

RatingsDirect®

Export Finance & Insurance Corp.

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Major Rating Factors

Strength:

- Legislative guarantee of all obligations as they come due by Efic's parent, 'AAA' rated Commonwealth of Australia.

Issuer Credit Rating

AAA/Negative/A-1+

Outlook

We expect our ratings on Export Finance & Insurance Corp. (Efic) to remain equalized with those on the Commonwealth of Australia (unsolicited ratings AAA/Negative/A-1+), reflecting the legislative guarantee of Efic's obligations. The rating outlook remains negative, reflecting the negative outlook on Australia (see "Australia Ratings Affirmed At 'AAA/A-1+'; Outlook Remains Negative," published on Jan. 25, 2018).

Downside scenario

There is a one-in-three chance that we will lower our ratings on Efic in the next two years. We would expect to do so if we lowered our long-term local currency sovereign credit rating on Australia to 'AA+' from 'AAA'. We would also lower the ratings if we considered that there was a weakening in the guarantee from the Commonwealth of Australia, or in the framework for timely payment under the guarantee, if needed.

Upside scenario

We would expect to revise the outlook on EFIC to stable in the next two years, if we were to revise the outlook on our 'AAA' local currency sovereign credit ratings on Australia to stable.

Rationale

We equalize the ratings on Efic with those on Australia. The ratings incorporate our assessment of the legislative Commonwealth of Australia guarantee of Efic's obligations as they fall due.

We note that Efic's debt terms have defined grace periods. For example, in Efic's Programme For The Issuance of Debt Instruments (US\$2.5 billion), there are defined grace periods of 30 days on interest and 15 days on principal payments, in addition to a notice period of seven days.

We expect that the government support, if needed, will be made available within the above time frames, because:

- The Australian government budget explicitly states--within the list of its quantifiable contingent liabilities--that the Australian government guarantees the due payment of money that is, or may at any time become, payable by Efic to anybody other than the government;

- We believe that a parliamentary vote is not required for the timely release of funding support, if needed; and
- We believe that the government would receive timely information on any potential impediments in Efic's ability to meet its debt obligations in a timely manner because of regular reporting and oversight. For example, Efic's board includes a government representative.

Efic remains well capitalized and can access additional capital through a A\$200 million callable capital facility from its parent. As of Feb. 28, 2018, the government's total contingent liability in relation to Efic was A\$3.1 billion and accounted for around 0.7% of the Commonwealth of Australia's estimate of general government revenue over fiscal 2018. Of these exposures, A\$2.6 billion (84%) relate to Efic's commercial account.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Table 1

Export Finance & Insurance Corp. Key Figures					
	--Year-ended June 30--				
(Mil. A\$)	2017	2016	2015	2014	2013
Adjusted assets	3,105.2	3,404.5	3,178.3	2,630.7	2,706.7
Customer loans (gross)	1,839.4	2,048.5	1,932.3	1,575.2	1,589.0
Adjusted common equity	448.5	442.4	433.6	219.9	207.0
Operating revenues	40.4	85.0	42.8	47.8	59.7
Noninterest expenses	32.4	34.0	31.5	27.9	26.9
Core earnings	11.6	11.5	18.2	24.2	22.6

Table 2

Export Finance & Insurance Corp. Business Position					
	--Year-ended June 30--				
(%)	2017	2016	2015	2014	2013
Total revenues from business line (currency in millions)	40.4	85.0	42.8	47.8	59.7
Commercial banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average equity	2.6	2.6	5.5	10.9	7.1

Table 3

Export Finance & Insurance Corp. Capital And Earnings					
	--Year-ended June 30--				
(%)	2017	2016	2015	2014	2013
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	49.8	28.2	60.3	45.0	54.9
Fee income/operating revenues	36.9	70.9	47.0	50.2	44.1
Market-sensitive income/operating revenues	4.7	(1.8)	(13.1)	1.0	(3.7)
Noninterest expenses/operating revenues	80.2	40.0	73.6	58.4	45.1
Preprovision operating income/average assets	0.2	1.5	0.4	0.7	1.1
Core earnings/average managed assets	0.4	0.3	0.6	0.9	0.8

Table 4

Export Finance & Insurance Corp. Risk Position					
	--Year-ended June 30--				
(%)	2017	2016	2015	2014	2013
Growth in customer loans	(10.2)	6.0	22.7	(0.9)	15.1
Total managed assets/adjusted common equity (x)	6.9	7.7	7.3	12.0	13.1
New loan loss provisions/average customer loans	(0.5)	1.7	(0.4)	(0.3)	0.7
Gross nonperforming assets/customer loans + other real estate owned	0.4	0.4	0.8	1.3	4.1
Loan loss reserves/gross nonperforming assets	1,036.6	1,073.8	313.2	131.4	56.1

Table 5

Export Finance & Insurance Corp. Funding And Liquidity					
	--Year-ended June 30--				
(%)	2017	2016	2015	2014	2013
Long term funding ratio	60.1	58.0	66.7	66.7	67.9
Short-term wholesale funding/funding base	47.5	49.3	39.4	36.7	35.2
Short-term wholesale funding/total wholesale funding	47.5	49.3	39.4	36.7	35.2

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Ratings Detail (As Of June 28, 2018)

Export Finance & Insurance Corp.

Issuer Credit Rating	AAA/Negative/A-1+
Senior Unsecured	AAA

Issuer Credit Ratings History

06-Jul-2016	AAA/Negative/A-1+
27-Apr-2004	AAA/Stable/A-1+

Sovereign Rating

Australia	AAA/Negative/A-1+
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Related Entities**Airservices Australia**

Issuer Credit Rating	AAA/Negative/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+
Senior Unsecured	AAA

Australia

Issuer Credit Rating	AAA/Negative/A-1+
Transfer & Convertibility Assessment	AAA

Australian National University (The)

Issuer Credit Rating	AA+/Stable/A-1+
Senior Unsecured	AA+

Australian Postal Corp.

Issuer Credit Rating	AA-/Stable/A-1+
Senior Unsecured	AA-
Short-Term Debt	A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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