 of the Efic Act, which limit the type and amount of funding that Efic can obtain under various borrowing programmes.
- a direction from the Minister (in accordance with section 9(2) of the Efic Act).

Treasury operations

Efic's treasury functions are carried out within a control framework approved by the Board and compliance with the Efic Act, the PGPA Act and associated approvals required by the Australian Government.

Within this framework, we aim to prudently minimise the cost of funding our loan assets on both the Commercial Account and National Interest Account, and to prudently maximise the return on our investments, including funds representing our equity, cash reserves and working capital. In transacting on wholesale markets, our Treasury unit manages credit risk prudently within Board and management approved limits and does not trade speculatively.

The framework for our funding activities is set out within section 61 of the Efic Act, which states that 'Efic must not borrow or raise money except under section 58 or 59'. Section 58 allows the Finance Minister to lend money to Efic, out of money appropriated by the Federal Parliament, and section 59 allows Efic to borrow or raise money, subject to written approval of the Finance Minister. To date, we have funded our activities under section 59 approvals.

We borrow in the global debt-capital markets to fund our lending operations. The core function of our treasury is to prudently raise funding at competitive rates and to manage the investment of capital and reserves, and the surplus liquidity portfolio. We use derivative products to minimise currency and interest rate risks arising from our core businesses, and treasury's funding and investing operations. Our power to enter into derivative transactions derives from our general powers in section 11 of the Efic Act.

We do not take currency exposures on our assets and liabilities. We effectively eliminate this exposure by borrowing in the same currency as the assets or, typically, by borrowing in another currency and using cross-currency swaps and other foreign exchange instruments to remove the foreign exchange exposure. Similarly, we use interest rate swaps and futures to match the interest rate profiles of our liabilities with those of our loans.

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

Capital adequacy guidelines

Under section 56 of the Efic Act, the Board is required 'to ensure, according to sound commercial principles, that capital and reserves of Efic at any time are sufficient' in order to (a) meet the likely liabilities of Efic and (b) make adequate provision of defaults in loan payments. This requirement only relates to our Commercial Account activities.

The Board fulfils this obligation by setting its own regulatory standards, drawing upon both the standards of APRA and those set by the Bank of International Settlements through the Basel Committee on Banking Supervision.

The Board treats Efic's capital as equivalent to the regulatory capital under Basel and APRA guidelines, and uses this as the basis for setting risk tolerances with regard to large exposures and capital adequacy.

The Board is required to include as capital the $200 million of callable capital that is available from the Commonwealth in accordance with the provisions of section 54 of the Efic Act. The Minister has power under Section 55A(2) to direct Efic to pay specified dividends within a specific period.

Efic's lending business is essentially similar to a banking business, although the risk profile is different from that of a typical bank. Efic has a more concentrated portfolio of generally longer-dated and higher-risk exposures, consistent with our role of working beyond the limits of the commercial market. We have therefore based our assessment of capital adequacy on the prudential standards and calculations used for regulating banks.

The Board has endorsed a model that takes into account the APRA guidelines and the Basel Committee framework. The model covers credit risk, operational risk, market risk and credit concentration risk.

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

Large exposures

We use actual capital available (cash and callable) as the basis for setting risk tolerances for counterparty and country exposure limits. The Board has endorsed a limit of 25 per cent of eligible capital to apply to exposures graded with an Efic Risk Score (ERS) 1 (AAA/AA– or Aaa/Aa3) or ERS 2 (A+/A– or A1/A3), and adopted a more conservative target of 15 per cent for risks graded ERS 3 (BBB+/BBB– or Baa1/Baa3) or worse within the general limit of 25 per cent. Our Board allows a small tolerance above these limits for foreign exchange movements, given the majority of our large exposures are in foreign currency against an AUD capital base.

Concentration risk

We also need substantial capital to manage concentration risk, which is created as a natural consequence of filling those financing gaps that the private sector will not, or cannot, support. These gaps may also be in a particular industry or sector, so in order to ensure an appropriate level of diversity across our portfolio, we look beyond traditional capital adequacy ratios to determine the amount of capital required to manage our business prudently.

Currency risk

We must manage currency risk closely as, while our actual capital available is in AUD, over 90 per cent of our exposure is in foreign currency. This 'currency mismatch' means that large movements in exchange rates can influence our large exposure and country limits, and our capital adequacy, even though our underlying foreign currency exposure hasn't changed.

Credit policy

Consistent with the principles set out by the Basel Committee on Banking Supervision, the Board periodically reviews and confirms the credit risk strategy and significant credit risk policies of Efic.

Management bears responsibility for implementing the credit risk strategy approved by the Board and for developing detailed policies and procedures for identifying, measuring, monitoring and controlling credit risk.

Our significant credit policies are contained in our credit guidelines that were first approved by the Board in March 2000 and have been confirmed annually since then.

Appendix 1 – Commercial Account (Profit and Loss)

COMMERCIAL ACCOUNT PERFORMANCE

Financial performance	Actual 2014/15	Restated* 2014/15	Budget 2015/16	Budget 2016/17	Budget 2017/18	Budget 2018/19
Corporate, Sovereign & Project Finance	**25.9**	**25.9**	**30.5**	**35.6**	**38.1**	**41.6**
SME	**4.7**	**4.7**	**6.2**	**7.7**	**8.1**	**8.4**
Total export finance	**30.6**	**30.6**	**36.7**	**43.3**	**46.2**	**50.0**
Interest margin	5.1	5.1	5.5	5.5	5.5	5.5
Debt neutrality charge	0.0	(0.5)	(0.7)	(1.0)	(1.2)	(1.5)
Total treasury	**5.1**	**4.6**	**4.8**	**4.5**	**4.3**	**4.0**
Investment income	15.4	15.4	15.5	15.4	15.6	15.8
Option premium amortisation	(0.6)	(0.6)	(1.0)	(1.0)	(0.4)	0.0
Unrealised foreign exchange	(5.4)	(5.4)	(3.0)	0.0	0.0	0.0
Total capital, reserves and foreign exchange	**9.4**	**9.4**	**11.5**	**14.4**	**15.2**	**15.8**
Other income	**2.5**	**2.5**	**2.5**	**2.6**	**2.6**	**2.7**
Total income	**47.6**	**47.1**	**55.5**	**64.8**	**68.4**	**72.5**
Normal operating costs	(31.5)	(31.5)	(34.4)	(37.1)	(38.0)	(38.9)
Payroll tax equivalent (CN charge)	0.0	(1.0)	(1.1)	(1.2)	(1.2)	(1.2)
Land tax equivalent (CN Charge)	0.0	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Total operating costs	**(31.5)**	**(32.7)**	**(35.7)**	**(38.5)**	**(39.4)**	**(40.3)**
Profit before specific provisions	**16.1**	**14.4**	**19.8**	**26.3**	**29.0**	**32.2**
Specific provision for losses	2.2	2.2	0.0	0.0	0.0	0.0
Allowance for litigation and / or expense claims	(0.1)	(0.1)	0.0	0.0	0.0	0.0
Total Commercial Account profit before tax	**18.2**	**16.5**	**19.8**	**26.3**	**29.0**	**32.2**
Tax neutrality charge	0.0	(5.0)	(5.9)	(7.9)	(8.7)	(9.7)
Total Commercial Account profit before tax	**18.2**	**11.5**	**13.9**	**18.4**	**20.3**	**22.5**
Allocation of operating expenses						
Commercial export finance	31.5	32.7	35.7	38.5	41.2	42.1
National Interest	1.0	1.0	1.2	1.2	1.3	1.3
Total operating expenses	**32.5**	**33.7**	**36.9**	**39.7**	**42.4**	**43.4**

* Competitive neutrality, comprising a debt neutrality and tax equivalent charge (federal and state) was introduced effective 1 July 2015. For comparative purposes, if these charges were applied to the 2014/15 profit, the after tax profit would be $11.5m.

Appendix 2 – Commercial Account (Capital and Risk Weighted Assets)

COMMERCIAL ACCOUNT PERFORMANCE

	Actual 2014/15	Budget 2015/16	Budget 2016/17	Budget 2017/18	Budget 2018/19
Capital available					
Equity at start of period	225.9	436.8	435.8	446.3	457.0
Profit	18.2	13.9	18.4	20.3	22.5
Revaluation	13.7	0.0	0.0	0.0	0.0
Cash flow hedge	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
Available-for-sale investments*	(2.6)	(1.0)	(0.8)	(0.2)	0.0
Dividend paid/payable	(18.2)	(13.7)	(6.9)	(9.2)	(10.2)
Special dividend / Additional capital	200.0	0.0	0.0	0.0	0.0
Equity at end of period	436.8	435.8	446.3	457.0	469.2
Eligible allowance for credit risk in capital	12.8	14.3	16.1	16.6	17.4
Efic capital	**449.6**	**450.1**	**462.4**	**473.6**	**486.6**
Capital available (including callable capital)	200.0	200.0	200.0	200.0	200.0
Capital available (including callable capital)	**649.6**	**650.1**	**662.4**	**673.6**	**686.6**
Capital required					
Export finance	115.6	134.0	156.0	162.2	172.6
Treasury	32.9	34.0	34.0	34.0	34.0
Other assets	4.6	5.0	5.0	5.0	5.0
Operational capital	8.5	8.0	8.0	8.0	8.0
Capital before concentration capital	**161.6**	**181.0**	**203.0**	**209.2**	**219.6**
Concentration capital	172.0	183.3	176.8	157.7	139.9
Total capital required	**333.6**	**364.3**	**379.8**	**366.9**	**359.5**
Capital ratios					
Risk weighted assets	2,131.4	2,388.2	2,679.9	2,762.1	2,900.4
Ratio excluding callable capital (8% min)	21.1%	18.8%	17.3%	17.1%	16.8%
Ratio including callable capital (16% min)	30.5%	27.2%	24.7%	24.4%	23.7%
Capital required to RWA	15.7%	15.3%	14.2%	13.3%	12.4%

Appendix 3 – National Interest Account

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

Transactions on the National Interest Account (NIA) tend to involve:

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

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

Rescheduled debt

The Australian Government's rescheduled debt with Egypt and Iraq relates to credit insurance claims for exports of wheat, cheese and split peas, among others. Rescheduled debt with Indonesia primarily relates to export finance transactions under the discontinued Development Import Finance Facility (DIFF).

Debt 2 Health Forgiveness – Indonesia

Efic entered into a bilateral deed with the Indonesian Ministry of Finance, which implemented the debt cancellation terms set out in the Tripartite Arrangement between the Australian Government, the Indonesian Government and The Global Fund to Fight AIDS, Tuberculosis and Malaria.

Financial performance

The interest margin in the NIA represents rescheduled Egyptian debts, default interest in respect of the rescheduled soft loans to Indonesia plus a portion of the borrowing margin on NIA funding.

Premium and fee income includes the fees being received in respect of the Papua New Guinea Liquefied Natural Gas (LNG) facility paying semi-annual in arrears of $12.3 million, as well as the amortisation of fees received in the past on facilities that are still being repaid.

Credit insurance recoveries of $19.0 million have been budgeted to be received from Iraq under the bilateral agreement, which will offset the $18.7 million debt forgiveness to Indonesia.

We have assumed no losses on the NIA (the same approach as for the Commercial Account).

As Efic is effectively indemnified against loss on the NIA, there is no provisioning for any expected loss.

NIA profit is expected to be subject to some volatility given the amount of revenue in foreign currencies. We have not budgeted for any currency gains or losses, as we have used constant exchange rates over the Plan period for the NIA.

Appendix 4 – National Interest Account (Profit and Loss)

National Interest Account	2014-15 Actual	2015-16 Budget	2016-17 Budget	2017-18 Budget	2018-19 Budget
Interest income	22.5	19.0	16.8	16.0	13.6
Benchmark funding	0.2	0.2	0.1	0.1	0.1
Interest expense	(20.9)	(18.0)	(16.1)	(15.6)	(13.2)
Interest margin	**1.8**	**1.2**	**0.8**	**0.5**	**0.5**
Premium and fees	12.2	13.8	12.9	11.8	10.7
Premium and fees reinsured	0.0	0.0	0.0	0.0	0.0
Foreign exchange	(0.3)	0.0	0.0	0.0	0.0
Total income	**13.7**	**15.0**	**13.7**	**12.3**	**11.2**
Allocated operating costs	(1.0)	(1.2)	(1.1)	(1.0)	(0.9)
Profit before allowances	**12.7**	**13.8**	**12.6**	**11.3**	**10.3**
Specific provision for losses	0.0	0.0	0.0	0.0	0.0
Claims litigation	0.0	0.0	0.0	0.0	0.0
Profit after allowances	**12.7**	**13.8**	**12.6**	**11.3**	**10.3**
Credit insurance recoveries (Iraq)	17.6	18.5	19.6	20.5	20.7
Debt for health swap (Indonesia)	(14.3)	(18.8)	(8.5)	0.0	0.0
National Interest Account profit	**16.0**	**13.5**	**23.7**	**31.8**	**31.0**

Appendix 5 – Statement of Expectations

THE HON ANDREW ROBB AO MP

MINISTER FOR TRADE AND INVESTMENT

13 NOV 2014

Mr Andrew Mohl
Chairperson
Export Finance and Insurance Corporation
Level 10, Export House
22 Pitt Street
SYDNEY NSW 2000

Dear Mr ~~Mohl~~ Andrew

I am writing to outline the Australian Government's statement of expectations for the Export Finance and Insurance Corporation (EFIC). This statement outlines the Australian Government's key priorities and objectives for EFIC consistent with section 34 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and replaces the statement of expectations sent to you on 19 July 2011.

Mandate and scope of operations

The Government considers that EFIC plays an important role in facilitating exports. As outlined in the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act), EFIC will continue to:

- facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in such trade;
- encourage banks and other financial institutions carrying on business in Australia to finance, or assist in financing, export contracts or eligible export transactions;
- administer payments and related matters under export contracts in respect to overseas aid projects for which money was made available by the Commonwealth; and
- provide information and advice about finance and insurance arrangements to support Australian export trade.

However, EFIC must not provide financial services or products on its Commercial Account (CA) unless EFIC is satisfied that private sector providers are unable or unwilling to support financially viable business activities. EFIC should ensure its activities fill the 'market gap' where private sector finance is not forthcoming. I expect EFIC to monitor the capacity of the commercial markets and to take this into account

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when determining the scope of its activities.

The Government has decided to get the best out of EFIC by having it focus on support for small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets. I welcome EFIC's recent improvements to make it easier for SMEs to access its services and I expect EFIC to continue to improve and simplify its services to ensure SMEs have every opportunity to access markets and expand their businesses overseas.

While prioritising EFIC support on SMEs facing challenges accessing finance, the Government recognises that large projects or firms can help SMEs access markets through supply-chain participation. To achieve a balance in the level of support for large transactions, I am introducing some stipulations around the support EFIC can provide to large projects or firms.

EFIC shall cease to support onshore resource projects (and related infrastructure) given that the private finance sector is active in this part of the market. EFIC may, however, continue to provide support to SME suppliers of domestic resource projects (and related infrastructure) where the SME good or service is integral to the performance of a resource-export project (and related infrastructure).

EFIC may continue to provide support for large overseas resource projects, but only where the EFIC Board is satisfied that EFIC is not crowding out the private sector, the transaction does not come at the expense of SME transactions, and the project has significant Australian content including through SME supply chain participation.

Where EFIC approves transactions involving SME suppliers to domestic resource projects (and related infrastructure) or large overseas resource projects, I expect EFIC to provide the Department of Foreign Affairs and Trade with an assessment of the transactions' compliance with the relevant criteria above and to report this publicly (subject to any confidentiality considerations).

EFIC is to maintain its demonstration role to private finance providers. In most circumstances, after one or two transactions with the same company, EFIC will have demonstrated to the private sector that commercial returns are possible. I therefore expect EFIC to limit the number of CA facilities provided to the same company to three facilities within a three year period. Further facilities with the same firm must be approved by the EFIC Board on the basis that the transaction is to an emerging market or where the Board assesses that the transaction will not crowd out the private sector.

The costs and time associated with seeking finance can be a burden on exporters, particularly SMEs. The Government intends to amend the EFIC Act and enhance EFIC's demonstration role by allowing EFIC to provide loans in a broader range of circumstances. This enhanced range of products and services that EFIC can provide will be available following receipt of royal assent of the EFIC (Direct Lending and Other Measures) Bill 2014 (the 'Bill').

For repeat transactions (companies with more than three transactions with EFIC in a three year period) EFIC will report to DFAT the basis for the support, in line with my expectations above.

EFIC should continue to publish its *Policy and Procedures for environmental and social review* and regularly review the policy to ensure it is consistent with best-practice environmental and social standards, including the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises, the Equator Principles and the OECD Common Approaches. EFIC should continue to publicly disclose its prospective involvement in transactions associated with projects that have potentially significant adverse environmental or social impacts (Category A projects).

Other matters

In addition to the requirements above, and your responsibilities under the EFIC Act and the PGPA Act to provide me and the Minister for Finance with a range of information and services, EFIC is also to:

- provide products and services having regard to the Australian Government's World Trade Organization (WTO) and other international commitments, including the United Nations Convention against Corruption;
- comply with the OECD Arrangement for Officially Supported Export Credits;
- where appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits, and the WTO;
- provide DFAT and any other relevant agencies with any non-legally privileged information they request to support them in preparing advice on policy related aspects of export credits and EFIC's operations;
- comply with Government and Parliamentary requirements in relation to the provision of information, noting exceptions available under the *Freedom of Information Act 1982* and the possible availability of public interest immunity;
- inform me and DFAT of any approaches, whether bilaterally or multilaterally, to restructure or relieve outstanding Development Import Finance Facility loans;
- comply with Ministerial Directions, including those relating to the Democratic People's Republic of Korea, Iran, Zimbabwe and the exploitation of uranium as well as with Australian laws implementing United Nations Security Council and Australian autonomous sanctions.

I expect EFIC and DFAT to have a Service Level Agreement in place in relation to the management and administration of the NIA.

Pricing arrangements

I expect EFIC's CA operations to be conducted on a commercial basis. As such, the pricing of EFIC's products and services should not undercut the private sector where private sector support is present, nor undercut pricing for comparable risks when private sector support is absent. This enhancement of EFIC's demonstration role is central to EFIC meeting its policy objective of helping commercially viable exporters overcome financial barriers while also encouraging private sector participation.

To help ensure this the Government has decided that competitive neutrality policies should be applied to EFIC's operations. In line with this, the Government is currently seeking amendments to the EFIC Act that will require EFIC to pay a tax equivalent charge and provide for the option of the imposition a debt neutrality fee. Subject to the current expectation of the Bill receiving royal assent, competitive neutrality charges will commence in the financial year 2015/16.

It is my expectation that the National Interest Account (NIA) should also normally be conducted on a commercial basis. Any risk on the CA is not to be transferred to the Commonwealth without specific authorisation from me, as Trade and Investment Minister.

Governance and reporting

As a corporate Commonwealth entity, as defined in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), EFIC is subject to the accountability, management, performance and reporting requirements specified in that Act. I expect EFIC's Board and Senior Management to manage EFIC's financial matters with care and diligence in accordance with the applicable obligations of the PGPA Act and the EFIC Act. Together you should strive to maintain a culture of professionalism and continuous improvement throughout the organisation.

EFIC should continue to maintain systems to manage its risks. While EFIC is not an Authorised Deposit-taking Institution (ADI), it should continue to be guided by the Australian Prudential Regulation Authority (APRA) in managing financial risk. EFIC will also provide regular reporting to DFAT, the Treasury and the Department of Finance on its cumulative exposures per industry and per country.

EFIC should continue to provide regular reports on the risk the Commonwealth is bearing directly through the NIA. Commonwealth exposures will continue to be reported through the statement of risks in the Budget papers.

I expect EFIC to publish through its on-line register information on all transactions within eight weeks of signature, including the name of the client, the sector, the goods/services involved, the country, the type of facility and the value of the facility. In addition to the enhanced pricing disclosure arrangements and within appropriate confidentiality and legal parameters, I expect EFIC to share the pricing and terms of its transactions with relevant financiers operating in the domestic market. This will help demonstrate that commercial returns are possible and encourage private sector financiers to take on EFIC clients.

I expect EFIC to work closely together with Austrade, Tourism Australia, the Department of Industry and DFAT in delivering their services to Australian businesses. This will involve a coordinated approach at all levels between the organisations.

I look forward to receiving a response from you on EFIC's plans to meet these expectations. I anticipate that EFIC will make these intentions and expectations publicly available.

Yours sincerely,

Andrew Robb

Appendix 6 – Statement of Intent

Australian Government

Efic Finance for Australian Exporters

26 February 2015

The Hon Andrew Robb AO, MP
Minister for Trade and Investment
Parliament House
CANBERRA ACT 2600

Dear Minister Robb

STATEMENT OF INTENT

Thank you for your letter dated 13 November 2014 detailing the Government's expectations concerning the operations and performance of the Export Finance and Insurance Corporation (Efic). I am pleased to respond with a Statement of Intent, which outlines how Efic will direct its operations to meet your expectations. I further note that this Statement of Intent replaces the previous Statement of Intent dated 18 August 2011.

Mandate and scope of operations

I acknowledge Efic's obligation to abide by the *Export Finance and Insurance Corporation Act 1991 (Efic Act*). I also acknowledge that Efic is to provide financial services or products on its Commercial Account (CA) only when there is a 'market gap'. That is, when we are satisfied that private sector providers are unable or unwilling to support financially viable business activities. Efic will continue to monitor the capacity of the commercial markets and take this into account when determining the scope of its activities.

In line with your expectations, Efic is focused on supporting small and medium-sized enterprises (SMEs) seeking to expand their opportunities in overseas markets. Efic will also continue to improve and simplify its services to ensure that SMEs have every opportunity to expand their international business activity by accessing the necessary finance. The proposed amendments to the Efic Act will improve Efic's lending flexibility and will greatly assist in this regard.

Efic support for new large domestic resource projects (and related infrastructure) will cease. However, Efic will continue to provide support for SMEs participating in the supply chain of domestic resource projects (and related infrastructure) where the good or service is deemed integral to the performance of the export project (and related infrastructure).

Efic will continue to provide support for large overseas resource projects where the Board is satisfied that Efic is not crowding out the private sector, the transaction does not come at the expense of SME transactions, and the project has significant Australian content including through SME supply chain participation. We will determine the required level of SME supply chain participation on a case-by-case basis, relative to Efic's overall participation in the project.

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Efic will continue to publish our Policy and Procedure for environmental and social review of transactions and regularly review the policy to ensure it is consistent with best-practice environmental and social standards, including the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises, the Equator Principles and the OECD Common Approaches. Efic will continue to publicly disclose its prospective involvement in Category A projects.

Other matters

Efic will continue to:

- Provide its products and services having regard to the Government's World Trade Organisation (WTO) and other international commitments, including the United Nations Convention Against Corruption;
- Comply with the OECD Arrangement for Officially Supported Export Credits;
- Where appropriate, attend international forums such as the Paris Club, the OECD, the International Working Group on Export Credits and the WTO;
- Provide DFAT and any other relevant agencies with any non-legally privileged information they request to support them in preparing advice on policy related aspects of export credits and Efic's operations;
- Comply with Government and Parliamentary requirements in relation to the provision of information, noting exceptions available under the *Freedom of Information Act 1982* and the possible availability of public interest immunity;
- Inform you and your department of any approaches, whether bilaterally or multilaterally, to restructure or relieve outstanding Development Import Finance Facility loans;
- Comply with Ministerial Directions, including those relating to the Democratic People's Republic of Korea, Iran, Zimbabwe and the exploitation of uranium as well as with Australian laws implementing United Nations Security Council and Australian autonomous sanctions.

Efic has a Service Level Agreement with DFAT regarding the management and administration of the NIA. Efic will also continue to work closely with DFAT, Austrade, Tourism Australia, the Department of Industry and other relevant agencies and departments, to ensure that respective services are delivered efficiently to business. This will involve a coordinated approach at all levels between the organisations.

Yours sincerely,

James M Millar AM
Chairman