

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/Stable/A-1+

Outlook

We expect to continue to equalize our ratings on Export Finance & Insurance Corp. (Efic) with those on the Commonwealth of Australia (unsolicited ratings AAA/Stable/A-1+), reflecting the legislative guarantee of Efic's obligations. The outlook remains stable, reflecting the stable outlook on Australia (see "Outlook On Australia Revised To Stable On Better Fiscal Prospects; Ratings Affirmed At 'AAA/A-1+'," published on Sept. 20, 2018).

Downside scenario

We would expect to lower our ratings on Efic if we lowered the rating on the Commonwealth of 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.

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 issuance program has defined grace periods of a 30-day due date on interest payments and 15 days on principal payments.

We expect that 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\$1.2 billion callable capital facility from its parent (recently increased by A\$1 billion). As of Jan. 31, 2019, the government's total contingent liability in relation to

Efic was A\$3.4 billion and accounted for around 0.7% of the Commonwealth of Australia's estimate of general government revenue over fiscal 2019. Of these exposures, A\$3.0 billion (88%) relate to Efic's commercial account.

We note that section 81 of the Export Finance and Insurance Corporation Act 1991 was amended and that Efic may now also be known as Export Finance Australia.

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\$)	2018	2017	2016	2015	2014
Adjusted assets	3,131.3	3,105.2	3,404.5	3,178.3	2,630.7
Customer loans (gross)	1,727.2	1,839.4	2,048.5	1,932.3	1,575.2
Adjusted common equity	456.9	448.5	442.4	433.6	219.9
Operating revenues	49.4	40.4	85.0	42.8	47.8
Noninterest expenses	29.0	32.4	34.0	31.5	27.9
Core earnings	13.9	11.6	11.5	18.2	24.2

Table 2

Export Finance & Insurance Corp. Business Position					
	--Year-ended June 30--				
(%)	2018	2017	2016	2015	2014
Total revenues from business line (currency in millions)	49.4	40.4	85.0	42.8	47.8
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 common equity	3.1	2.6	2.6	5.5	10.9

Table 3

Export Finance & Insurance Corp. Capital And Earnings					
	--Year-ended June 30--				
(%)	2018	2017	2016	2015	2014
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	42.7	49.8	28.2	60.3	45.0
Fee income/operating revenues	55.7	36.9	70.9	47.0	50.2
Market-sensitive income/operating revenues	(4.5)	4.7	(1.8)	(13.1)	1.0
Noninterest expenses/operating revenues	58.7	80.2	40.0	73.6	58.4
Preprovision operating income/average assets	0.7	0.2	1.5	0.4	0.7
Core earnings/average managed assets	0.4	0.4	0.3	0.6	0.9

Table 4

Export Finance & Insurance Corp. Risk Position					
	--Year-ended June 30--				
(%)	2018	2017	2016	2015	2014
Growth in customer loans	(6.1)	(10.2)	6.0	22.7	(0.9)
Total managed assets/adjusted common equity (x)	6.9	6.9	7.7	7.3	12.0
New loan loss provisions/average customer loans	(0.0)	(0.5)	1.7	(0.4)	(0.3)
Gross nonperforming assets/customer loans + other real estate owned	0.4	0.4	0.4	0.8	1.3
Loan loss reserves/gross nonperforming assets	993.3	1,036.6	1,073.8	313.2	131.4

Table 5

Export Finance & Insurance Corp. Funding And Liquidity					
	--Year-ended June 30--				
(%)	2018	2017	2016	2015	2014
Long-term funding ratio	62.5	60.1	58.0	66.7	66.7
Short-term wholesale funding/funding base	44.9	47.5	49.3	39.4	36.7

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Ratings Detail (As Of April 11, 2019)***Export Finance & Insurance Corp.**

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

Issuer Credit Ratings History

20-Sep-2018 AAA/Stable/A-1+
06-Jul-2016 AAA/Negative/A-1+
27-Apr-2004 AAA/Stable/A-1+

Sovereign Rating

Australia AAA/Stable/A-1+

Ratings Detail (As Of April 11, 2019)*(cont.)

Related Entities

Australia

Issuer Credit Rating	AAA/Stable/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+

National Housing Finance and Investment Corp.

Issuer Credit Rating	AAA/Stable/A-1+
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*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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