

CLEAN ENERGY FINANCE CORPORATION

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CLEAN ENERGY FINANCE CORPORATION

Section 1: Agency overview and resources

1.1 STRATEGIC DIRECTION STATEMENT

The Clean Energy Finance Corporation (CEFC) was established to facilitate increased flows of finance into the clean energy sector. The CEFC invests in accordance with its legislation, the *Clean Energy Finance Corporation Act 2012* (CEFC Act) and the *Clean Energy Finance Corporation Investment Mandate Direction 2013* (Investment Mandate), as issued by the former Treasurer and the former Minister for Finance and Deregulation on 24 April 2013.

The CEFC is a statutory authority under the *Commonwealth Authorities and Companies Act 1997* (CAC Act). The CEFC commenced funding investments on 1 July 2013.

The CEFC is governed by an independent Board who have statutory responsibility for decision-making and managing the CEFC's investments. The Board reports to parliament through its responsible Ministers.

The CEFC's investment objectives are to catalyse and leverage an increased flow of funds for the commercialisation and deployment of Australian based renewable energy, energy efficiency and low-emissions technologies.

The CEFC achieves its objectives through the prudent application of capital, in adherence with its risk management framework, the Investment Mandate and the CEFC investment policies issued by the Board.

The Government has announced its intention to abolish the CEFC. Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth is currently before Parliament.

1.2 AGENCY RESOURCE STATEMENT

Table 1.1 shows the total resources for the CEFC.

Table 1.1: Clean Energy Finance Corporation resource statement — Budget estimates for 2014-15 as at Budget May 2014

	Estimate of prior + year amounts available in 2014-15 \$'000	Proposed at Budget 2014-15 \$'000	Total estimate 2014-15 \$'000	Actual available appropriation 2013-14 \$'000
Opening balance/Reserves at bank	401,707	-	401,707	14,133
REVENUE FROM GOVERNMENT				
Ordinary annual services	-	-	-	8,000
Total revenue from Government	-	-	-	8,000
FUNDS FROM OTHER SOURCES				
Interest	-	38,166	38,166	36,554
Payment from the CEFC special account	-	-	-	1,131,600
Total funds from other sources	-	38,166	38,166	1,168,154
Total net resourcing for CEFC	401,707	38,166	439,873	1,190,287

1.3 BUDGET MEASURES

Budget measures relating to the CEFC are summarised below.

Table 1.2: Clean Energy Finance Corporation 2014-15 Budget measures

		2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000	2017-18 \$'000
Expense measures						
Repeal of the Carbon Tax - abolishing other measures ¹	1.1	(177,150)	(320,539)	(322,423)	(323,946)	(54,668)
Total expense measures		(177,150)	(320,539)	(322,423)	(323,946)	(54,668)
Related capital						
Repeal of the Carbon Tax - abolishing other measures ¹	1.1	(125)	(250)	(250)	(250)	(250)
Total related capital		(125)	(250)	(250)	(250)	(250)
Related revenue						
Repeal of the Carbon Tax - abolishing other measures ¹	1.1	112	(43,863)	(131,267)	(263,854)	(201,692)
Total related revenue		112	(43,863)	(131,267)	(263,854)	(201,692)

1. This measure was included in the *Mid-Year Economic and Fiscal Outlook 2013-14* and has not previously appeared in a portfolio statement.

Prepared on a Government Finance Statistics (fiscal) basis.

Section 2: Outcomes and planned performance

2.1 OUTCOMES AND PERFORMANCE INFORMATION

Government outcomes are the intended results, impacts or consequences of actions by the Government on the Australian community. Commonwealth programmes are the primary vehicle by which government agencies achieve the intended results of their outcome statements. Agencies are required to identify the programmes which contribute to government outcomes over the budget and forward years.

The CEFC's outcome is described below, specifying the strategy, programme objective, programme deliverables and programme key performance indicators used to assess and monitor the performance of the CEFC.

Outcome 1: Facilitate increased flows of finance into Australia's clean energy sector, applying commercial rigour to investing in renewable energy, low-emissions and energy efficiency technologies, building industry capacity, and disseminating information to industry stakeholders

Outcome 1 strategy

The scope of the CEFC's operations is guided by an operating framework based on three principles that direct where and how the CEFC will invest.

Principle One — Clean Energy Focus

The CEFC focuses its investments in clean energy, namely on renewable energy, low-emissions and energy efficiency technologies in Australia, as well as manufacturing businesses that produce the required inputs.

The CEFC seeks diversity of technology and sector exposure. All sectors of the economy can contribute to emissions reduction and projects are drawn widely. The CEFC's portfolio is expected to evolve over time, noting the CEFC Act requirement that, on or after 1 July 2018, at least half of the funds invested must be invested in renewable energy.

In accordance with the requirements of the CEFC Act, the CEFC Board has published its investment policies and guidelines on low-emissions technologies. In addition, the Board has published policy guidance as to the renewable energy technologies and energy efficiency technologies the CEFC will invest in. These documents are available on the CEFC's website www.cleanenergyfinancecorp.com.au.

Principle Two — Commercial Approach

The CEFC applies commercial rigour when making investment decisions and delivers a return on its investments above the CEFC's portfolio benchmark return. It focuses on projects and technologies at the later stages of development. The CEFC invests responsibly and manages risk appropriately to ensure that its investment portfolio performs in line with the portfolio benchmark return as set out in the Investment Mandate. The current portfolio benchmark requires the CEFC to target a portfolio above the five-year Australian Government bond rate after recovering all operating costs.

The CEFC undertakes rigorous due diligence and financial modelling analysis along with assessments of other key investment risks, including credit risk, to determine appropriate investment structures, financial covenants and the required legal undertakings for an intended investment, all designed to enhance and protect the CEFC's position.

Principle Three — Addressing Financial Barriers

The ways in which the CEFC addresses financial barriers include by:

- attracting finance to the Australian market to improve the flow and diversification of funds for investment into the sector;
- assisting project proponents as an arranger, helping to develop the business case and introduce the proponents to other financiers to seek transaction close;
- building knowledge and capacity within the finance sector by participating in transactions to de-risk the investment, familiarising financiers with new asset types or through reducing their size of exposure;
- working with the finance sector to develop and deliver new financial products to the market, tailored to the needs, attributes and emerging delivery models for new technologies, which in turn enables small- and mid-sized businesses to access finance for energy productivity enhancing capital investment;
- building knowledge and capacity within industry through demonstration and case studies to promote successful models and opportunities in energy productivity and clean energy investment; and
- providing loans at commercial and concessional rates. Where it is necessary and justified in the CEFC's assessment, it may choose to deploy concessional finance to assist in overcoming financial impediments and facilitate realisation of an otherwise bankable project;

- Such concessionality is made available on an individual transaction basis through availability, tenor or cost of finance or by absorbing additional risk. The CEFC sets terms on a case-by-case basis, lending at the rate that is commercially reasonable and on the least generous terms possible for the project to proceed (that is, as close to market terms as possible). This might happen where necessary under the project or where the CEFC is lending to public sector organisations like universities and local councils.

Outcome expense statement

Table 2.1 provides an overview of the total expenses for Outcome 1.

Table 2.1: Budgeted expenses for Outcome 1

Outcome 1: Facilitate increased flows of finance into Australia's clean energy sector, applying commercial rigour to investing in renewable energy, low-emissions and energy efficiency technologies, building industry capacity, and disseminating information to industry stakeholders	2013-14 Estimated actual expenses \$'000	2014-15 Estimated expenses \$'000
Programme 1.1: Clean Energy Finance Corporation		
Revenue from Government		
Ordinary annual services (Appropriation Bill No. 1)	8,000	-
Revenues from other independent sources	10,159	-
Expenses not requiring appropriation	13,646	3,709
Total expenses for Outcome 1	31,805	3,709
	2013-14	2014-15
Average staffing level (number)	48	-

Contributions to Outcome 1

Programme 1.1: Clean Energy Finance Corporation

Programme objective

The objectives of the CEFC are:

- to invest, directly and indirectly, in clean energy technologies, which can be any one or more of the following:
 - renewable energy technologies, which include hybrid technologies that integrate renewable energy technologies and enabling technologies, that are related to renewable energy technologies;
 - energy efficiency technologies, including enabling technologies that are related to energy conservation technologies or demand management technologies; and
 - low-emissions technologies;

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- to catalyse and leverage an increased flow of funds for the commercialisation and deployment of Australian based renewable energy, energy efficiency and low-emissions technologies;
- to liaise with relevant persons and bodies, including the Australian Renewable Energy Agency, the Clean Energy Regulator, other Commonwealth agencies and State and Territory Governments, for the purposes of facilitating its investment function;
- to act as a catalyst to increase investment in the clean energy sector by working with industry, banks and other financiers, and project proponents; and
- to do anything incidental or conducive to the performance of the above functions.

Programme expenses

The Government has announced its intention to abolish the CEFC. Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth is currently before Parliament.

Given the uncertainty regarding the timing of the passage of legislation, it is assumed that the CEFC is to be abolished from 1 July 2014. Accordingly, estimates been prepared on the assumption that there are no new investments entered into by the CEFC post 30 June 2014, that all operational expenses cease effective 30 June 2014 and that revenue from those contracts executed prior to 30 June 2014 continues through the life of those investments.

Table 2.2: Programme expenses

	2013-14 Revised budget \$'000	2014-15 Budget \$'000	2015-16 Forward year 1 \$'000	2016-17 Forward year 2 \$'000	2017-18 Forward year 3 \$'000
Annual departmental expenses:					
Ordinary annual services	8,000	-	-	-	-
Expenses not requiring appropriation	23,805	3,709	5,387	5,147	5,082
Total programme expenses	31,805	3,709	5,387	5,147	5,082

Programme deliverables

The CEFC co-finances and invests, directly and indirectly, in clean energy projects and technologies which:

- meet the CEFC's Australian clean energy sector criteria;
- offer a commercial return and demonstrate a capacity to repay capital;
- are above the minimum transaction sizes which are set by the CEFC Board;

- result in an acceptable concentration of risk within the CEFC portfolio; and
- have priority against competing proposals within the balance of the \$2 billion per annum investment budget.

Programme key performance indicators

The CEFC's Investment Mandate specifies a portfolio benchmark return for the performance of funds invested by the CEFC, net of operating expenses, based on a weighted average of the five-year Australian Government bond rate. The portfolio benchmark return is a long-term target and expected to be earned across the portfolio and over a period of time. Individual investments may be made with expected individual returns above or below the portfolio benchmark return.

The performance of the CEFC will be measured by reference to the following key performance indicators:

- performance against the portfolio benchmark return set out in the Investment Mandate;
- placement of funds into Australia's clean energy sector;
- investment in renewable energy, low-emissions and energy efficiency technologies;
- building industry capacity; and
- dissemination of information to industry stakeholders.

A number of sectors have benefited from CEFC financing, including agribusiness, property, manufacturing, utilities and local government. This is building momentum in the market by demonstration effect, helping clean energy technologies move down the cost curve and encouraging increased investment flows from the private sector and development of new clean energy technologies.

The total investment portfolio to date stands at over \$700 million. The CEFC has catalysed investments without providing significant levels of concessionality. The total value of concessions forecast to be provided by the CEFC through the end of 2013-14 is \$17.4 million. In all concessional loans, the CEFC's lending rate exceeds the five-year Australian Government bond rate.

With matched private sector funds, the CEFC has been able to catalyse over \$1.8 billion in non-CEFC private capital investment in projects with over \$2.5 billion in total value.

The CEFC is on track to reach its 2013-14 target of investing more than \$800 million in its first full financial year of operation.

Section 3: Explanatory tables and budgeted financial statements

Section 3 presents explanatory tables and budgeted financial statements which provide a comprehensive snapshot of agency finances for the budget year 2014-15. It explains how budget plans are incorporated into the financial statements and provides further details of the reconciliation between appropriations, programme expenses, movements in administered funds and special accounts.

3.1 EXPLANATORY TABLES

3.1.1 Movement of administered funds between years

The CEFC does not have any administered funds.

3.1.2 Special accounts

The CEFC does not administer any special accounts. The CEFC special account is administered by the Department of the Treasury. Details of the special account can be found in Table 3.1.2 in the Department of the Treasury's section of this Portfolio Budget Statement.

3.1.3 Australian Government Indigenous expenditure

The CEFC does not have any Australian Government Indigenous expenditure.

3.2 BUDGETED FINANCIAL STATEMENTS

3.2.1 Differences in agency resourcing and financial statements

There are no material differences between agency resourcing and financial statements.

3.2.2 Analysis of budgeted financial statements

The budgeted financial statements have been prepared on the basis of Australian Accounting Standards and the basis of the Government's intention to abolish the CEFC.

Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth is currently before Parliament.

Given the uncertainty regarding the timing of the passage of legislation, it is assumed that the CEFC is to be abolished from 1 July 2014. Accordingly:

- no new investments are forecast to be entered into by the CEFC post 30 June 2014;
- revenue from those contracts planned to be executed prior to 30 June 2014 is forecast to continue through the life of the investments (including revenue associated with the unwind of previously recorded concessionality charges);
- no additional concessionality charges are forecast to be incurred (consistent with the assumption of no new investments being entered into by the CEFC post 30 June 2014);
- all departmental funding from the Department of the Treasury for start-up operational expenses ceases in 2013-14;
- all operational expenses (employee benefits and supplier costs) are anticipated to cease effective 30 June 2014;
- an allowance for impairment has been provided in each period of the forward estimates in relation to the existing investment portfolio; and
- all outstanding liabilities to suppliers and employees are assumed to be settled at 30 June 2014.

The budgeted financial statements do not include an allowance for the following expenditure items:

- termination costs for facility operating leases;
- wind-up costs such as redundancy payments for staff, consultant or contractor termination costs, and service contract termination costs;
- legal and administrative costs associated with the abolition and orderly transition of the investment portfolio from CEFC to the Department of the Treasury;
- write-down of prepayments which would have no value post abolition; or
- costs to the Department of the Treasury for administering the existing investments for which revenue is being forecast.

The estimated actual surplus for 2013-14 and the budget and forward estimates for 2014-15 through 2017-18 contain a number of significant non-cash charges including a concessional loan charge in 2013-14, and a provision for loan impairment and the non-cash revenue from the unwind of the concessional loan charges in each of the forward estimate periods. After eliminating the impact of these non-cash charges and

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revenue, the CEFC is forecasting operating surpluses of \$28 million in 2013-14, \$35 million in 2014-15, \$41.3 million in 2015-16, \$46.2 million in 2016-17 and \$45.7 million in 2017-18.

The estimated actual budgeted departmental balance sheet for 2013-14 includes the impact of the Low Carbon Australia Limited net assets being transferred to the CEFC during the period.

3.2.3 Budgeted financial statements tables

**Table 3.2.1: Comprehensive income statement (showing net cost of services)
(for the period ended 30 June)**

	Estimated actual 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
EXPENSES					
Employee benefits	13,098	-	-	-	-
Suppliers	5,037	-	-	-	-
Depreciation and amortisation	345	313	134	-	-
Write-down and impairment of assets	1,799	3,396	5,253	5,147	5,082
Borrowing costs	11,526	-	-	-	-
Total expenses	31,805	3,709	5,387	5,147	5,082
LESS:					
OWN-SOURCE INCOME					
Own-source revenue					
Interest and dividends	39,785	37,125	43,842	48,635	47,848
Total own-source revenue	39,785	37,125	43,842	48,635	47,848
Total own-source income	39,785	37,125	43,842	48,635	47,848
Net cost of (contribution by) services	7,980	33,416	38,455	43,488	42,766
Revenue from Government	8,000	-	-	-	-
Surplus (Deficit) attributable to the Australian Government	15,980	33,416	38,455	43,488	42,766
ADD NON-CASH CHARGES					
Concessional loan charge	11,502				
Provision for loan impairment	1,799	3,396	5,253	5,147	5,082
Total non-cash charges	13,301	3,396	5,253	5,147	5,082
LESS NON-CASH REVENUE					
Unwind of concessional loan charge	(1,233)	(1,850)	(2,448)	(2,429)	(2,129)
Total non-cash revenue	(1,233)	(1,850)	(2,448)	(2,429)	(2,129)
Surplus (deficit) attributable to the Australian Government after eliminating non-cash adjustments	28,048	34,962	41,260	46,206	45,719

Prepared on Australian Accounting Standards basis.

**Table 3.2.2: Budgeted departmental balance sheet
(as at 30 June)**

	Estimated actual 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
ASSETS					
Financial assets					
Cash and equivalents	401,707	-	-	-	-
Advances and loans	864,961	821,885	796,909	746,448	598,251
Interest Receivable	4,184	3,924	5,158	6,207	7,072
Investments	300	565	565	565	565
Total financial assets	1,271,152	826,374	802,632	753,220	605,888
Non-financial assets					
Infrastructure, plant and equipment	431	134	-	-	-
Intangibles	16	-	-	-	-
Prepayments and other assets	687	-	-	-	-
Total non-financial assets	1,134	134	-	-	-
Total assets	1,272,286	826,508	802,632	753,220	605,888
LIABILITIES					
Provisions					
Employees	3,883	-	-	-	-
Concessional loan liability	23,358	21,508	19,060	16,631	14,502
Other	960	-	-	-	-
Total provisions	28,201	21,508	19,060	16,631	14,502
Payables					
Deferred revenue	4,509	7,140	5,876	4,573	3,301
Total payables	4,509	7,140	5,876	4,573	3,301
Total liabilities	32,710	28,648	24,936	21,204	17,803
Net assets	1,239,576	797,860	777,696	732,016	588,085
EQUITY					
Contributed equity	1,217,439	742,307	683,688	594,520	407,823
Retained surpluses	22,137	55,553	94,008	137,496	180,262
Total equity	1,239,576	797,860	777,696	732,016	588,085
Current assets	406,578	3,924	5,158	6,207	7,072
Non-current assets	865,708	822,584	797,474	747,013	598,816
Current liabilities	9,352	7,140	5,876	4,573	3,301
Non-current liabilities	23,358	21,508	19,060	16,631	14,502

Prepared on Australian Accounting Standards basis.

**Table 3.2.3: Budgeted departmental statement of cash flows
(for the period ended 30 June)**

	Estimated actual 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
OPERATING ACTIVITIES					
Cash received					
Interest	36,554	38,166	38,896	43,854	43,582
Grants	8,000	-	-	-	-
Total cash received	44,554	38,166	38,896	43,854	43,582
Cash used					
Employees	10,308	3,883	-	-	-
Suppliers	5,113	960	-	-	-
Total cash used	15,421	4,843	-	-	-
Net cash from or (used by) operating activities	29,133	33,323	38,896	43,854	43,582
INVESTING ACTIVITIES					
Cash received					
Loan advances	999	71,235	23,703	46,314	143,115
Total cash received	999	71,235	23,703	46,314	143,115
Cash used					
Purchase of property, plant and equipment and intangibles	154	-	-	-	-
Loan advances	821,111	31,555	3,980	1,000	-
Purchase of investments	-	-	-	-	-
Total cash used	821,265	31,555	3,980	1,000	-
Net cash from or (used by) investing activities	(820,266)	39,680	19,723	45,314	143,115
FINANCING ACTIVITIES					
Cash received					
Contributed equity	1,178,707	-	-	-	-
Total cash received	1,178,707	-	-	-	-
Cash used					
Return of equity	-	474,710	58,619	89,168	186,697
Total cash used	-	474,710	58,619	89,168	186,697
Net cash from or (used by) financing activities	1,178,707	(474,710)	(58,619)	(89,168)	(186,697)
Net increase or (decrease) in cash held	387,574	(401,707)	-	-	-
Cash at the beginning of the reporting period	14,133	401,707	-	-	-
Cash at the end of the reporting period	401,707	-	-	-	-

Prepared on Australian Accounting Standards basis.

Table 3.2.4: Departmental statement of changes in equity — summary of movement (Budget year 2014-15)

	Retained surpluses \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Contributed equity/ capital \$'000	Total equity \$'000
Opening balance as at 1 July 2014					
Balance carried forward from previous period	22,137	-	-	1,217,439	1,239,576
Adjusted opening balance	22,137	-	-	1,217,439	1,239,576
Comprehensive income					
Surplus (deficit) for the period	33,416	-	-	-	33,416
Total comprehensive income recognised directly in equity	33,416	-	-	-	33,416
Transactions with owners					
<i>Contributions by owners</i>					
Distribution of equity	-	-	-	(475,132)	(475,132)
Total transactions with owners	-	-	-	(475,132)	(475,132)
Estimated closing balance as at 30 June 2015	55,553	-	-	742,307	797,860

Prepared on Australian Accounting Standards basis.

Table 3.2.5: Departmental capital budget (DCB) statement

	Estimated actual 2013-14 \$'000	Budget estimate 2014-15 \$'000	Forward estimate 2015-16 \$'000	Forward estimate 2016-17 \$'000	Forward estimate 2017-18 \$'000
NEW CAPITAL APPROPRIATIONS					
Capital budget - Bill 1	-	-	-	-	-
Total new capital appropriations	-	-	-	-	-
Provided for:					
Purchase of non-financial assets	-	-	-	-	-
Total Items	-	-	-	-	-
PURCHASE OF NON-FINANCIAL ASSETS					
Funded internally from departmental resources	154	-	-	-	-
TOTAL	154	-	-	-	-
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	154	-	-	-	-
Total cash used to acquire assets	154	-	-	-	-

Prepared on Australian Accounting Standards basis.

Table 3.2.6: Statement of asset movements — departmental

	Buildings \$'000	Other infrastructure, plant & equipment \$'000	Intangibles \$'000	Total \$'000
As at 1 July 2014				
Gross book value	-	1,413	164	1,577
Accumulated depreciation/amortisation and impairment	-	982	148	1,130
Opening net book balance	-	431	16	447
Capital Asset Additions/Disposals				
By purchase - appropriation ordinary annual services	-	-	-	-
Disposals - gross value	-	-	-	-
Total asset additions/disposals	-	-	-	-
Other movements				
Depreciation/amortisation expense	-	297	16	313
Disposals - accumulated depreciation/amortisation	-	-	-	-
Total other movements	-	297	16	313
As at 30 June 2015				
Gross book value	-	1,413	164	1,577
Accumulated depreciation/amortisation and impairment	-	1,279	164	1,443
Closing net book balance	-	134	-	134

Prepared on Australian Accounting Standards basis.

3.2.4 Notes to the financial statements

Basis of accounting

The departmental financial statements, included in Tables 3.2.1 to 3.2.6 have been prepared in accordance with the requirements of the CAC Act, the Finance Minister's Orders (Financial Statements for reporting periods ending on or after 1 July 2014), Australian Accounting Standards issued by the Australian Accounting Standards Board and the Department of Finance guidance for the preparation of financial statements.

The financial report has been prepared on an accrual basis and is prepared in accordance with the historical cost convention.

Notes to the departmental statements

The budget statements and estimated forward years should be read taking into account the following matters:

Concession loan discount

The CEFC is in the business of making loans that may be at a discount to the prevailing market equivalent rates or terms. For each investment, the CEFC attempts to maximise its return and provide only the level of discount from market rates/terms that is

required to ensure the project proceeds, however, this will typically involve the CEFC taking a position that is not generally offered by other market participants (for example, longer term fixed-rate debt or sub-ordinated debt) at rates that may be below those that an equivalent market participant would demand if it were to participate in this market.

The CEFC is required to record a non-cash charge referred to as a concessional loan discount in relation to any such loans and it is a matter of judgment as to the market equivalent rate used to ascertain the extent of the implicit discount attached to the loan.

Impairment of loans

The CEFC is required to ascertain the extent to which its portfolio of loans is likely to be recoverable. Given the CEFC is in the business of lending and earning a margin it takes credit risk and it is appropriate to provision for expected credit losses. As the CEFC's portfolio is mainly senior secured debt and secured project finance facilities, and there have been no specific impairments identified to date, a statistical probability of default must be used to determine the level of appropriate provisioning. The forecast impairment change is a provision determined as reasonable and appropriate when looking at the risks within the CEFC's current loans and in particular the current environment faced by the borrowers.

