Export Credits Guarantee Department
Annual Review and Resource Accounts 2007-08

The UK's Official Export Credit Agency

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This Annual Review, which covers the functions of the Secretary of State for Business, Enterprise and Regulatory Reform exercised through the Export Credits Guarantee Department, is published in accordance with the requirements of the Export and Investment Guarantees Act, 1991.

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POSITIVE ABOUT DISABLED PEOPLE

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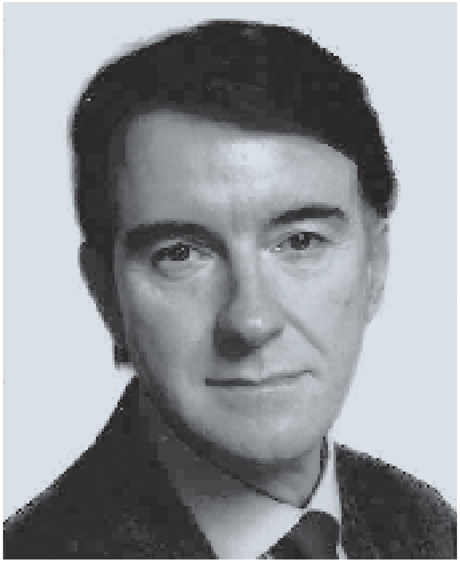
Secretary of State's foreword



I am pleased to be able to present ECGD's Annual Review, including the 2007-08 Resource Accounts, which have now been laid before Parliament.

ECGD's role is to support exporters, investors and banks through the provision of insurance and guarantees. At the same time, it must control the risks which it takes on, in order to safeguard the interests of taxpayers. Recently, ECGD's business environment has become uncertain, because of the current instability in the international capital markets. As credit has become less readily available from commercial sources, some buyers are re-looking at obtaining finance through support from official export credit agencies. This could lead to an increase in demand for ECGD support. However, the economic impact of the credit squeeze, combined with the increase in commodity prices, especially oil, will need to be taken into account in deciding upon those propositions that represent an acceptable risk.

In June 2007, ECGD's former Minister, Ian McCartney, announced a new financial framework for ECGD. This concluded a review of the merits of whether ECGD should operate as a Government Trading Fund, when a decision was taken that this would not be appropriate. The new framework maintains the existing risk reward balance; this will give ECGD a stable basis upon which to provide support for exporters. It also provides £25 billion of risk capacity, which should be more than sufficient to meet existing demand.

In June 2007, ECGD concluded a Public Consultation on its support for foreign content. A decision was made to simplify and liberalise its rules in order to reflect the impact of changing patterns of global trade on UK exporters. In December 2007, ECGD launched a Public Consultation on the future of its Fixed Rate Export Finance Scheme. In view of the responses, it has been agreed to extend the current scheme from 31 March 2008 to 31 December 2008, while ECGD explores whether a revised scheme can be put in place.

On the international stage, ECGD continued to work towards establishing a level playing field for export credit agencies, both those within the OECD and those of the new manufacturing exporters who are not members. A new Aircraft Sector Understanding, which involved Brazil, a non-OECD member, was agreed. New agreements on the application of environment standards to the projects which export credit agencies are asked to support, and on sustainable lending policies to poor countries, were also reached. These will both contribute towards making the field more level.

The Department for Business, Enterprise and Regulatory Reform held a Public Consultation on simplifying support for business last year. Our aim is to make Government support easier to access and more focussed on the needs of business. Work is now being undertaken to simplify and improve the range of services available for companies. ECGD has played a full part in this initiative.

Over the years, ECGD has played a valuable role in supporting UK exports in markets around the world. It continues to face a number of challenges, including the need to reduce its cost base and at the same time to maintain the quality of its service to those that seek its support. In doing so, it will continue to operate in compliance with its Business Principles.

Rt Hon Lord Mandelson
Secretary of State for Business, Enterprise and Regulatory Reform

Chairman’s foreword

In addition to its work of overseeing ECGD’s finances, risk management and business policies, the Management Board has spent a significant amount of time dealing with issues of strategy and with issues arising out of ECGD’s Business Principles. The strategy discussions led to the agreement of Ministers to adopt a new financial framework for ECGD. In parallel, agreement was reached on a new Standing Consent for ECGD’s operations from HM Treasury that came into effect on 1 April 2008.

Like other credit insurers, ECGD has seen an increase in enquiries since the start of the “credit crunch,” though so far there has not been a significant increase in ECGD’s levels of new business or claims. It is clear, however, that the world has entered a less benign phase of the economic cycle, when traditionally export credit agencies have been able to provide valuable support for credit-worthy buyers and borrowers, who may be unable to secure funding in the private markets. ECGD is monitoring the credit markets closely, and is seeking to identify ways in which it might further help UK exporters.

ECGD will also be keeping a close watch on the increasingly uncertain oil market, to monitor the impact of higher prices both on weaker airlines and on the credit-worthiness of any project finance cases which it is asked to support.

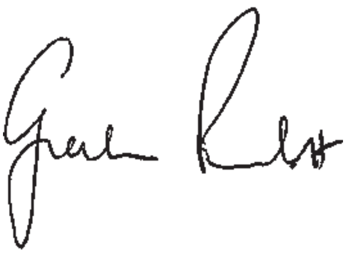
The work on ECGD’s Business Principles came in many forms. The Management Board gave careful consideration to some of the criticisms levelled at ECGD, both in relation to its support for industries that are cited as contributing to climate change, and in relation to applications for disclosure of information under the Freedom of Information Act and the Environmental Information Regulations. On the first issue, the Management Board recognises that ECGD’s role is to support the export of goods and services by UK firms by providing insurance and guarantees against loss. ECGD will continue to do this, unless the Government decides to restrict support for certain types of exports. As regards the second issue, the boundaries of the Freedom of Information Act are becoming clearer as a result of Information Tribunal and High Court decisions; these will help to inform how new information requests should be addressed.

The Management Board also spent considerable time considering the developing evidence on the environmental and social impacts arising in respect of an application for ECGD support for the Sakhalin II oil and gas project in Russia. Before a substantive decision on whether to provide support was made by ECGD, the project company withdrew its application for that support in February this year. The Board would like to pay tribute to the high standard of work by ECGD staff in considering these issues.

The Management Board has benefited from a stable membership throughout 2007-08. I thank all my fellow directors for all the hard work and time they have devoted to ECGD's affairs.

The Export Guarantees Advisory Council has continued to develop its role advising the Management Board and ECGD's executives on ECGD's Business Principles. During 2007-08, two members resigned: John Elkington of SustainAbility and Raj Thamotheram of Axa Investment Managers. John joined the Council in December 2000 and acted as its Chair from July 2005 to December 2007 when he left to devote more time to a new business venture. My thanks and those of ECGD go to John and Raj for their helpful advice over the years. In January, Professor Jonathan Kydd was appointed as interim Chair of the Council. Jonathan has been a member since 2000, and we are very grateful to him for stepping into this role while we search for a new Chair.

Finally, I would like to compliment Patrick Crawford and his team for their hard work and careful management as they continue to address ECGD's challenges.



Graham Pimlott
ECGD Chairman

Chief Executive's foreword

During 2007-08, ECGD has continued to work towards meeting Ministerial objectives efficiently and effectively. A key decision was taken by the Government in June 2007 that the prevailing financial framework should be adapted and improved, rather than that ECGD should operate as a Government Trading Fund. This concluded much work and debate and provides a solid basis for future planning that will enable ECGD management to continue to focus on improving its operations and service. The new framework, which came into effect on 1 April 2008, introduced some revised financial performance targets. These will not change ECGD's existing risk reward balance, its risk management policies, or its risk appetite. As part of the new financial framework, ECGD now has a Departmental Expenditure Limit as part of the 2007 Comprehensive Spending Review. This brings us into line with other Government Departments.

The value of guarantees and insurance policies issued by ECGD was £1.8 billion, a small increase on last year. The total number of guarantees and policies issued was 96, an increase from 91 in 2006-07. The value of guarantees represented by Airbus deliveries grew to 30 per cent of business issued. Given the importance to Airbus of export credit support from France, Germany and the UK, accounting for some 15 per cent of its total deliveries in 2007-08, we have this year continued to work closely with our French and German counterparts to align our working practices more closely in order to improve our service to it. We will be pursuing this further in the coming year.

Claims continue to fall: in 2007-08 we faced the lowest level for three years. We have continued to make good progress in the recovery of past claims paid in relation to aircraft. All repossessed aircraft that remain to be sold are due to be placed with an Aircraft Management and Remarketing Manager, which could also be a source of expert technical advice given the increasing credit stress being experienced by airlines.

Following a review, our minimum risk standards were changed for corporate credits; this should particularly assist small and medium-sized enterprises. We expect that this will help to align our policy more closely with that of other ECAs. We are considering a number of propositions with such credits that should assist UK exporters to win new orders.

In order to help cut costs, we ran a further early departure scheme earlier this year, which has led to a reduction in staff numbers. We have also re-organised our office space, freeing up a half-floor at our Docklands headquarters which has been sub-let to the Legal Services Commission.

No organisation can meet the demands of the future by standing still. This is particularly true of ECGD, which can expect to face volatility in its levels of business over the coming years, reflecting changing conditions in global investment activity and capital availability. I am confident ECGD will continue to demonstrate its ability to advance with the times and to make the changes needed to deliver its services to UK exporters cost-effectively.

J. P. S. Crawford

Patrick Crawford
ECGD Chief Executive

Mission statement

Aim

To benefit the UK economy by helping exporters of UK goods and services to win business, and UK firms to invest overseas, by providing guarantees, insurance and reinsurance against loss, taking into account the Government's international policies.

Objectives

Consistent with the above aim, ECGD seeks:

- To achieve Financial Objectives set by Ministers.
- To operate in accordance with its Business Principles.
- To ensure its activities accord with other Government objectives, including those on sustainable development, human rights, good governance and trade.
- To promote an international framework that allows UK exporters to compete fairly by limiting or eliminating all subsidies and the adoption of consistent practices for assessing projects and countries on a multilateral basis.
- To recover the maximum amount of debt in respect of claims paid by ECGD in a manner consistent with the Government's policy on debt forgiveness.
- To ensure ECGD's facilities are, in broad terms, complementary to those in the private sector.
- To provide an efficient, professional and proactive service for customers which focuses on solutions and innovation.
- To employ good management practice to recruit, develop and retain the people needed to achieve the Department's business goals and objectives.

Financial overview

Figure 1: Financial overview – five year summary

Operating Statement	**2007–08 £m**	2006–07 £m	2005–06 £m	2004–05 £m	2003–04 £m
Guarantees issued	**1830**	1798	2230	1995	2991
• of which OII	**138**	152	239	351	706
Premium income	**60**	55	88	45	102
• of which OII	**1**	1	2	3	7
Claims authorised	**53**	61	79	87	211
Net operating income	**563**	404	1699	1108	613

Objectives

ECGD met its key financial objectives in 2007-08, particularly in respect of:

- Account 2 In-Year Reserve Coverage Ratio, that measures the adequacy of premium income in 2007-08 relative to risks on new business supported and costs incurred in the year. The ratio for 2007-08 was 1.8, against a target of 1.4.
- Account 2 Reserves Index, that measures the adequacy of reserves against the risks across the whole portfolio. The ratio for 2007-08 was 3.45, against a target of 1.

Guarantees and Insurance Policies Issued

Figure 2: List of Guarantees, Insurance Policies and Indemnities Issued or Renewed

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Brazil				
Airbus S.A.S.	Tam Linhas Aereas SA	Airbus aircraft	–	60,116,933
Hydroflow Europe Ltd	Mill Industries de Serras Ltda	Filter for machine tool industry	Low	81,519
Chile				
Airbus S.A.S.	Lan Airlines S.A.	Airbus aircraft	–	36,720,887
Czech Republic				
Airbus S.A.S.	Czech Airlines	Airbus aircraft	–	17,386,975
El Salvador				
Airbus S.A.S.	Taca International Airlines	Airbus aircraft	–	41,532,414
India				
Airbus S.A.S.	Jet Airways	Airbus aircraft	–	60,491,444
SMS Mevac UK Ltd	JSW Steel Ltd	Design and supply of steel making equipment	Medium	723,621
Indonesia				
Fernau Avionics Ltd	Department of Defence	Radar	–	1,662,179
Israel				
Rolls-Royce PLC	El Al Israel Airlines Ltd	Aero-engines	–	11,489,712
Kazakhstan				
Motorola Ltd	KaR-Tel LLP	GSM Telecommunication Equipment	Low	17,898,362
Malaysia				
Airbus S.A.S.	Airasia Berhad	Airbus aircraft	–	26,713,553
Mexico				
Dunlop Oil & Marine Ltd	Comision Federal de Electricidad	Marine Hoses	Low	322,572
ABN Amro Bank	N/A	Loan to Coke Power Project[2]	–	45,423,847
Netherlands				
Airbus S.A.S.	Aercap BV	Airbus aircraft	–	29,744,860
Philippines				
Airbus S.A.S.	Philippine Airlines Incorporated	Airbus aircraft	–	7,662,579
ABN Amro Bank	N/A	Loan to Coke Power Project[2]	–	36,195,455

Figure 2: List of Guarantees, Insurance Policies and Indemnities Issued or Renewed – cont.

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Portugal				
Airbus S.A.S	Transportes Aeros Portugueses	Airbus aircraft	–	34,544,697
Qatar				
Airbus S.A.S.	Qatar Airways (Q.C.S.C.)	Airbus aircraft	–	48,175,912
Russian Federation				
Airbus S.A.S.	Aeroflot Russian Airlines JSC	Airbus aircraft	–	14,795,628
Saudi Arabia				
BAE Systems (Operations) Ltd	Ministry of Defence & Aviation	Saudi British Defence Co-Operation Programme	–	750,000,000
South Africa				
BNP Paribas	N/A	Loan to Mozal Aluminium Smelter[2]	–	20,616,459
Deutsche Bank	N/A	Loan to Mozal Aluminium Smelter[2]	–	13,027,114
Sri Lanka				
Mabey & Johnson Ltd	Ministry of Highways	Bridges/Flyovers	Medium	79,506,659
Trinidad & Tobago				
VT Shipbuilding International Ltd	Ministry of National Security	Offshore Patrol Vessels	–	276,330,391
Turkey				
Airbus S.A.S.	Turkish Airlines (THY)	Airbus aircraft	–	57,633,638
United States of America				
Airbus S.A.S.	Aviation Capital Group Corporation	Airbus aircraft	–	14,488,619
Airbus S.A.S.	International Lease Finance Corporation (ILFC)	Airbus aircraft	–	51,863,743
Rolls-Royce PLC	Pegasus Aviation Finance Company	Aero-engines	–	12,484,130
Vietnam				
Airbus S.A.S.	Vietnam Airlines Corporation	Airbus aircraft	–	32,590,383
	Sub-Total			**1,800,224,286**
	Other Business not listed[3]			29,866,049
	Grand Total			**1,830,090,334**

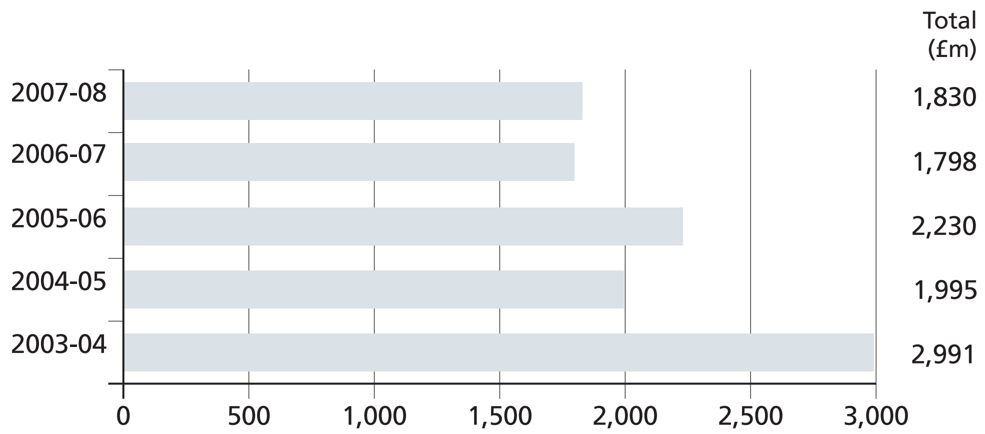
[1] The level of environmental and/or social impacts that could potentially occur without the intervention of the impact elimination systems. See the ECGD website for more information on ECGD's case impact analysis process at: http://www.ecgd.gov.uk/index/pi_home/case_impact_analysis_process.htm

[2] Overseas Investment Insurance policy renewals. The policies were issued prior to the introduction of the Case Impact Analysis Process.

[3] Details of some further cases are commercially confidential and not disclosed.

Business Overview

Figure 3: ECGD supported business (£m) – five year summary

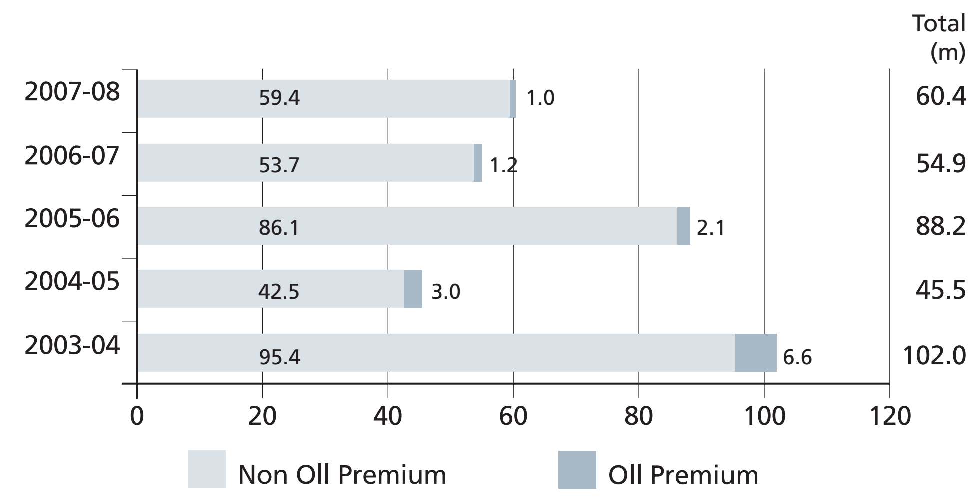


During 2007-08, ECGD supported exports and investments through issuing guarantees and insurance policies with an aggregate value of £1.83 billion. This represented a two-per-cent increase from the level of business supported in 2006-07. Buyer Credit and Supplier Credit financing accounted for £922 million of support, Supplier Credit Insurance and Indemnities for £770 million and Overseas Investment Insurance (OII) business for £138 million.

The business supported related to 24 overseas countries, compared with 20 the previous year, and the total number of guarantees and insurance policies issued increased from 91 to 96 (including eight OII renewals, the same as last year).

Premium income was £60.4 million, up by nine per cent from 2006-07 levels.

Figure 4: Premium earned (£m) – five year summary



Aerospace

Support for the UK civil aerospace industry was around ten per cent higher by value than the year before. Although there was a generally benign commercial environment in the first half of the year and the commercial markets were able to meet much of the industry's financing needs, the turbulence in the capital markets since August 2007 and the increase in the number of aircraft being delivered by Airbus caused demand for export credit agency-backed financing to remain strong.

ECGD, along with its French and German counterparts, provided support for deliveries of 68 Airbus aircraft, with guarantees to the value of £536 million. The aircraft were delivered to 15 different airlines and operating lessors in Brazil, Chile, Czech Republic, El Salvador, India, Malaysia, Netherlands, Philippines, Portugal, Qatar, Russia, Turkey, USA and Vietnam. Of the 68 aircraft delivered, 24 were equipped with aero-engines produced by Rolls-Royce or its associate company, IAE.

Support of some £24 million was also provided by ECGD under a co-operation agreement with its US counterpart, Eximbank, for the installation of Rolls-Royce aero-engines on Boeing aircraft that were supplied to El Al and Pegasus Leasing.

The 2008-09 financial year is expected to be busy for ECGD in the aerospace sector, as Airbus' large order book filters through to the delivery of aircraft to its customers. The coming year may give ECGD its first opportunity to be involved in the provision of support for the Airbus A380 aircraft.

Figure 5: Value of business supported by sector (%) 2007-08

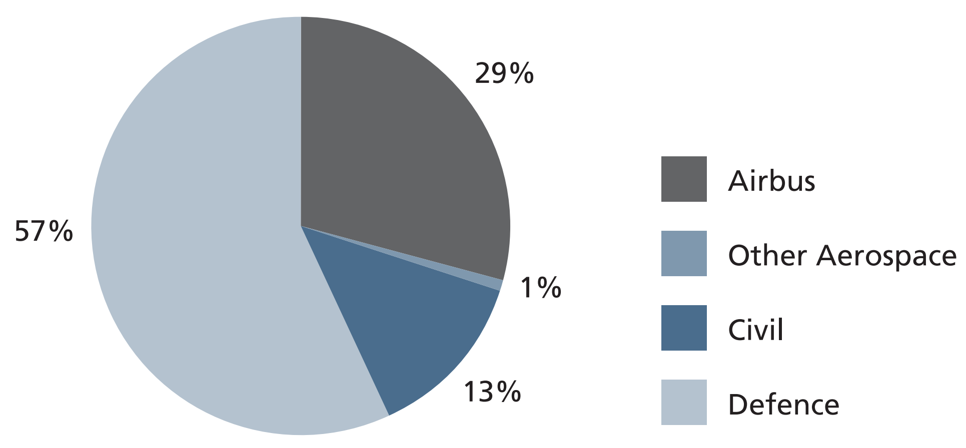


Figure 6: Value of business supported by sector (%) – five year summary

	2007–08	2006–07	2005–06	2004–05	2003–04
Airbus	**29**	27	44	31	17
Other Aerospace	**1**	2	3	1	6
Civil	**13**	29	30	30	38
Defence	**57**	42	23	38	39
Total	**100**	**100**	**100**	**100**	**100**

Defence

The UK applies strict controls to defence equipment exports through a licensing system administered by the Export Control Organisation of the Department for Business, Enterprise and Regulatory Reform (involving the Department for International Development, the Foreign and Commonwealth Office, and the Ministry of Defence). The provision of ECGD support for export sales which are subject to an export licence is conditional on that licence being obtained.

ECGD's business levels in this sector were higher than in the previous year. In 2007-08, ECGD support for UK defence exports amounted to some £1 billion representing 56 per cent of ECGD's total business for the year. This included a contract secured by VT Shipbuilders International for the supply of three ocean patrol vessels to the Republic of Trinidad and Tobago.

Civil Business

ECGD provided a US$28.6 million Buyer Credit guarantee in respect of further contracts placed with Motorola Limited of the UK by KaR-Tel, a leading GSM mobile phone operator in Kazakhstan. The facility will be used to finance the supply of additional base station equipment for the expansion of KaR-Tel's mobile network.

ECGD also provided a Buyer Credit guarantee for a Japanese Yen-denominated loan in an amount equivalent to £50 million to support a contract won by Mabey & Johnson Ltd in Sri Lanka. The contract with the Ministry of Highways and Road Development will provide more than 200 steel bridges for regions in the south and west of the country, giving people in rural areas improved access to markets and to facilities such as healthcare, together with a small number of flyovers to ease traffic congestion in Colombo.

ECGD supported contracts for the supply of steel-making equipment to India and provided support for UK-sourced supplies under a contract secured by a US main contractor with a Brazilian saw mill.

There continues to be an increasing demand for support for project finance transactions. ECGD worked on a number of such cases during the year and expects to provide support for a large process plant project in Saudi Arabia in early 2008-09. In February 2008, before ECGD was in a position to take a substantive decision on whether to provide support for the Sakhalin II oil and gas project in Russia, the project sponsor, Sakhalin Energy Investment Company, withdrew its application for ECGD support. ECGD had been considering the application to support the US$21 billion project since 2003. ECGD also monitored project finance transactions already underwritten, in order to check compliance by sponsors with performance obligations during the construction and operating periods.

Under its Overseas Investment Insurance scheme (OII), ECGD provides political risk insurance in respect of UK investments. With the growth of alternative private market provision, demand for this cover from ECGD has continued to reduce since the peak of 2001-02. The maximum liability in respect of OII stands at a total of £138 million as at 31 March 2008, a reduction from £152 million in 2006-07.

Building on ECGD's role in providing advice on export finance and insurance issues to the inter-departmental Sustainable Energy Exports Committee and a range of trade advisory groups, which bring together government and industry representatives, ECGD is increasing its engagement with firms active in the renewable energy sector and enhancing its coordination with other government departments, including UKTI, and British Embassies and High Commissions overseas.

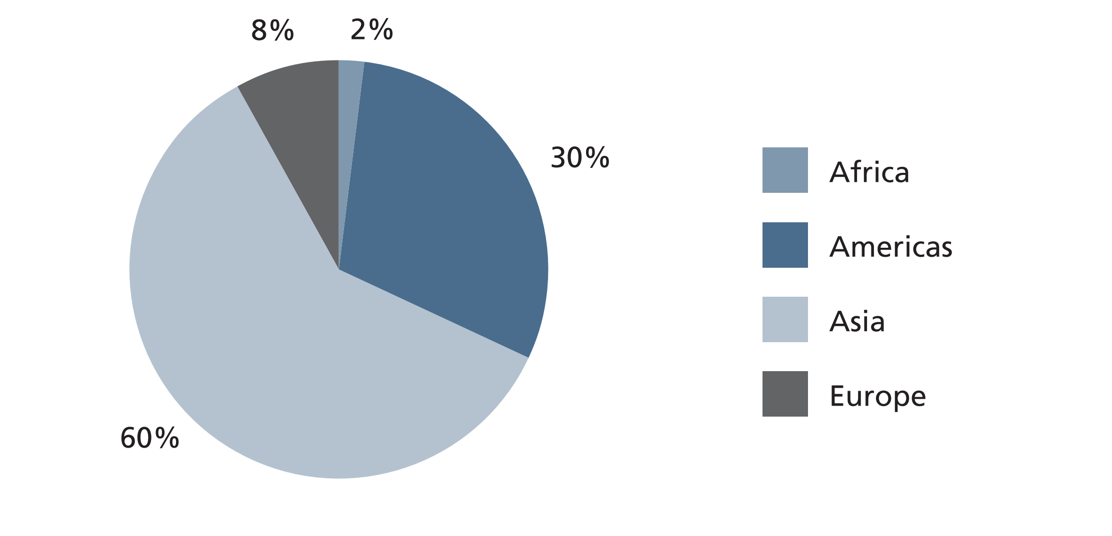
Renewable Energy

ECGD and BERR continue to promote the Government's Renewables Initiative, which offers a minimum of £50 million of ECGD cover each year to support any UK renewable energy exports and investments that meet ECGD's minimum risk standards. ECGD is considering some approaches from UK-based suppliers of renewable energy equipment.

Support for Small and Medium-Sized Enterprises

ECGD provides support for facilities provided by Sovereign Star Trade Finance, a UK financial institution, in order to give readier access to its products for small and medium-sized enterprises (SMEs) who are looking to export. It can offer overseas buyers medium-term finance of up to five years for capital goods purchases. Loans will usually be for a maximum of £2 million and finance up to 85 per cent of eligible goods and services.

Figure 7: Business supported by region (%) 2007-08



Claims and Recoveries

ECGD seeks to recover claims which it has paid:

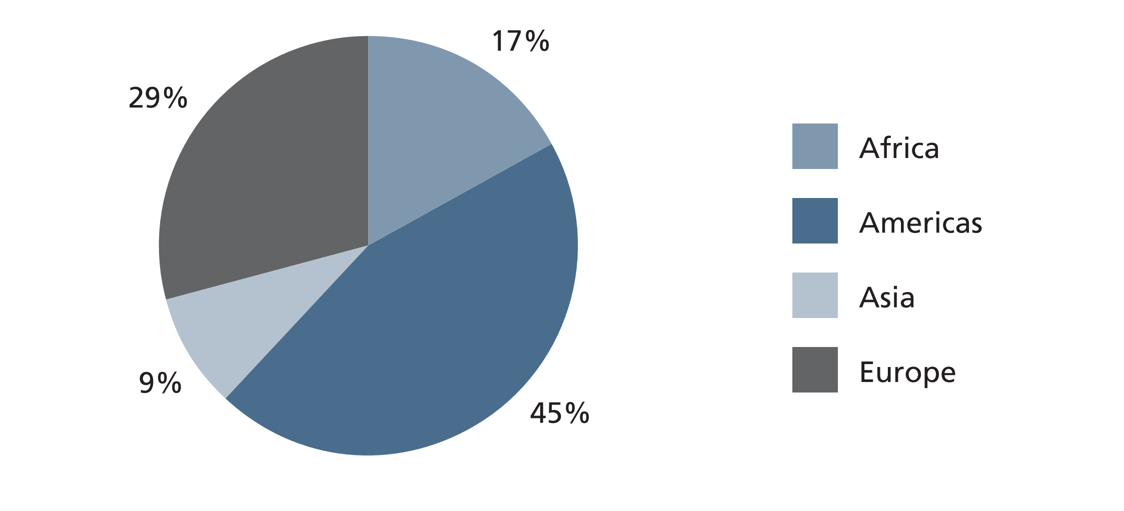
- Through the Paris Club, the informal group of official creditors which seeks to establish co-ordinated and sustainable solutions for debtor nations facing payment difficulties; ECGD implements debt rescheduling and debt write-off agreed by the Paris Club in respect of its exposure to some of the world's poorest countries, reflecting the UK Government's commitment to addressing debt sustainability; or

- Directly, on a case-by-case basis (non-Paris Club recoveries).

Claims

The reduction in the level of paid claims has continued. Payments authorised on capital goods and project business decreased from £59 million in 2006-07 to £53 million.

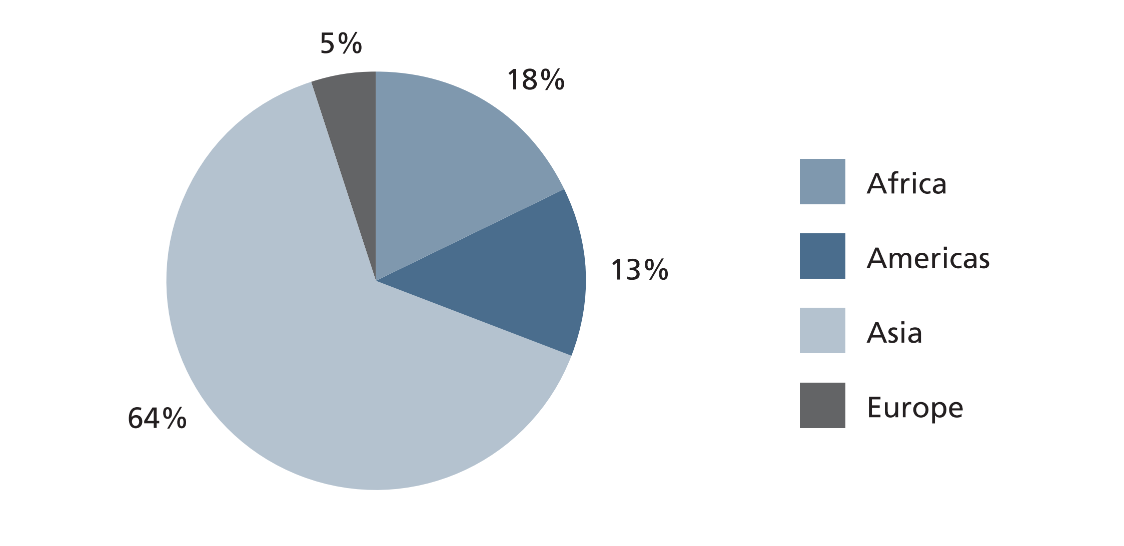
Figure 8: Claim payments by region (%) 2007-08



Recoveries

Recoveries of principal amounts in 2007-08 were £389 million, a reduction from £872 million in the previous year.

Figure 9: Recoveries by region (%) 2007-08



Paris Club Activity

ECGD received a total of £697 million in rescheduled debt and interest payments under bilateral debt agreements, compared to £1,396 million in 2006-07. ECGD participated in two rescheduling negotiations through the Paris Club involving the Central African Republic and the Republic of Guinea.

A number of debtor countries proposed early payment of their Paris Club debt, and bilateral prepayment agreements were signed with Peru (£60 million), Gabon (£91 million) and Jordan (£316 million) which addressed the outstanding debt obligations of these three countries to ECGD. In addition, agreement was reached with Angola on the clearance of outstanding delay interest in three instalments by 31 January 2010. The first payment of £24 million has been received.

As a result of a high level of recoveries and, to a lesser extent, debt reduction, the amount owed to ECGD under Paris Club arrangements is now £2.7 billion, compared to £3.3 billion at 31 March 2007.

Non-Paris Club Recoveries

Recovery work was dominated by the aircraft sector. 12 aircraft, which had been repossessed by agent banks from failed airlines, were sold. In addition, one airline's continued recovery from financial difficulties enabled it to prepay amounts owing under restructured leases in respect of 12 aircraft.

As a result, ECGD's distressed airline portfolio at 31 March 2008 accounted for 60 aircraft involving eight airlines, where aircraft have been repossessed or where the lease repayments have been restructured: 54 aircraft with an exposure of £284 million remain in operation with their original airlines on restructured leases; of the remaining six repossessed aircraft, there are firm prospects for sale in respect of three. This compares to figures of 84 aircraft involving nine airlines at 31 March 2007. ECGD's distressed aircraft exposure at 31 March 2008 was £352 million, a reduction from £444 million at 31 March 2007. Two restructuring cases involving 20 aircraft have recovered from their financial difficulties to the extent that these have been moved to the fully performing portfolio.

Recoveries of £52.3 million were made during the year, of which £0.5 million related to recoveries of claims paid under Short and Extended Terms Guarantees underwritten by the Insurance Services Group, which was privatised in 1991. The equivalent figures were, respectively, £69.3 million and £0.8 million in 2006-07.

Operations

Risk Management

During the year ECGD updated its credit risk policies to reflect changes in areas such as risk standards and exposure management. The revised policies reflect changes in case management (pre- and post-issue) and exposure reporting.

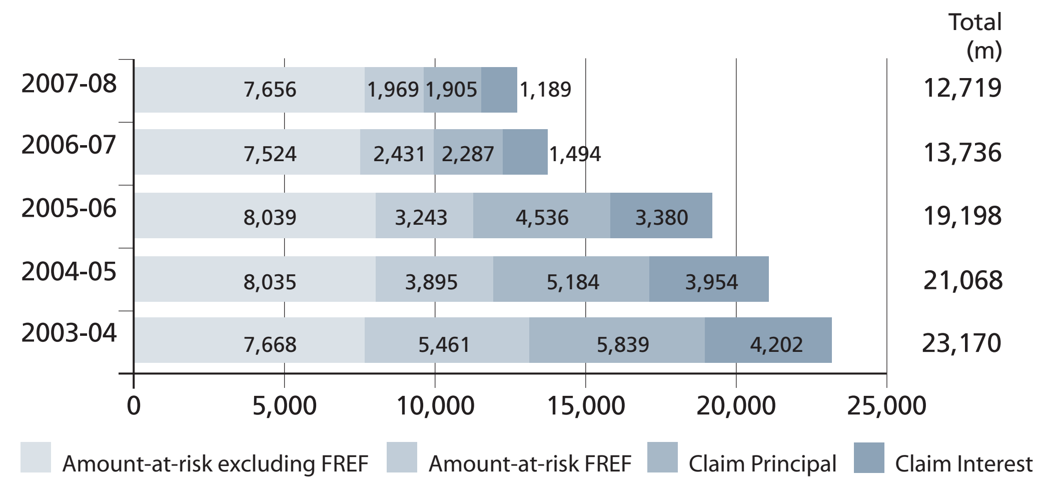
ECGD undertook a review, with the benefit of independent external advice, of the continued adequacy of the models which it uses to measure expected and unexpected loss on its portfolio. While recommending a number of improvements to the modelling, the review provided comfort on the continued appropriateness of these models.

ECGD also reviewed, with the external assistance of Standard and Poor's, the adequacy of the models which it uses to assess and score risk on individual transactions. This resulted in the introduction of revised and updated models for rating corporate, airline and bank risks.

Fixed Rate Export Finance

ECGD's Fixed Rate Export Finance (FREF) scheme enables exporters to offer their buyers fixed-rate financing at OECD Commercial Interest Reference Rates. FREF financing is available for US dollars, Sterling, Euro and Japanese Yen loans. In 2007-08, a review was undertaken of the current scheme, including a Public Consultation. Having considered the responses to the Public Consultation, Ministers have decided that the existing FREF scheme will continue for an interim period, ending on 31 December 2008, during which time ECGD will work with lending banks to devise a replacement scheme. Such a scheme would seek to minimise the costs of FREF to the Exchequer, while continuing to provide support to exporters during the drawdown period of an export financing.

Figure 10: Total credit risk exposure on ECGD's books (£m)



Foreign Content

As reported last year, in June 2007 the Government announced changes to ECGD's foreign content rules following a review that included a Public Consultation. Essentially, the rules were liberalised and simplified such that ECGD will consider the provision of support for foreign content up to 80 per cent of the contract value, on a case-by-case basis, subject to it having sufficient risk capacity. During the year, discussions have taken place with a number of exporters about the application of the new rules to specific contracts, but no business has yet been underwritten where the new rules have been employed.

Supply Chain

During the Public Consultation on ECGD's foreign content rules, a submission was made by NGOs which argued that a relaxation in the foreign content rules could give rise to ECGD providing support for supplies that involved adverse environmental or social impacts in their production. In its response, the Government stated that ECGD would undertake a separate review and, as appropriate, make proposals taking into account the practices of other Export Credit Agencies and of multilateral International Financial Institutions, and the possible impact on UK exporters of any change. This review is under way.

Human Resources

ECGD's strategy over the next three years is to develop an organisation which is more efficient and flexible, and which has the staff skills and experience to meet the challenges of the future and the unpredictable demand for export credits. Effective human resources, IT strategies and facilities management will be crucial to achieving this. Over the last year, ECGD has initiated a wide-ranging programme of work to co-ordinate the necessary changes in these areas.

Having reduced its staff numbers from 244 in April 2007 to 217 in March 2008, ECGD will now seek to reduce its headcount to between 130-160 staff by March 2011. A new comprehensive Training Strategy, aligned with the wider Cabinet Office-led Professional Skills for Government agenda, is being implemented that will inform the professional development of staff at all levels and in all roles across ECGD. In early 2009, there will be a review of ECGD's Investors in People status. A Staff Survey was undertaken in 2007-08; following a good response from staff, a number of HR policies and practices are being addressed.

Information Technology

Improvements to ECGD's corporate IT systems were implemented to increase the efficiency of business processes and the quality and robustness of data. ECGD's desktop hardware was entirely replaced in October 2007, coinciding with an upgrade to a suite of standard software. Meanwhile, work is being undertaken to improve the configuration and application of the industry-standard banking and finance packages in use in ECGD. This is expected to continue throughout 2008-09.

Facilities Management

The reduction in staff numbers provided an opportunity to reduce ECGD's accommodation requirements and during 2007-08 part of a floor was sub-let to the Legal Services Commission.

Freedom of Information

The Freedom of Information Act 2000 gave the public new rights of access to information held by public authorities. It came into force on 1 January 2005. Since then, ECGD has received a steady flow of requests covering a range of issues, such as ECGD's environmental impact assessments on projects that it has been asked to support, particular sectors or business receiving its support, international debt and ECGD's organisational structure.

In 2007-08, ECGD received 55 requests for information under the Freedom of Information Act or the Environmental Information Regulations regime. These requests covered the following subject areas.

Figure 11: Requests for information 2007-08 and 2006-07

Issue	2007-08	2006-07
Anti-bribery and corruption procedures	2	1
Baku-Tbilisi-Ceyhan Pipeline project	1	2
Defence business	2	8
Environmental information	4	27
General business matters	19	8
International debt	4	5
Organisation/procurement	8	9
Sakhalin II project	15	5
Total	**55**	**65**

The number of responses that exceeded the time limits under the Freedom of Information Act or the Environmental Information Regulations regime was 37. ECGD is reviewing its procedures to improve its timeliness in responding to requests for information.

No cases were referred to the Information Commissioner. One case was heard by the Information Tribunal and, on appeal, by the High Court.

International developments

In June 2007, OECD members agreed a new Aircraft Sector Understanding (ASU). It covers a wide range of civil aircraft and features a differentiated pricing regime, which is underpinned by a common risk rating procedure. The use of ratings-based pricing in the ASU will be helpful in supporting ECGD's longer-term efforts to achieve international convergence on corporate buyer risk assessment and pricing.

The successful engagement with Brazil in the ASU negotiations presents a model for non-OECD countries in future, as they become increasingly significant providers of export credit support. In February 2008, ECGD signed a Co-operation Agreement with China Export and Credit Insurance Corporation (Sinosure), which should strengthen bilateral relations between the two organisations, by providing a platform for sharing knowledge and experience on areas of export credit policy and practice and co-operation on specific projects where export credit facilities are provided to support exporters from the UK and China.

Following the debt relief initiatives of recent years, concerted efforts have been made to put in place measures to prevent a return to unsustainable debt burdens for the world's poorest countries. These efforts led to two developments in 2007. In April, the OECD agreed to extend the scope of the Statement of Principles on Official Export Credit Support to Heavily Indebted Poor Countries (HIPCs) to cover all countries that only have access to interest-free credits and/or grants from the International Development Association (IDA) of the World Bank (IDA-only countries). This was in line with ECGD's existing policy. In December, the OECD agreed new Principles and Guidelines that build the IMF/World Bank Debt Sustainability Framework into the analysis by export credit agencies of projects in low-income countries.

In November 2007, the OECD Arrangement on Officially Supported Export Credits was revised to increase the limit on ECA support for local costs from 15 per cent to a maximum of 30 per cent of the export contract value (being the total amount to be paid by or on behalf of the purchaser for goods and/or services exported including third-country supply).

Sustainable Development

ECGD's policy is to assess the potential environmental and social impacts of overseas projects in connection with associated exports of goods and/or services for which its support is requested, in order to assess compliance with international standards and, where appropriate, the impact of the project on the debt sustainability of the buyer's country. In addition, ECGD seeks to limit its own environmental impacts as an organisation.

Project Analysis and Monitoring

In 2007-08, ECGD was engaged in the consideration of four projects classified in the OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits as having high potential impacts. These were:

- Saudi Kayan petrochemicals complex in Saudi Arabia;
- Sakhalin II oil and gas project in Russia;
- North-South railway in Saudi Arabia; and
- Jindal Steel and Power project in India.

Support was provided for two cases with medium potential impacts. One of these involved the export of steel refining equipment to India for a minor extension of an existing steel mill to widen the range of products produced, but involved no increase in production capacity and, therefore, existing emission and waste levels. The other project was for the supply and installation of prefabricated bridges and flyovers to Sri Lanka, to restore access connections for rural communities and therefore involved the replacement of existing connections.

Support was provided for three cases that ECGD categorised as having low potential impacts. These involved exports to the machine tool industry in Brazil, oil and gas exploration equipment to Mexico and telecoms infrastructure to Kazakhstan.

ECGD provided support for 68 new Airbus aircraft deliveries, two Rolls Royce aero-engine contracts and three defence export contracts during 2007-08. All new aircraft and aero-engines supported by ECGD must meet EU, US and UN International Civil Aviation Organisation environmental and noise standards. Defence export cases are subject to the export licensing procedures operated by the Export Control Organisation of the Department for Business, Enterprise and Regulatory Reform, which include a review of applications against published criteria.

ECGD monitors high potential impact projects where support has already been issued, for example, the Baku-Tbilisi-Ceyhan pipeline project. This particular project has now moved out of the construction phase and ECGD is monitoring the operational phase.

Figure 12: Information related to ECGD's Case Impact Analysis Process	Number
Insurance policies and guarantees issued that were screened for environmental impacts	5
Insurance policies and guarantees issued for which an environmental impact assessment was provided	0
Insurance policies and guarantees issued within the medium and high potential impacts category, for which the project was expected to comply fully with the relevant international standards at the time of the guarantee being issued	2
Projects reported by ECGD to the OECD under the terms of the Common Approaches for non-compliance with the relevant international standards	0
Insurance policies and guarantees issued for medium and high potential impacts cases to which environmental conditions were attached	0
Transactions that ECGD declined to support on environmental/ social impact grounds	0

Productive Expenditure

ECGD's Business Principles state that ECGD will have regard to debt sustainability when considering the provision of support for exports to, and investments in, developing countries. In 2007-08, ECGD reviewed a number of projects for which its support had been requested in Heavily Indebted Poor Countries and markets which have access to International Development Association financing against its Productive Expenditure criteria. Transport and power generation projects in Nigeria and rural bridging and coastal mapping projects in Sri Lanka were approved.

Sustainable Development in Government

Sustainable Development targets have been set for all Government Departments. ECGD has met seven of the nine targets applicable to ECGD and set for achievement by 2010; it will be necessary to maintain performance through to 2010 in order for the achievement to be recognised. The targets achieved are to:

- Reverse the upward trend in carbon emissions by April 2007;
- Reduce carbon emissions (from offices) by 12.5% by 2010-11, relative to 1999-00 levels;
- Reduce carbon emissions (from road vehicles used for administrative operations) by 15% by 2010-11, relative to 2005-06 levels;
- Increase recycling figures to 40% of waste arisings by 2010;
- Reduce water consumption by 25% on the office and non-office estate by 2020, relative to 2004-05 levels;
- Source at least 10% of electricity from renewables by 31 March 2008; and
- Source at least 15% of electricity from Combined Heat and Power by 2010.

The remaining two targets are to:

- Increase energy efficiency per m^2 by 15% by 2010, relative to 1999-00 levels; and
- Reduce waste arisings by 5% by 2010, relative to 2004-05 levels

ECGD is unlikely to achieve either of these latter targets. In common with all other Government Departments who have reduced their accommodation, ECGD has found that energy efficiency has decreased as it has relinquished floor space. More efficient use of floor space means work stations and computers are more densely arranged; this results in increased energy use for the remaining floor space.

In regard to waste reduction, ECGD's office in London is part of a multi-tenanted building and ECGD's waste is not measured separately from other tenants. ECGD reports waste as being its 'share' of the waste for the office complex, based on its share of floor space. This fluctuates as floor space in the complex is let, and depends on the use each tenant makes of that space.

Electricity supplied to ECGD's London office is now provided through a low-carbon, Combined Heat and Power 'green tariff' contract, and, for ECGD's Records Repository located in Cardiff, from matched renewable energy.

ECGD purchases carbon offsets for its air and rail travel.

Sustainable Development Action Plan (SDAP)

ECGD published an SDAP in April 2007. The plan includes Sustainable Development objectives for ECGD's domestic operations and its international business, recognising that it has greater opportunity to influence Sustainable Development issues through the business which it undertakes. Progress has been made on its implementation.

New recycling facilities have been implemented and double-sided printing by duplex printers has been introduced to reduce paper consumption and energy usage. The use of more energy-efficient equipment such as the purchase of A*-rated computer equipment should also help to reduce energy consumption.

During the period, ECGD participated in discussions at the OECD with other Export Credit Agencies that led to the OECD Council reaching an agreement in June 2007 on a revised Recommendation on Common Approaches to the Environment and Officially Supported Export Credits, and an agreement on Principles and Guidelines to promote Sustainable Lending practices in the provision of Official Export Credits to Low-Income Countries.

The Management Board

Back row: David Havelock (Director, Credit Risk Group); Steve Dodgson (Director, Business Group); Graham Pimlott (Chairman); Peter Haslehurst (Non-Executive Director); David Godfrey (Non-Executive Director); David Harrison (Non-Executive Director)

Front row: Katherine Letsinger (Non-Executive Director); Patrick Crawford (Chief Executive); Nigel Addison-Smith (Finance Director). Not shown Nicholas Ridley (General Counsel)

The Board

The Management Board of ECGD is responsible for advising and supporting the Accounting Officer in respect of the governance of ECGD. It consists of four independent Non-Executive Directors and a Non-Executive Chairman, together with five members of the Executive Committee of ECGD. There were no changes to the composition of the Board during the year.

The Board supports the Accounting Officer in the discharge of his responsibilities and has accountability to the Secretary of State for Business, Enterprise and Regulatory Reform and the Minister of State for Energy for: exercising oversight of the Chief Executive and the Executive Committee; monitoring the application of the principles of good governance; ensuring the strategic goals of ECGD are properly tested and examined; advising on policies and strategies; providing advice on achieving policies set by Ministers; monitoring performance; assessing and monitoring enterprise-wide risks; and approving accounting policies and the Annual Review and Resource Accounts.

The Board has a regular schedule of meetings throughout the year. Additional meetings are held if particular issues so require.

Statement on Compliance with the Code of Good Practice

A review, conducted with the assistance of the Head of Internal Audit, showed that the Board continues to be in compliance with the Code of Good Practice for Corporate Governance in Central Government Departments, which was published in July 2005.

Officers of the Shareholder Executive meet Non-Executive Directors annually to review governance in the absence of the Chairman and of ECGD members of staff.

Committees

The most senior committees of the Board are the Audit Committee and the Remuneration Committee. Both are entirely composed of Non-Executive Directors.

The Executive Committee, to which the Risk Committee and the Business Systems and Infrastructure Committee report, supports the Accounting Officer in the ongoing management of ECGD. It is chaired by the Chief Executive and meets weekly. The Information Security Management Forum, set up in 2007, provides support on a range of issues relating to all aspects of information security, and will be constituted as the Information Security Committee, reporting to the Executive Committee, as from April 2008. The membership of all these committees comprises ECGD officials.

Non-Executive Directors

The Board considers that its Non-Executive Directors are independent. In making this determination, the Board has considered whether each such director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could affect, the Director’s judgement.

Board Performance Evaluation

A Board performance evaluation involving both Executive and Non-Executive Directors was carried out during the year, which showed ECGD complied with best practice.

Audit Committee

The Audit Committee meets regularly with ECGD's Accounting Officer, senior financial management, internal audit staff and the external auditors to consider ECGD's arrangements for financial reporting, governance, risk, internal control, and the provision of assurances to the Board.

The Chair formally reports to the Board after each meeting of the Audit Committee and makes an annual report on its work. At least once a year, the Chair meets separately with the Non-Executive Directors, the Head of Internal Audit, and the external auditors, outside formal committee meetings and in the absence of other members of ECGD staff, to review the Audit Committee's activities.

Internal Audit and Assurance

ECGD's internal audit strategy and plan are important elements of its control framework and corporate governance procedures. These include an integrated approach to audit and risk management, which links risk-based audits with ECGD's risk and assurance framework.

Internal Audit also undertakes an annual programme of compliance audit involving visits to banks and exporters to check adherence with certain terms and conditions of ECGD's support. Where appropriate, this may include a site visit to gain a better understanding of the contract under review.

Findings arising from all audit work are discussed with the relevant staff and any action required to improve control is agreed with the relevant Director. Progress on implementation of agreed actions is monitored by Internal Audit and reported to the Executive Committee and to the Audit Committee.

Operational Risk

Annually, the Board approves objectives and plans, and considers the main risks to the achievement of objectives. Mitigating actions are determined and the success of these actions monitored. An overarching strategic risk register is maintained and formally reviewed every six months by the Board.

Quarterly risk reports are provided by senior managers to the Executive Committee on their arrangements for managing risks in their areas of responsibility as part of the maintenance of Department-wide risk registers. Policy submissions to the Board and/or Ministers normally include an assessment of risk. Programmes and projects are governed by formal programme and project management disciplines, including the regular review of risks, overseen by either the Executive Committee or the Business Systems and Infrastructure Committee. Where appropriate, Gateway reviews provide independent assurance over the effective management of change.

Export Guarantees Advisory Council Annual Report 2007-08

The remit of the Council is defined by the Export and Investment Guarantees Act, 1991. The Council's Terms of Reference, the minutes of each Council meeting, and a Register of Member's interests, are available on the ECGD website, (www.ecgd.gov.uk/index/pi_home/pi_ac.htm).

The Council's broad remit is to provide advice on the principles that should guide the pursuit by the Export Credits Guarantee Department (ECGD) of the aims and objectives set out in its Mission Statement and how these principles should inform its business policies. The Council does not advise on individual cases. However, it does carry out retrospective reviews of past cases so that it may understand how ECGD's principles and policies are applied in practice, and may advise on how these might be further developed.

The membership of the Council is set out below:

Chair

- **Professor Jonathan Kydd** (Dean of the External System, University of London)

Members

- **Dr Robert Barrington** (until August 2008 Director, Governance & Socially Responsible Investment, F&C Asset Management plc; thereafter Director of External Affairs, Transparency International (UK))
- **Professor Glen Plant** (Barrister)
- **Martin Roberts** (Senior Consultant, Beachcroft Regulatory Consulting)
- **Anthony Shepherd** (Chairman, The Alderley Group)
- **Paul Talbot** (Assistant General Secretary, Unite)
- **Andrew Wiseman** (Partner, Blake Lapthorn Tarlo Lyons)

Peter Haslehurst, an ECGD Non-Executive Director, attends Council meetings as an observer, in order to provide a link and closer understanding between the Council and ECGD's Management Board.

In January 2008, I was appointed as the Council's Interim Chair for a period of 18 months, succeeding John Elkington, founder of SustainAbility. John served on the Council for seven years, two of these as Chair. He tendered his resignation in late-2007 to launch a new business venture. At the same time, another Council colleague, Dr Raj Thamotheram, also tendered his resignation, having been a Council member since 2001. I would like to offer my thanks to both John and Raj for their valuable contributions over a number of years and for John's effective leadership as Chair.

The Council met four times in 2007-08 and considered a range of issues, providing advice to Ministers as appropriate. We also met ECGD's Minister, Malcolm Wicks; this provided an opportunity to discuss a range of issues. Some Council members also attended ECGD's reception for exporters, held in late January.

During the period covered by this report, as in previous years, the Council focussed its attention on policies stemming from ECGD's Business Principles and their application to ECGD's activities.

The Council reviewed the activities of ECGD's Business Principles Unit (BPU) over the past twelve months. The work of the BPU had been dominated by the need to develop advice to ECGD's management on whether ECGD should provide support for the Sakhalin II oil and gas project. This proved to be very time consuming; in the event, ECGD had not come to a decision when the project sponsor withdrew its application for ECGD support. Internationally, the BPU played an active role in the discussions within the OECD leading to the issue of a revised recommendation on Common Approaches to be adopted by member Export Credit Agencies regarding the acceptability of the environmental and social impacts of the projects which they are asked to support. The BPU informed us about the role which it sought to play within the Environmental Practitioners Group. This group is drawn from a number of OECD Export Credit Agencies with the purpose of reviewing and advocating improvements to due diligence practices for assessing environmental and social issues on projects.

The Council held an annual meeting with NGO representatives in October 2007, at which ECGD-related issues of interest to the NGO community were discussed. A number of these have been taken forward by the Council with ECGD; others are being considered by the Council as it sets its agenda for the coming year. The Council would like to express its appreciation for the input from NGOs.

The Council also considered its role in the oversight of the application of ECGD's Business Principles in respect of defence exports. The Council received a presentation from the Export Control Organisation of the Department of Business, Enterprise and Regulatory Reform on its role in the export licensing process, upon which ECGD relies in making its support available for such exports. The Council also reviewed a major defence export case supported by ECGD following the adoption of its new anti-bribery rules in July 2006. In doing so, the Council endorsed the processes employed by ECGD to avoid supporting transactions tainted by bribery or corruption in conformity with the policies set for it by Ministers.

In December, the Council was briefed on ECGD's experience of its revised anti-bribery and corruption rules, covering the first year of their implementation, 1 July 2006 to 30 June 2007. The Council asked ECGD to make public a report of its experience, which it has since done.

The Council considered ECGD's experience and performance in handling information requests under the Freedom of Information Act, 2000. A number of cases had been appealed to the Information Commissioner for adjudication. One case had been heard, on appeal, by the Information Tribunal, and was the subject of a further appeal which was heard at the High Court in March this year.

The Council was informed of work being undertaken by ECGD to examine the issue of whether it should apply standards in respect of the production of goods and services which it is asked to support, which arose out of ECGD's Public Consultation in 2006 on its Foreign Content rules. The Council endorsed the approach ECGD is taking to engage with other Export Credit Agencies, the Berne Union, OECD and International Financial Institutions to consider how this issue might be addressed on a multilateral basis.

Consistent with its statutory role to provide advice to Ministers on reinsurance matters, the Council considered the future of the ECGD Reinsurance Agreement that exists for exports sold on short terms of payment, which became due for review at the end of 2007. The Council recommended that the facility should remain in place.

ECGD has continued to keep the Council informed on its own levels of sustainable performance. The Council noted that ECGD has made positive progress in line with its Sustainable Development Action Plan.

Patrick Crawford, ECGD Chief Executive, briefed the Council at each meeting on the Department's financial position and risk management policies and processes, and on current issues facing ECGD. The Council also received information from ECGD on the guarantees and insurance support issued in the course of the financial year.

The Council considers that ECGD operated in accordance with its Business Principles during the period covered by this report. During 2008-9, the Council aims to continue its focus on how the Business Principles relate to the day-to-day work of ECGD. The Council will also be assessing its effectiveness, and for this purpose will take into account ECGD's responses to recommendations made over the coming year.

Professor Jonathan Kydd
Chair

Export Credits Guarantee Department

Resource Accounts 2007-08

(For the year ended 31 March 2008)

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Annual Report

Resource Accounts: Export Credits Guarantee Department

Overall Results

1 The Export Credits Guarantee Department (ECGD) issues guarantees and insurance against loss for or on behalf of exporters of goods and services and overseas investors from the UK, and supports the provision of Fixed Rate Export Finance (“FREF”). ECGD achieved an operating surplus in 2007-08 of £597 million, as compared to £401 million in 2006-07, and recoveries of Principal and Interest for the year of £751 million for 2007-08 compared to £1,465 million for 2006-07. ECGD received significant recoveries from Angola, Gabon, Jordan and Peru during the year, each of which was significantly in excess of the amounts shown as potentially recoverable in the previous period. A summary analysis of the results is set out in the Management Commentary below.

Statutory Powers

2 ECGD is a Department of the Secretary of State for Business, Enterprise and Regulatory Reform. It derives its statutory authority from the Export and Investment Guarantees Act, 1991 (the Act), and its primary function is to facilitate exports of goods and services by the provision of guarantees and insurance pursuant to Section 1 of the Act. Section 2 enables ECGD to provide Overseas Investment Insurance.

3 Under the Act, ECGD is able to make any arrangements considered to be in the interests of the proper management of the ECGD portfolio. Such arrangements may comprise any form of transactions, including lending, and providing or taking out insurance and guarantees (Section 3). Section 4 permits transactions under these sections to be on such terms and conditions as ECGD considers appropriate and states that its powers are exercisable only with the consent of HM Treasury. Section 13 requires ECGD to consult the Export Guarantees Advisory Council (EGAC) when determining whether there is a national interest case for providing reinsurance support.

4 The financial statements which follow are prepared in accordance with the Accounts Direction issued under Section 5(2) of the Government Resources and Accounts Act, 2000.

Ministers

5 The Ministers who had responsibility for ECGD during the year ended 31 March 2008 and up to the date of these accounts were:

The Rt Hon Alistair Darling MP, Secretary of State for Trade and Industry (from 5 May 2006 to 28 June 2007)

The Rt Hon John Hutton MP, Secretary of State for Business, Enterprise and Regulatory Reform (from 28 June 2007 to 3 October 2008)

The Rt Hon Lord Mandelson, Secretary of State for Business, Enterprise and Regulatory Reform (from 3 October 2008)

The Rt Hon Ian McCartney MP, Minister of State for Trade, Investments and Foreign Affairs (from 5 May 2006 to 28 June 2007)

Mr Malcolm Wicks MP, Minister of State for Energy (from 28 June 2007 to 3 October 2008)

Mr Ian Pearson MP, Economic and Business Minister (from 3 October 2008)

Accounting Officer of ECGD and the Management Board

6 ECGD's Accounting Officer is Mr Patrick Crawford.

The Accounting Officer confirms that:

a) so far as he is aware, there is no relevant audit information of which the Department's auditors are unaware; and

b) he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

7 The Management Board advises the Accounting Officer in his management and direction of ECGD and its staff so that it achieves its business and financial objectives within agreed resources and budgets. The Management Board consisted of the Accounting Officer and the following:

Executive Members:

Mr Nigel Addison Smith, Finance Director
Mr Steve Dodgson, Business Group Director
Mr David Havelock, Credit Risk Group Director
Mr Nicholas Ridley, General Counsel

Non-Executive Members:

Mr Graham Pimlott (ECGD Chairman)
Mr David Godfrey
Mr David Harrison
Mr Peter Haslehurst
Ms Katherine Letsinger

The remuneration of the Executive Members is determined in accordance with the rules for the Senior Civil Service (SCS). Non-Executive Members are paid a fee determined by ECGD.

Activities of ECGD

8 These financial statements present the results of ECGD's activities in issuing guarantees and insurance against loss for or on behalf of UK exporters, Overseas Investment Insurance and the administration of discontinued short-term credit insurance facilities. These activities are referred to in the Resource Accounts as Underwriting Activities.

9 ECGD also performs other functions, which are included in these statements. They consist of the provision of Fixed Rate Export Finance ("FREF") on behalf of UK exporters, together with arrangements for capital market funding of fixed rate export finance loans, and for certain interest rate swap arrangements. These activities are referred to in the Resource Accounts as Export Finance Activities.

10 There are no other entities included within the Resource Accounting boundary. Guaranteed Export Finance Corporation PLC ("GEFCO"), the special purpose vehicle which refinances certain of ECGD's export finance loans, is not consolidated. This is in accordance with the Government Financial Reporting Manual ("FReM") (see Note 38).

Accounts 1, 2, 3 and 4

11 A number of the disclosures in the financial statements are disaggregated into four Accounts. Accounts 1, 2, and 3 cover ECGD's Underwriting Activities, while Account 4 covers Export Finance Activities.

12 Account 1 – guarantees and insurance issued for business prior to April 1991 and insurance issued by the former Insurance Services Group of ECGD (the main part of which was privatised on 1 December 1991) for which ECGD retains contingent liabilities (‘Insurance Services Business’).

13 Account 2 – guarantees and insurance issued for business since April 1991.

14 Account 3 - guarantees issued for business since April 1991, on the written instruction of Ministers, which ECGD’s Accounting Officer had advised did not meet normal underwriting criteria.

15 Account 4 - the provision of FREF on behalf of UK exporters, together with arrangements for capital market funding of FREF loans and for certain interest rate swap arrangements. FREF is only available in support of exporters doing business under Account 2.

Segmental Information

16 The Annual Review and Resource Accounts contain information regarding the regional spread of ECGD’s guarantees and policies issued and its exposure as at 31 March 2008. Note 9 of ECGD’s accounts outlines the results by Account, while Note 11 analyses premium income geographically and by facility and business type.

Foreign Content

17 The amount of foreign content approved during the year for support by ECGD was £33.7million.

Payment Policy

18 ECGD’s payment policy is that all invoices should be paid on the contractual due date or, where there is no contractual provision, within 30 days of receipt. This policy is in accordance with the requirements laid down in Managing Public Money and follows the Confederation of British Industry (CBI) code on prompt payment of commercial debt. During 2007–08, ECGD paid 99.0 per cent of invoices within the policy requirement.

ECGD’s Recruitment Policy

19 ECGD is committed to the core principles of fair and open competition for recruitment and of selection on merit, as laid down in the guidance from the Civil Service Commissioners.

ECGD’s systems and processes are subject to scrutiny by ECGD’s Internal Audit and Assurance Division on a regular basis. A member of Human Resources Division (independent of the relevant recruitment exercise) undertakes an annual review on a sample basis of the recruitment exercises based on Internal Audit methodology. Any corrective action required is then taken to ensure that the required standard is delivered. These systems are also subject to annual audit by the Civil Service Commissioners.

The following recruitment schemes resulted in the appointment of a number of staff from outside the Civil Service:

- 2 candidates as Legal Advisor (Pay Band 11) recruited in conjunction with Lipson Lloyd Jones. Of the successful candidates, one was female, and neither was from an ethnic minority group.
- 3 candidates as Operational Research Analysts (Pay Band 5) recruited via the Government Operational Research Service. Of the successful candidates, all were male and none was from an ethnic minority group.

- 1 candidate as Business Principles Analyst (Pay Band 6) recruited in conjunction with Sentinel for a two year fixed term appointment. The successful candidate was female and not from an ethnic minority group.

- 3 candidates were appointed on a fixed term contract of 12 months or less. Of these, two were female, and one was from an ethnic minority group.

One of the successful candidates has declared a disability.

Further Information on ECGD Activities

20 Further information on ECGD's activities, results and performance are included within the Annual Review in the business overview and operations statement. For information about the reporting cycle please refer to the Departmental Expenditure Report.

Audit

21 ECGD's accounts are audited by the Comptroller and Auditor General.

Management Commentary – Five Year Summary

	£m	£m	£m	£m	£m
	2007-08	**2006-07 (Restated)**	**2005-06**	**2004-05**	**2003-04**
Operating Statement					
Overall Value of Guarantees and Insurance Policies Issued	**1,830**	**1,798**	**2,230**	**1,995**	**2,991**
Premium Income	**60**	**55**	**88**	**45**	**102**
Net Operating Income – total	**597**	**401**	**1,699**	**1,108**	**562**
– Account 1	388	211	1,464	892	424
– Account 2	176	157	143	89	115
– Account 3	18	23	54	51	22
– Account 4	15	10	38	76	0
Cash flow					
Claims Recoveries – total	**389**	**872**	**720**	**590**	**329**
– Account 1	307	735	682	530	285
– Account 2	82	137	38	60	44
Interest Recoveries in the year – total	**362**	**593**	**958**	**595**	**231**
– Account 1	301	573	948	563	211
– Account 2	61	20	10	32	23
Claims Paid – total	**59**	**61**	**83**	**89**	**217**
– Account 1	0	-	4	-	12
– Account 2	59	61	79	89	205
Net Cash Flows – total	**782**	**1,557**	**1,815**	**1,427**	**246**
– Account 1	599	1,306	1,608	914	433
– Account 2	138	168	103	66	(49)
– Account 4	45	83	103	447	(138)
Balance Sheet					
Amounts at Risk	**9,625**	**9,955**	**11,282**	**10,958**	**13,129**
Non-FREF	7,656	7,524	8,039	8,035	7,668
FREF	1,969	2,431	3,243	2,923	5,461
Recoverable Claims – Gross	**1,905**	**2,287**	**4,536**	**5,184**	**5,839**
– Account 1	1,092	1,444	3,574	4,289	4,902
– Account 2	813	843	962	895	937
Recoverable Claims – Net	**861**	**1,127**	**1,909**	**2,322**	**2,692**
– Account 1	315	540	1,233	1,694	2,046
– Account 2	546	587	676	628	646
Interest on Unrecovered Claims – Net	**150**	**184**	**601**	**212**	**-**
– Account 1	109	127	565	212	-
– Account 2	41	57	36	-	-
Underwriting Funds	**583**	**642**	**723**	**763**	**882**
– Account 1	3	5	6	21	29
– Account 2	580	624	687	660	725
– Account 3	0	13	32	82	129
Direct Funding balance	**701**	**998**	**1,475**	**1,878**	**2,416**
FREF Loans balance	**1,419**	**1,737**	**2,570**	**2,923**	**3,737**

Management commentary

Account 1

Account 1 relates to guarantees and insurance business issued before 1991 (including those issued by the part of ECGD privatised in that year). The main activity relating to this account is the administration and collection of the claims paid out against these guarantees and insurances. In accordance with standard accounting practice, ECGD provides prudently against the possible non-recovery of debts. All debts are actively pursued, with recovery action often spread over long periods. Where the outlook for recovery improves, the level of provision is reduced accordingly, releasing profit to the Operating Statement. The key results are:

- Claims Recoveries were £307 million, compared to £735 million in 2006-07. The main recoveries in the year were Jordan (£180 million), and Gabon (£63 million). For both countries, these payments are the final recoveries to be made.
- Recoveries of interest on claims were £301 million, compared to £573 million in 2006-07. Again, the main markets were Jordan (£155 million), and Gabon (£49 million), both of which made their final payments.
- Recoverable Claims, which are the main assets within Account 1, have reduced significantly over the last few years. The balances for gross claims reduced from £1,444 million (2006-07) to £1,092 million during the year, while those for net claims reduced from £540 million (2006-07) to £315 million during the same period. As Recoverable Claims have declined, the expected amounts of recoveries in the future are unlikely to match those reached in recent years.
- Interest on Unrecovered Claims, included in income, has reduced from £127 million (2006-07) to £109 million including receipts from Jordan and Gabon during the year (see above). The decline in the amount of claims will also result in reduced amounts of recoverable interest income in the future.
- The majority of Net Operating Income for Account 1 is generated when recoveries of claims or interest exceed the book value net of provisions. During 2007-08, Operating Income increased to £388 million from £211 million (2006-07) due to the receipts exceeding the book value of the related debt net of provisions.

Account 2

Account 2 relates to guarantee and insurance business issued from 1991. The key results are:

- The total of guarantees and insurance issued during the year was £1,830 million compared to £1,798 million for 2006-07.
- Premium Income was £60 million compared to £55 million in 2006-07.
- Claims authorised and paid or payable during the year decreased to £59 million from £61 million in 2006-07. This included two small new claims in the year; the rest were in respect of further payments of claims previously authorised.
- Net Operating Income was £176 million compared to £157 million in 2006-07 (restated). As ECGD accounts for this business through Underwriting Funds, the net guarantee and insurance income for the year is largely dependent on the release of the Underwriting Funds for earlier years which were closed during the current year. The income released from the closing years (1998-99 Credit Fund and 2004-05 Cash Fund) was £72 million compared to £91 million in 2006-07.

- Recoveries for the year were £82 million compared to £137 million in 2006-07 while Gross Claims balances were £813 million as against £843 million in 2006-07. Net Claims balances were £546 million, compared to £587 million in the previous year.

Account 3

Account 3 represents guarantees issued on the instruction of Ministers.

There were no new guarantees issued or claims made on this Account during the year. The income for the year of £18 million compares with £23 million for 2006-07, reflecting the release of the Underwriting Funds set up in 1998-99 and 2000-01. The fund for 2000-01 was released as there was no longer any amount at risk for that year.

Account 4

This Account relates to the provision of support for Fixed Rate Export Finance. The results were:

- FREF loan balances continued to run off during the year, with the balance reducing to £1,419 million from £1,737 million in 2006-07, due to loan instalments being paid and early repayments of loan instalments.

- The Direct Funding balance represents the funds loaned by HM Treasury to reduce the cost of FREF. The balance reduced substantially during the year to £701 million from £998 million in 2006-07, as both regular instalments and early repayments were made.

- Net Operating Income increased to £15 million in 2007-08 from £10 million in 2006-07. The increase was caused by gains in the market values of interest rate swaps purchased to hedge FREF exposure.

All Accounts

- Operating expenses increased by £0.7 million to £26.4 million, partly as a result of the cost of an early departure scheme to reduce staffing levels. ECGD's staffing level decreased from an average full time equivalent of 245 for the year ended 31 March 2007 to 238 for the year ended 31 March 2008. (The position at 31 March 2008 was 217).

- For the reasons set out above (see Account 1), the major asset of ECGD, being Net Recoverable Claims, reduced by 24% from £1,127 million (2006-07) to £861 million during the year. (Gross claims reduced from £2.3 billion to £1.9 billion).

Future development

ECGD has seen a declining trend of new business volumes over recent years. This has created a requirement to address the balance between its income and its costs. A further review of new business volumes in 2007-08 caused ECGD to decide that further steps should be taken to reduce its costs. ECGD accordingly embarked on a programme of measures to reduce costs over the period to March 2011. These measures will focus on staff numbers, accommodation costs and IT efficiencies, in order to match expected levels of future income.

Detailed Explanation of Variances between Estimate and Outturn

It should be noted that, as a government department, ECGD is unusual in having net income from various sources, some of which can be offset against its costs; and, in the case of underwriting activities, the Request for Resources (RfR) is a token sum of £2,000.

RfR 1 – Provision of export finance assistance

Overall, the net cost after appropriations in aid was £43.4 million compared to an estimate of £69.1 million. The variance was largely due to the Estimate including an amount of £24.0 million for possible unwinding of derivative contracts, which in the event, was not required as the outturn for derivative contracts was a small income.

RfR 2 Provision of export credit guarantees and insurance

This RfR includes the administration costs of ECGD which are offset by Appropriations in Aid (A. in A.) to give a requirement of a nominal £2,000 for the purposes of the Estimate. Total expenses at £27.4 million compare with £43.3 million in the Estimate. The Estimate included £16 million for the possible adverse movement in the market value of credit default swaps, while the actual outturn is a gain of £12 million. The variance of £28 million on credit default swaps was caused by major changes in credit conditions during the year. The levels of A. in A. remain sufficient to reduce the net Estimate requirement to zero.

Comparison of Resource Outturn with Operating Income and Budgeted Cost

	Note	£'000
Resource Outturn	2	(43,437)
CFER Income and Surplus A. in A.	3 (a)	640,870
Operating Statement Income		597,433
Non-Budgeted Income and Expenditure		617,727
Budgeted Cost		**(20,294)**
RfR1 – Fixed Rate Export Finance	2	(19,694)
RfR2 - Administration	2	(600)
Total Budget		**(20,294)**

The Parliamentary Supply estimate/outturn process does not allow ECGD to include the full amount of its income in the outturn. A full list of income is included at Note 10. The CFER Income and Surplus A. in A. above represent the income after A. in A. has been deducted.

Budgeted Cost includes only RfR 1 (a) and RfR 2 (a). Any true variance is discussed in the Variances between Outturn and Estimate (above). The main difference between the two figures is represented by the income not included in the estimate.

Personal Data

ECGD confirms that no Personal Data-related incidents have occurred since 1 April 2008, which were:

- Reported to the Information Commissioners during the year to date, or
- Not formally reported to the Information Commissioners during the year to date.

ECGD undertakes regular Information Risk assessments including, where appropriate, under the Risk Management and Accreditation Document Set (RMADS) in accordance with the required standards.

JPS Crawford

Accounting Officer

Export Credits Guarantee Department
20 October 2008

Statement of Accounting Officer's Responsibilities

1 Under the Government Resources and Accounts Act, 2000, HM Treasury has directed ECGD to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of ECGD's net resource outturn, operating costs applied to objectives, recognised gains and losses and cash flows for the financial year.

2 In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on a going concern basis.

3 HM Treasury has appointed the Chief Executive as the Accounting Officer of ECGD. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding ECGD's assets, are set out in 'Managing Public Money' published by HM Treasury.

REMUNERATION REPORT

1 The following section provides details of the remuneration and pension interests of the members of ECGD's Management Board.

REMUNERATION

Remuneration Policy

Executive Directors

2 The Executive members of the Management Board are members of the Senior Civil Service (SCS). The Cabinet Office determines the Senior Civil Service pay system. The remuneration of Senior Civil Servants is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB). In reaching its recommendations, the SSRB has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on Departments to meet the output targets for the delivery of departmental services;
- the funds available to Departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target; and
- evidence it receives about wider economic considerations and the affordability of its recommendations.

3 Recommendations made by the SSRB take account of the Government's overall approach to public sector pay. SSRB recommendations cover the level of uplift to the SCS pay bands in the light of economic evidence and movements in the private and wider public sector markets for senior executives. The SSRB also gives a view on performance awards for base salary and the levels of bonus payment.

4 Further information about the work of the Review Body can be found at www.ome.uk.com.

5 The SCS pay structure currently comprises four simple, broad pay bands: Pay Band 1,1A, 2 and 3. The pay band structure is underpinned by a tailored job evaluation scheme (JESP – Job Evaluation for Senior Posts), which provides a consistent basis for comparing the relative value of jobs within and across Departments. There are two components of SCS pay: base salary and bonus. Base salary recognises an individual's value or contribution to the organisation as a member of the SCS. Bonus recognises in-year performance.

6 The applicable base pay ranges from 1 April 2007 were:

Pay Band	Minimum £	Progression Target Rate (PTR) £	Recruitment & Performance Ceiling (RPC) £
1	56,100	78,540	116,000
1A	65,280	87,720	127,000
2	81,600	n/a	160,000
3	99,960	n/a	205,000

7 Departments prepare their own SCS reward arrangements, setting out how the overall SCS reward strategy is applied in their Department within the framework of the SCS pay system and the funding available. Departments also decide base pay and bonus awards for all their SCS staff. In practice, base pay salary increases are intended to reflect:

- the individual's overall growth in competence;
- the challenge associated with their job; and
- confidence in the individual's future performance based on sustained past performance.

8 Within a range that is recommended by the SSRB as accepted by the Government, there is no centrally prescribed formula for deciding on individual awards. Departments are able to apply judgement to salary decisions and are permitted to vary awards to differentiate between levels of performance. Broadly, higher performers are paid a more significant award than those who have performed at a lower level.

9 The payment of bonuses is intended to reward in-year performance in relation to an individual's agreed objectives, or short term personal contribution to wider organisational objectives. Bonuses are paid in addition to base pay increases and do not count towards pension. Bonuses are allocated from a 'pot', expressed as a percentage of the SCS salary bill, which is agreed centrally each year following the SSRB recommendations. The Cabinet Office issues guidance about how many of the SCS should receive a bonus. The intention is that bonus decisions are differentiated in order to recognise the most significant deliverers of in-year performance.

Non-Executive Directors

10 Non-Executive Directors are paid a flat fee for their attendance at Management Board, Audit and Remuneration Committee meetings, or to attend other ad hoc meetings and, from time to time, to perform other duties. They are also paid travel and subsistence expenses.

11 The level of fees paid to the Non-Executive Directors is decided by the Shareholder Executive[1], on the advice of the Chairman of the Management Board. The Shareholder Executive, in consultation with the Chief Executive, decides the remuneration of the Chairman of the Management Board. The fees payable take account of:

- the going rate amongst other public bodies;
- the need to give a fair reflection of the time, including preparation for meetings, to invest in the role; and
- their advisory role, in that they do not carry the same legal responsibilities as Non-Executive Directors in the private sector.

Remuneration Committee

12 The Remuneration Committee is responsible for overseeing the performance management and pay of Executive Directors of the Management Board. The membership of the Remuneration Committee for 2007-08 was:

- Graham Pimlott – Chairman
- David Godfrey – Non-Executive Director
- Katherine Letsinger – Non-Executive Director
- Peter Haslehurst – Non-Executive Director

[1] The Shareholder Executive is a body that reports to the Cabinet Secretary and is responsible for the oversight of Government-owned businesses.

13 The Chief Executive attends meetings. The Head of Human Resources Division (HRD) acts as Secretary.

14 The role of the Committee is to ensure that Cabinet Office rules and guidance are properly applied in the operation of the SCS performance management and pay system. The Committee's terms of reference are to oversee the operation of the SCS pay system in ECGD. Specifically, the Committee:

- establishes and publishes an annual Pay Strategy;
- assesses the achievement of the Department's aims and objectives to inform the justification for bonus awards;
- endorses pay recommendations made by the Chief Executive in respect of members of the Senior Civil Service, including the award of bonuses;
- communicates and monitors pay outcomes, including the publication of an annual report of the operation of the system; and
- ensures succession management for executive positions on the Management Board.

15 The Chairman of the Remuneration Committee makes recommendations to the Shareholder Executive in respect of the Chief Executive's pay, on the advice of the other Non-Executive Directors.

Service Contracts

Executive Directors

16 Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

17 The majority of Executive Directors of the Board hold appointments that are open-ended. Early termination, other than for misconduct or poor performance, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

18 Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Non-Executive Directors

19 Non-Executive Directors are appointed under the rules of the Office of the Commissioner for Public Appointments (OCPA). The majority of Non-Executive Directors are appointed on 3 year contracts, that may be extended. There is no contractual provision for the payment of compensation in the event of termination of contracts.

Remuneration *(the following information is subject to audit)*

	2007-08 Salary & Bonus £'000	2007-08 Benefits in kind (to nearest £100)	2006-07 Salary & Bonus £'000	2006-07 Benefits in kind (to nearest £100)
Executive Directors				
Patrick Crawford *Chief Executive* *(Appointed July 2004)*	245-250	3,800	240-245	7,200
Nigel Addison Smith *Finance Director* *(Appointed June 2005)*	120-125	-	110-115	-
Steve Dodgson *Director, Business Group* *(Appointed July 2006)*	100-105	-	100-105	-
David Havelock *Director, Credit Risk Group* *(Appointed October 2005)*	115-120	-	95-100	-
Nicholas Ridley *General Counsel* *(Appointed June 1999)*	130-135	-	130-135	-
Non-Executive Directors		-		-
Graham Pimlott *Non-Executive Chairman* *(Appointed December 2003)*	45-50	-	55-60	-
David Godfrey *(Appointed March 2005)*	15-20	-	5-10	-
David Harrison *(Appointed February 2002)*	15-20	-	15-20	-
Peter Haslehurst *(Appointed September 2006)*	15-20	-	5-10	-
Katherine Letsinger *(Appointed January 2007)*	15-20	-	0-5	-

Benefits in kind

20 The monetary value of benefits in kind covers any benefits provided by ECGD and treated by HM Revenue and Customs as a taxable emolument. The Chief Executive had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

Pension Benefits *(the following information is subject to audit)*

21 The pension provision is as follows:

	Accrued pension at age 60 as at 31/3/08 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/08	CETV at 31/3/07[2] (Restated)	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Executive Directors					
Patrick Crawford *Chief Executive*	5-10	0-2.5	132	85	32
Nigel Addison Smith *Finance Director*	0-5	0-2.5	64	35	19
Steve Dodgson *Director, Business Group*	35-40 Plus lump sum of 115-120	0-2.5 Plus lump sum of 5-7.5	758	624	42
David Havelock *Director, Credit Risk Group*	0-5	0-2.5	86	45	31
Nicholas Ridley *General Counsel*	10-15 Plus lump sum of 35-40	0-2.5 Plus lump sum of 2.5-5	268	216	20
Non-Executive Directors	Nil	Nil	Nil	Nil	Nil

Civil Service Pensions

22 Pension benefits are provided through the Civil Service Pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (Classic, Premium, and Classic Plus); or a 'whole career' scheme (Nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining after 1 October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (Partnership Pension Account).

23 Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per Classic and benefits from October 2002 calculated as in Premium. In Nuvos a member builds up pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is increased in line with RPI. In all cases, members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

[2] Certain factors were incorrect in last years CETV calculator. The numbers above present the correct CETV balance at 31 March 2007.

24 The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

25 The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic Plus and 65 for members of Nuvos.

26 Further details about the Civil Service Pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

27 A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in CETV

28 This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement), and uses common market valuation factors for the start and end of the period.

JPS Crawford

Accounting Officer

Export Credits Guarantee Department
20 October 2008

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

1.1 ECGD is a Department of the Secretary of State for Business, Enterprise and Regulatory Reform. In fulfilling ECGD's statutory obligations under the Export and Investment Guarantees Act 1991 and in accordance with the connected HM Treasury Standing Consent and the duties assigned to me in 'Managing Public Money', I have responsibility as Accounting Officer for maintaining a sound system of internal control that supports the achievement of ECGD's aims, objectives and policies, while safeguarding public funds and Departmental assets, for which I am personally responsible.

1.2 In discharging my responsibilities as Accounting Officer, I am advised by ECGD's Management Board and the Executive Committee.

1.3 I report to the Secretary of State for Business, Enterprise and Regulatory Reform and the Minister of State for Energy. The Shareholder Executive is responsible for giving the Secretary of State independent advice on his responsibilities for ECGD. I have regular meetings with the Minister of State for Energy, HM Treasury and the Shareholder Executive on a range of matters, including actual and potential risks to which the organisation is, or may be, exposed.

2. Purpose of the system of internal control

2.1 ECGD's primary business purpose is the assumption of financial risk through issuing guarantees or insurance contracts in furtherance of its statutory powers to facilitate exports and overseas investments. Separate arrangements exist to manage financial risks, i.e. credit and treasury risk exposures (that represent contingent public expenditure liabilities on the Exchequer until the risks expire), and the operational risks associated with the delivery of ECGD's objectives.

2.2 In regard to operational risks, the system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve aims, objectives and policies; it can therefore provide only a reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of ECGD's objectives and policies; to evaluate the likelihood of those risks being realised and the impact should they transpire; and to manage them efficiently, effectively and economically. The system of internal control has been in place in ECGD for the year ended 31 March 2008 and up to the date of approval of the Annual Review and Resource Accounts, and accords with HM Treasury guidance.

3. Capacity to handle risk

3.1 ECGD's Management Board and Executive Committee have the primary responsibility for identifying and monitoring the key financial and operational risks facing ECGD. Annually, the Management Board approves a Budget and Operational Plan; the main risks to the achievement of objectives are reviewed semi-annually, mitigating actions determined, and the outcome of these actions monitored.

3.2 The Audit Committee, a sub-committee of the Management Board, examines and reviews, in conjunction with Internal Audit, the adequacy of the arrangements for accounting, risk management, internal control and governance. To avoid any perceived or actual conflicts of interest, the membership of the Audit Committee is comprised solely of non-executive members. I am not a member of the Committee but attend its meetings, as does the Finance Director, the Head of Internal Audit and an official of the National Audit Office. The Chair formally reports to the Management Board after each meeting of the Audit Committee.

3.3 The Finance Director is responsible for the ongoing development and improvement of ECGD's operational risk management policies and procedures. Guidance has been provided for completing and reviewing risk registers which includes direction on risk escalation.

3.4 The Director of the Credit Risk Group is responsible for the key credit risk management systems and processes in ECGD.

3.5 The Director of the Business Group is responsible for relationships with exporters, banks and investors who receive ECGD support and for ensuring that such support complies with ECGD's legal framework, policies and procedures, and with decisions of the Risk Committee.

3.6 The Head of Human Resources is responsible for ensuring that ECGD employs good personnel management systems and practices, so that staff possess the right level of knowledge, skill and competence to run the business efficiently and effectively. The Staff Handbook sets out the principles and rules of conduct, including duty of care, and standards of propriety and for avoidance of conflicts of interest, to which staff members are expected to adhere.

3.7 The General Counsel manages legal risk.

4. The risk and control framework

4.1 During the year, ECGD continued to improve and adapt its organisational and management arrangements in order to embed a culture of risk management and to provide a platform for ECGD to become more effective in the management of its financial and operational risks. These changes include:

- The instigation of a review of the controls over personal data, including consideration of the arrangements for personal data transferred into and out of ECGD;
- Formalised new guidelines on Active Portfolio Management;
- A comprehensive review of ECGD's optionality and hedging risks associated with its Fixed Rate Export Finance portfolio;
- Receipt of an assurance, following an external review, that ECGD's portfolio risk modelling system is sound; minor improvements to the system are being made in line with the recommendations of the review;
- Following a reorganisation, the carrying by the Business Group of responsibility for all transactions through from initial inquiry by an applicant to the management of guarantees and insurance policies once issued, including claims and recoveries;
- The making of revisions to the Risk Policy Statement, the Terms of Reference for the Risk Committee, and a review of minimum corporate risk standards;
- A review by the Management Board of the risk assumptions and management of the airline portfolio;
- The start of the implementation of a new IT Strategy;
- The successful completion of a programme of work to improve the knowledge and understanding of, and to redesign the processes for, ECGD's guarantee management system;
- The introduction of a revised Treasury Consent and new Financial Framework, with effect from 1 April 2008. The new Financial Framework represents a continuation of the main risk principles within which ECGD operates. Some resulting changes to systems and procedures are being made, in particular, in relation to ECGD's administrative costs which will be subject to Spending Review disciplines; and
- The continuous improvement of the policies, structures and procedures concerned with managing financial and operational risks.

4.2 The policies, structures and procedures for managing financial and operational risks are set out in separate Policy Statements. The structures and processes include:

Financial Risk

- The Risk Committee is responsible for the effective management of all aspects of ECGD's financial risk exposures, in accordance with the policies set by the Management Board, implemented by the Executive Committee and contained in a Credit Risk Policy Statement. Responsibilities are delegated by me to named individuals within a framework agreed by the Risk Committee and set out in the Risk Policy Statement.

- The New Financial Framework reaffirmed the principle that ECGD should not manage foreign exchange exposures. These may, however, affect ECGD's cash flows, operating result, financial position and, up until 31 March 2008, the achievement of ECGD's Financial Objectives.

Operational Risk

- A strategic risk register is maintained; it is reviewed every six months by the Management Board. Policy submissions to the Management Board and to Ministers include an assessment of risk. Projects are governed by formal project management disciplines, including the regular review of project risks and issues, overseen by the Executive Committee or by the Business Systems and Infrastructure Committee on its behalf. Operational risk registers are maintained to allocate ownership for the management of operational risks. The risk registers are regularly reviewed by senior managers.

- The Departmental Security Officer is responsible for establishing Business Continuity Plans and for ensuring these are regularly reviewed and maintained. The Officer is supported by a Business Continuity Management Group, whose responsibility is to oversee the management of any disruption to ECGD's business operations. This process is overseen by the Business Systems and Infrastructure Committee.

5. Review of effectiveness

5.1 As Accounting Officer, I have reviewed the effectiveness of the system of internal control. The main processes that have been applied in reviewing the effectiveness of the system of internal control include:

- Regular reports by Internal Audit, including the Head of Internal Audit's independent opinion on the adequacy and effectiveness of ECGD's risk management, control and governance systems, together with his recommendations for improvement;

- A formal year-end sign-off process by senior management in order to ensure that, as far as is possible, the controls and safeguards are being operated in line with established procedures, policies and standards;

- A process to monitor progress towards the key strategic goals and to ensure that the management of underlying risks, both at a strategic and operational level, is satisfactory;

- Periodic reports from the Chair of the Business Systems and Infrastructure Committee;

- An annual review of legal risks by the General Counsel;

- An annual review of security risks by the Departmental Security Officer; and

- Comments made by the external auditors in their management letter and reports.

5.2. ECGD continues to be fully compliant with the Code of Good Practice for Corporate Governance in Central Government Departments.

5.3. The Management Board and its Audit Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control. A plan to address weaknesses and to promote continuous improvement of the system is in place. Significant issues for internal control include:

- Efficiency: ECGD continues to take steps to reduce its costs, including its staff numbers, in order to reflect lower levels of new business and to strengthen its ability to meet its financial objectives in future. The combination of new and better IT systems and the loss of staff as a result of voluntary staff early departures will require attentiveness to the maintenance of appropriate standards in decision-making and control. To support this attention, a number of measures are being undertaken. These include a new programme of training for staff to strengthen understanding of the framework within which ECGD operates and the requisite skills in commercial, financial, legal and risk matters; the creation of a comprehensive source of corporate knowledge on underwriting policy, practice and procedures; and the introduction of more efficient and effective operating procedures.

- Data: ECGD went live with a new suite of IT products in May 2005. This was a major implementation of complex systems with an impact on business processes and controls. A programme has been established to improve business processes and controls, and to cleanse the data in the core ACBS loans administration system. This programme should be completed by March 2009.

JPS Crawford

Accounting Officer

Export Credits Guarantee Department

20 October 2008

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of Export Credits Guarantee Department for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.
My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report which includes the Management Commentary from page 41-48 is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Review from pages 4 to 37 and in the unaudited part of the Remuneration Report from pages 50 to 55 and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

- information given within the Annual Report from page 41-48 is consistent with the financial statements.

Emphasis of Matter – Significant Uncertainty

In forming my opinion, I have also considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the considerable uncertainty attaching to the final outcome of the underwriting activities. As explained in the section of Note 1 headed "Significant uncertainty arising from the nature of ECGD's Underwriting Activity (Accounts 1 - 3)", the nature of these activities mean that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts. My opinion is not qualified in this respect.

Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

T J Burr

Comptroller and Auditor General

24 October 2008

National Audit Office

151 Buckingham Palace Road

Victoria

London SW1W 9SS

Statement of Parliamentary Supply

For the year ended 31 March 2008

Summary of Resource Outturn 2007-08

Request for Resources	2007-08 Estimate Gross Expenditure	A. in A.	NET TOTAL	2007-08 Outturn Gross Expenditure	A. in A.	NET TOTAL	2007-08 Net Outturn Compared with Estimate Savings/ (Excess)	2006-07 Outturn NET TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
1 Export Finance Assistance	120,124	51,022	69,102	85,879	42,442	43,437	25,665	71,642
2 Export Credit Guarantees and Insurance	43,280	43,278	2	27,360	27,360	0	2	0
Total Resources	**163,404**	**94,300**	**69,104**	**113,239**	**69,802**	**43,437**	**25,667**	**71,642**
Non-Operating Cost A. in A.			**0**			**0**	**0**	**0**

Net cash requirement 2007-08

	Note	2007-08 Estimate	Outturn	2007-08 Net Total outturn compared with estimate: saving/ (excess)	2006-07 Outturn
		£'000	£'000	£'000	£'000
Net cash requirement	4	2	0	2	0

Summary of the income payable to the Consolidated Fund

In addition to Appropriations in Aid (A. in A.), the following income relates to ECGD and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Note	Forecast 2007-08 Income	Forecast 2007-08 Receipts	Outturn 2007-08 Income	Outturn 2007-08 Receipts
		£000	£000	£000	£000
Total	5	575,847	*452,761*	640,870	*1,074,863*

Explanations of variances between Estimate and Outturn are given in Note 2 and in the Management Commentary.

Operating Statement

For the year ended 31 March 2008

	Note	2007-08 £'000	2006-07 (Restated) £'000
Export Credit Guarantees and Insurance (Underwriting Activities)			
Gross Premium Income		63,567	63,229
Less ceded to other insurers		(3,179)	(8,377)
Net Premium Income	**11**	**60,388**	**54,852**
Net Investment Return	12	424,460	236,027
Claims Credit for the Year	14	66,254	89,144
Changes in Underwriting Funds	28	59,308	80,638
Staff Costs	15	(13,362)	(11,110)
Other Administration and Operating Costs	16	(9,595)	(9,513)
Foreign Exchange Loss	17	(4,637)	(49,123)
Net Income arising from Export Credit Guarantees and Insurance Activities		**582,816**	**390,915**
Export Finance Assistance			
Net Investment Return	12	18,048	15,421
Staff Costs	15	(1,997)	(3,157)
Other Administrative and Operating Costs	16	(1,434)	(1,893)
Foreign Exchange Loss	17	0	0
Net Income on Export Finance Assistance Activities		**14,617**	**10,371**
Net Operating Income for the Year		**597,433**	**401,286**

The comparative figures for 2006-07 have been restated following the adoption of FRS 26 Financial Instruments for the year ended 31 March 2008.

All income and expenditure is derived from continuing operations.

The notes on pages 68 to 99 form part of these accounts.

Statement of Total Recognised Gains and Losses

	Note	2007-08 £'000	2006-07 (Restated) £'000
Net Operating Income and Total recognised Gains or (Losses) relating to the Financial Year		597,433	401,286
Other recognised gains or (losses) since the last Resource Accounts	34	(9,273)	
Total recognised gains or (losses) since the last Resource Accounts		588,160	

The comparative figures for 2006-07 have been restated following the adoption of FRS 26 Financial Instruments for the year ended 31 March 2008.

Balance Sheet

As at 31 March 2008

	Note	2007-08 £'000	2006-07 (Restated) £'000
Tangible Fixed Assets	**19**	**1,576**	**1,505**
Loans and Receivables due after one year	21	493,235	732,716
Insurance Assets due after one year	22	897,145	992,353
Assets due after one year		**1,390,380**	**1,725,069**
Financial Assets held at Fair Value	20	55,599	30,653
Loans and Receivables due within one year	21	226,058	292,545
Insurance Assets due within one year	22	121,341	344,534
Prepayments and Accrued Income	23	1,493	1,274
Cash at Bank and in Hand	26	865,060	1,763,164
Total Current Assets		**1,269,551**	**2,432,170**
Insurance Liabilities due within one year	27	(688)	(1,156)
Financial Liabilities held at Fair Value	32	(43,119)	(46,443)
Accrued Expenses	30	(4,284)	(12,333)
Other Payables	31	(45,997)	(51,507)
Payable to Consolidated Fund	29	(865,060)	(1,763,164)
Total Net Current Assets		**310,403**	**557,567**
Total Assets less Current Liabilities		**1,702,359**	**2,284,141**
Insurance Liabilities due after one year	27	0	(6,358)
Other Payables	31	0	0
Payable to Consolidated Fund	29	(167,243)	(414,038)
Underwriting Funds	28	(582,701)	(642,009)
Total Net Assets		**952,415**	**1,221,736**
TAXPAYERS' EQUITY			
Exchequer Financing	33	(1,187,758)	(332,936)
Cumulative Trading Surplus	33	2,131,376	1,548,560
General Fund	33	8,797	6,112
Total		**952,415**	**1,221,736**

The comparative figures for 2006-07 have been restated following the adoption of FRS 26 Financial Instruments for the year ended 31 March 2008.

JPS Crawford

Accounting Officer

Export Credits Guarantee Department

20 October 2008

The notes on pages 68 to 99 form part of these accounts.

Cash Flow Statement

For the year ended 31 March 2008

	Note	2007-08 £'000	2006-07 (Restated) £'000
Net cash inflow from operating activities	36(a)	781,709	1,549,360
Capital expenditure and financial investment	36(b)	293,155	474,766
Payments to the Consolidated Fund of amounts received in the prior year	36(d)	(1,763,164)	(2,105,781)
Financing	36(c)	0	0
Payments to the Consolidated Fund of amounts received in the current year		(209,803)	(260,961)
Decrease in Cash in period	**36(d)**	**(898,103)**	**(342,616)**

The comparative figures for 2006-07 have been restated following the adoption of FRS 26 Financial Instruments for the year end 31 March 2008.

Statement of Operating Costs by Departmental Aim and Objectives

For the year ended 31 March 2008

	2007-08			2006-07 (Restated)		
	Gross Expenditure	Gross Income	Net	Gross Expenditure	Gross Income	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Departmental Aim						
To benefit the UK economy by helping exporters of UK goods and services to win business, and UK firms to invest overseas, through the provision of guarantees, insurance and reinsurance against loss taking into account the Government's international policies.						
Objective 1						
To provide UK exporters with guarantees and insurance to help them to win business: in accordance with its Business Principles, in accord with Government objectives, complementary to the private sector, and employing good management practice	(77,854)	287,942	210,088	(119,116)	309,811	190,695
Objective 2						
To secure an efficient market by ensuring as much as practicable a "level playing field" internationally in relation to government-supported Export Credit Agencies	(766)	0	(766)	(778)	0	(778)
Objective 3						
To recover as much as possible of the debt in respect of claims paid in a manner consistent with the Government's policy on debt forgiveness	(6,570)	394,681	388,111	(17,727)	229,096	211,369
Total	**(85,190)**	**682,623**	**597,433**	**(137,621)**	**538,907**	**401,286**

Note 9.2 analyses capital employed by account. For the most part, costs are allocated to Objectives by Account. Accounts 2, 3 and 4 support Objective 1, while Account 1 supports Objective 3. Objective 2 is supported by a number of staff within divisions and an apportionment of cost is used for this purpose.

The comparative figures for 2006-07 have been restated following the adoption of FRS 26 Financial Instruments in the year end 31 March 2008.

The Notes on pages 68 to 99 form part of these accounts.

Notes to the Departmental Resource Accounts

1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2007-08 Government Financial Reporting Manual ("FReM") issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies ("UK GAAP") to the extent it is meaningful and appropriate to the public sector. ECGD has received an 'Accounts Direction' from HM Treasury to adopt FRS 23, 25, 26, and 29 in place of SSAP13 and FRS 13. The main effect of these changes is to account for Financial Instruments, including all non-insurance financial assets and liabilities, on a fair value basis (excepting Export Finance Loans which are shown at Amortised Cost).

In addition to the primary statements prepared under UK GAAP, the FReM also requires ECGD to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of net resource requirement and net cash requirement. The Statement of Operating Costs by Departmental Aim and Objectives and supporting notes analyse ECGD's income and expenditure by the objectives agreed with its Ministers.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of ECGD for the purpose of giving a true and fair view has been selected. ECGD's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

ECGD has agreed with HM Treasury that it is necessary to make disclosures in the operating cost statement and balance sheet, which vary from the standard disclosures in the FReM. The disclosures reflect the specialised and long-term nature of indemnity activity, and a requirement that ECGD should measure performance over more than one financial year, particularly where deficits are funded by the Exchequer.

The capital charging regime has also been varied to reflect the cost of Exchequer funding in past years. Details of the particular accounting policies adopted by ECGD are described below.

Accounts 1, 2, 3, and 4

In certain of the notes to the Resource Accounts, the financial statements are disaggregated into four Accounts – 1, 2 and 3 cover ECGD's Underwriting Activities, while Account 4 covers Export Finance Activities.

Account 1 – guarantees and insurance issued for business prior to April 1991, and insurance issued by the Insurance Services Group of ECGD (which was privatised on 1 December 1991) for which ECGD retains all contingent liabilities ('Insurance Services Business').

Account 2 – guarantees and insurance issued for business since April 1991.

Account 3 – guarantees issued for business since April 1991, on the written instruction of Ministers, which ECGD's Accounting Officer had advised did not meet normal underwriting criteria.

Account 4 – the provision of Fixed Rate Export Finance ("FREF") together with arrangements for capital market funding of FREF loans and for certain interest rate derivative arrangements.

Significant uncertainty arising from the nature of ECGD's Underwriting Activity (Accounts 1 – 3)

Due to the long term nature of the risk underwritten, the outcome of ECGD's activities is subject to considerable uncertainty, primarily as a result of:

- **Unpredictability of claims payments, recoveries and interest on unrecovered claims** – losses that might arise are very difficult to assess and calculate with any degree of confidence, particularly over the longer term; the protracted underwriting cycle, which can be several decades if a Paris Club recovery is involved, means that the actual outturn may not be known for many years; and

- **The narrow base of risk** – ECGD has a far narrower risk base than would normally obtain in commercial insurance which makes the underwriting outcome more vulnerable to changes in risk conditions.

Although the financial results cannot be established with certainty, ECGD sets provisions for unrecovered claims based upon current perceptions of risk and employing a substantial degree of experience and judgement. The level of such provisions has been set on the basis of information which is currently available. Whilst ECGD considers that claims provisions and related recoveries are fairly stated on the basis of the information currently available to it, the ultimate liability will vary as a result of subsequent information and events. This may result in significant adjustments to the amounts provided. These estimates and methods of estimation are reviewed annually and, if adjustments prove necessary, they will be reflected in future accounts.

Fund Basis of Accounting for Underwriting Activities

The Fund Basis of Accounting has been applied rather than the Annual Basis (whereby the profit/loss is determined at the end of each accounting period for cover provided during that period). Insufficient information is available on expected future claims and recoveries for reliable estimates to be made at the end of each financial year. The use of the Fund Basis of Accounting is not recommended practice under the Association of British Insurers' Statement Of Recommended Practice (SORP). However, ECGD considers it to be the most appropriate method to account for its underwriting activities.

Under the Fund Basis of Accounting, premium, net of provisions for any unrecovered claims and expenses, is carried forward as a Fund: profit recognition is deferred until the end of four years (for business written in respect of business paid on cash terms of payment i.e. where no credit after delivery has been extended to the customer), or ten years (for business where extended credit terms of payment are involved from the start of the underwriting year). However, as Account 1 is in run-off and in surplus, this Account is considered as a whole.

Where the Fund for any underwriting year is considered insufficient to meet estimated future net claims or losses, a transfer is made from the cumulative surplus/deficit to cover the potential shortfall.

(a) Insurance contracts (including Financial Guarantees)

i. Product Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. ECGD elects to continue to treat Financial Guarantees as insurance contracts.

ii. Premium Income

Premium income for the underwriting year is recognised as detailed below:

- **Project Business:** the income on all guarantees becoming effective during the year (including income for which deferred payment terms have been agreed);

- **Overseas Investment Insurance:** the amount due in the financial year in which the annual cover commences; and

- **Reinsurance provided under Co-operation Agreements with other Export Credit Agencies:** premiums due based on notifications received in the year from the lead export credit agency.

iii. Interest Receivable – Underwriting Activities

Balances in relation to markets where the rate of provision applied to any claims principal balance is below 25% (deemed to be performing markets) are provided for in line with the market provision rate applied to that principal outstanding (see Note 25). Interest accruing on markets where the provision applied to any claims principal balance is 25% or greater (deemed to be non-performing markets) is provided for at 100%.

iv. Insurance Assets – Recoverable Claims

- **Claims:** these are recognised when authorised;
- **Recoveries:** where a realistic prospect of full or partial recovery exists, the estimated recovery proceeds, net of estimated expenses in achieving the recovery, are included as assets in the Balance Sheet, as “Recoverable Claims”. When ECGD considers that it is no longer practicable or cost effective to pursue recovery, recoverable claims are formally abandoned and the amounts are deducted from recoverable assets and written off to the surplus/deficit for the year, to the extent that existing provisions are not adequate to cover such amounts;
- **Recovered Assets:** beneficial interests in assets including aircraft are obtained in satisfaction of a recoverable claim or as a result of a claim on a guaranteed loan. The interests in these assets have been acquired with a view to achieving an orderly realisation of the recoverable claim and, consequently, the value of these assets is considered when calculating the provision against recoverable claims in the balance sheet.

v. Prepayments and Accrued Income

ECGD accounts for the cost of Rent, Maintenance Contracts and Subscriptions over the period to which they relate.

vi. Provisions for Losses on Future Claims

In assessing the adequacy of a Fund, account is taken of future investment income and, based on information available at the balance sheet date, provisions are estimated according to the categories of risk, as follows:

- **Political:** risks associated with a sovereign country which could potentially affect every supported transaction in that country due to both political risks (such as war, government interference) and economic risks;
- **Buyer:** risks directly associated with buyers, borrowers, guarantors, e.g. insolvency.

(b) Cash at bank and in hand

Cash at bank and in hand consists of cash at banks and in hand and balances held at the Office of the Paymaster General.

(c) Net investment return

i. Investment return is comprised of interest income receivable for the year, movement in provisions for amortised cost on loans and receivables, realised gains and losses in the current year, and changes in unrealised gains and losses on financial assets classified as ‘fair value through profit and loss’. It also includes realised and unrealised foreign exchange gains and losses on interest income.

- Interest income is recognised as it accrues (see interest types set out below).
- All non-insurance financial assets are classified as ‘fair value through profit and loss, or ‘loans and receivables’.
- For financial assets classified as ‘fair value through profit and loss’, realised gains and losses represent the difference between net sales proceeds and the purchase price (if acquired during the year), or fair value at the previous year-end.
- For financial assets classified as loans and receivables, realised gains and losses are the difference between the proceeds received on disposal, net of transaction cost, and its amortised costs.
- Unrealised gains and losses represent the difference between the carrying value at the year-end and the carrying value at the previous year-end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

ii. ECGD receives the following types of interest:

- Moratorium Interest – interest on Paris Club sovereign state rescheduled balances: this includes interest on both Original Debt and Capitalised Interest;
- Late (Penalty) Interest – Interest on arrears of the above;
- Default Interest – Interest on non-Paris Club balances; or
- Bank Interest – Interest on balances held with commercial banks. The majority of ECGD funds are deposited with the Office of the Paymaster General and do not earn interest for ECGD.

(d) Operating Expenses

All operating expenses are charged in the year they are incurred. Costs are allocated or apportioned on an activity basis. Operating expenses include the cost of early retirement (see Note 15).

(e) Foreign Exchange

i. Foreign currency transactions

The primary economic environment within which ECGD operates is the United Kingdom. Hence, items included in the ECGD financial statements are measured using pounds sterling (thereby ECGD’s functional currency). The financial statements of ECGD are presented in pounds sterling.

ii. Transactions and balances

Transactions denominated in foreign currencies are translated into pounds sterling at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities are translated into pounds sterling at the rates of exchange ruling at the balance sheet date.

(f) Capital Charge

A charge reflecting the cost of the capital utilised by ECGD is included in operating costs. The cost is charged or credited on the balance with the Consolidated Fund. A variable interest rate applies to Accounts 1 – 3, and a range of fixed interest rates is applied to Account 4. The interest rates are set by HM Treasury.

(g) Tangible Fixed Assets

Tangible fixed assets consist of leasehold improvements and computer and telecommunication equipment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, over the estimated useful economic lives as follows:

Asset Category	**Economic Life**
Leasehold Improvements	Period of lease
Computer and Telecommunications equipment	3-5 years

(h) Leases

Rentals under operating leases are charged to the resource accounts in equal annual instalments over the period of the lease.

(i) Amounts Payable to Consolidated Fund

In accordance with the FReM, income in excess of the amount that can be Appropriated in Aid (A. in A.) is payable by ECGD to the Consolidated Fund as Consolidated Fund Extra Receipts (CFERs). ECGD discloses the amounts due to the Consolidated Fund received in cash (due within one year) separately from that which has not yet been received (due after one year).

The amount payable within one year is equal to ECGD's bank balances at the balance sheet date. The amount payable after one year is estimated as the sum of balance sheet debtor accounts (net of provision estimates) which have been reported as income other than recoverable claims and any financial instrument fair value changes.

(j) Exchequer Financing

To reflect the long-term nature of ECGD's activities, and recognising that operating and investment cashflows in a particular year will not always be sufficient to service operating commitments, a cumulative balance with the Exchequer is maintained and disclosed on the face of the balance sheet. The balance moves from year to year in response to the cashflows and accrued income arising from ECGD's operating and investment activities, and attracts capital charges (credits) where voted monies have been used to fund Underwriting Activities and directly funded export loans.

(k) Cumulative Surplus

ECGD seeks to measure its performance on an ongoing basis for Underwriting Activities by maintaining a cumulative surplus. This is changed each year by the net operating cost/income for Underwriting Activities.

(l) Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. ECGD recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, ECGD recognises the contributions payable for the year. Early retirement costs are accrued in the year of retirement or the year when the early departure is agreed with the retiree, whichever is earlier.

(m) Financial assets

i. Recognition

Financial assets are recognised and derecognised on the trade date and are classified into the following specified categories: financial assets held 'at fair value through profit and loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at time of initial recognition. 'Fair value through profit and loss' financial assets include derivative instruments that are not designated as effective hedging instruments. Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. All financial assets classified as 'fair value through profit and loss' are carried at fair value, with any change in the fair value recognised in the operating statement. Fair value is determined in the manner described in Note 20. 'Loans and receivables' are measured at 'amortised cost' using the 'effective interest rate', except for short-term receivables where the recognition of interest would be immaterial and which are hence carried at their estimated net recoverable amount. 'Amortised cost' is the amount at which a financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation (using the effective interest method) of any difference between the initial amount and the maturity amount minus any reduction for impairment.

The effective interest method allocates interest income or expense over the relevant period by applying the 'effective interest rate' to the carrying amount of the asset or liability. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability on initial recognition.

ii. Impairment of financial assets

Financial assets, other than those at 'fair value through profit and loss', are regularly assessed for indicators of impairment. If the carrying value of a financial asset is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. For 'loans and receivables', the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original 'effective interest rate'. Interest income on impaired loans is recognised based on the estimated recoverable amount.

Reversals of impairment are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down, such as an improvement in the debtor's credit rating.

iii. Derivative financial instruments

ECGD uses derivative financial instruments to manage its exposure to credit default and interest rate risk, including credit default swaps, interest rate swaps and swaptions. Further details of derivative financial instruments are disclosed in Note 20. All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their costs on the date a derivative contract is entered into. They are subsequently remeasured at their fair value at each reporting date. The resulting gain or loss is recognised in the Operating Statement immediately. For interest rate derivatives, fair values are determined using valuation techniques and pricing models commonly employed by market participants and market-observable inputs. All derivatives are carried as assets when the fair values are positive, or as liabilities when the fair values are negative. Credit Default Swaps are valued using prices provided by counterparty banks.

All derivative contracts entered into by ECGD are traded over-the-counter (OTC). OTC derivatives are individually negotiated between contracting parties and include swaps. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet, as they do not represent the potential gain or loss associated with such transactions.

iv. Interest rate swaps, interest rate options and credit default swaps

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments. A swaption is an option contract between two parties under which the owner of the option has the right but not the obligation to enter into an underlying interest rate swap, the terms of which have been pre-agreed between the parties. A cap (floor) is an interest rate option contract under which the purchaser is entitled to receive payments when an underlying reference rate (e.g. 6 month Libor) is above/(below) a specified ‘strike’ rate. Credit default swaps are a bilateral contract under which two counterparties agree to isolate and separately trade the credit risk of at least one third-party reference entity. Under a credit default swap agreement, a protection buyer pays a periodic fee to a protection seller in exchange for a contingent payment by the seller upon a credit event (such as a default or failure to pay) happening in relation to the reference entity. When a credit event is triggered, the protection seller either takes delivery of the defaulted debt instrument for par value or pays the protection buyer the difference between the par value and recovery value of a predetermined debt instrument. Exposure to gain or loss on all these derivative contracts will increase or decrease over their respective lives as a function of maturity dates, interest rates, credit rating and timing of payments.

(n) Financial Liabilities

Financial liabilities at ‘fair value through profit and loss’ are recognised both initially and subsequently at their fair value, with any resultant gains or loss recognised in the operating statement. The net gain or loss recognised in operating statement incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 32. (See Derivative financial instruments).

(o) Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, ECGD discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote including ‘Amounts At Risk’ under extant policies or existing claims set out in Note 39.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under FRS 12, are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities, that are not required to be disclosed by FRS 12, are stated as the amounts reported to Parliament.

2 Analysis by net resource Outturn by section

							2007-08		2006-07
						Outturn	Estimate		
	Admin	Other Current	Grants	Gross Resource Expenditure	A. in A.	Net Total	Net Total	Net Total outturn compared Net with estimate	Prior-year outturn
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for Resources 1: To provide export finance assistance through interest support to benefit the UK economy by facilitating exports									
Central Government spending									
Section A - Fixed Rate Export Finance	0	27,028	0	27,028	27,028	0	19,694	19,694	5,961
Section B - GEFCO loans and interest equalisation	0	15,814	43,037	58,851	15,414	43,437	49,408	5,971	65,681
Total	**0**	**42,842**	**43,037**	**85,879**	**42,442**	**43,437**	**69,102**	**25,665**	**71,642**
Request for Resources 2: To provide export credit guarantees to benefit the UK economy by facilitating exports and to provide investment insurance									
Central Government spending									
Section A - Administration	0	437	0	437	0	437	600	163	435
Section B - Administration - running costs	0	26,923	0	26,923	915	26,008	26,120	112	20,244
Section C - Export credits	0	0	0	0	25,469	(25,469)	(25,719)	(250)	(21,837)
Section D - Overseas Investment Insurance	0	0	0	0	976	(976)	(1,000)	(24)	(1,231)
Section E - Active portfolio management	0	0	0	0	0	0	1	1	2,389
Total	**0**	**27,360**	**0**	**27,360**	**27,360**	**0**	**2**	**2**	**0**
Resource Outturn	**0**	**70,202**	**43,037**	**113,239**	**69,802**	**43,437**	**69,104**	**25,667**	**71,642**

Brief explanation of variances between Estimate and Outturn

RfR1

Actual gross expenditure was less than the Estimate as a result of lower costs incurred for the unwinding of interest rate swaps.

RfR2

Gross expenditure of £27 million was in line with the Estimate. Gross expenditure was offset by reductions in provisions on unrecovered claims sufficient to reduce the net expenditure under the Request for Resources to zero.

Detailed explanation of the variances is given in the Management Commentary.

3(a) Reconciliation of net resource outturn to net operating income

	Note	2007-08 Income £'000	2006-07 (Restated) Income £'000
Net Resource Outturn	2	**(43,437)**	**(71,642)**
Income from Export Finance Activities classified as CFER (accrual CFER)		61,485	87,062
Income from Underwriting activities classified as Surplus A. in A. (Accrual A. in A.)		579,385	385,866
Total A. in A. * and CFER	5	**640,870**	**472,928**
Net Operating Income (Operating Statement)		**597,433**	**401,286**

*See Glossary for definitions of A. in A. and CFER.

3(b) Outturn against final Administration Budget

ECGD has no administration budget.

4 Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate savings / (excess)
		£'000	£'000	£'000
Net total Resources	2	(69,104)	(43,437)	25,667
Capital				
Acquisition of fixed assets	19	(481)	(451)	30
Non-operating A. in A.				
Repayment of export finance loans		0	0	0
Accruals adjustments				
Non-cash items		45,940	(63,677)	(109,617)
Movements in provisions		0	(93,391)	(93,391)
Movements in working capital other than cash	18	114,115	315,743	201,628
Excess Cash receipts surrenderable to the Consolidated Fund	5	(90,472)	(114,787)	(24,315)
Net cash requirement		**(2)**	**0**	**2**

The Net Total resources variances between Estimate and Outturn is explained within the Management Commentary.

Included within non-cash items is the RfR1 Capital Charge which is in line with the estimate.The variance of £110 million is primarily caused by the Estimate not including: a) Notional Interest Income of £82 million, b) Fair Value gains on credit default swaps of £12 million, and c) Fair Value gains on interest rate derivatives of £13 million; these are all Non-Cash income included in the Outturn.

Taking the Movements in Provisions together with the Movements on Working Capital the totals are £114 million in the Estimate as against £222 million in the Outturn. The variance of £108 million is the result of claims recoveries significantly exceeding those expected.

5 Analysis of Income Payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to ECGD and is payable to the Consolidated Fund (cash receipts being shown in italics):

			2007-08		2007-08
	Note	Forecast Income £'000	*Forecast Receipts £'000*	Income £'000	*Outturn Receipts £'000*
Operating income and Receipts - Excess A. in A.		308,029	*94,471*	579,385	*607,211*
Other operating income and receipts not classified as A. in A.		267,818	*267,818*	61,485	*56,466*
Subtotal		**575,847**	***362,289***	**640,870**	***663,677***
Non-operating income and Receipts	7	0	*0*	0	*296,399*
Excess Cash receipts surrenderable to the Consolidated Fund		0	*90,472*	0	*114,787*
Total		**575,847**	***452,761***	**640,870**	***1,074,863***

6 Reconciliation of income recorded within the Operating Statement to operating income payable to the Consolidated Fund

	Note	2007-08	2006-07 (Restated)
		£'000	£'000
Income	10	710,672	532,594
Adjustment for transactions between RfRs		0	0
Gross income		**710,672**	**532,594**
Income authorised to be Appropriated in Aid	2	(69,802)	(59,666)
Operating income payable to the Consolidated Fund	**3(a)**	**640,870**	**472,928**

7 Non-operating income - Excess A. in A.

	Note	2007-08	2006-07
		£'000	£'000
Principal repayments of voted loans	38	296,399	477,343
Proceeds on disposal of fixed assets		0	0
Other		0	0
Non-operating income - excess A. in A.		**296,399**	**477,343**

8 Non-operating income not classified as A. in A.

ECGD does not have income of this classification.

9 Financial Statement by Account

9.1 Operating Statement

For the year ended 31 March 2008

	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000
Export Credit Guarantees and Insurance					
Gross Earned Premiums	0	63,567	0	0	63,567
Less Ceded to other Insurers	0	(3,179)	0	0	(3,179)
Net Earned Premiums	**0**	**60,388**	**0**	**0**	**60,388**
Net Investment Return	309,516	109,483	5,461	0	424,460
Claims Credit for the Year	83,383	(17,129)	0	0	66,254
Changes in Provisions for Losses on Future Claims	1,782	44,853	12,673	0	59,308
Staff costs	(1,843)	(11,519)	0	0	(13,362)
Non-Staff Administration and Operating Costs	(1,323)	(8,272)	0	0	(9,595)
Underwriting Foreign Exchange Gain/(Loss)	(3,404)	(1,233)	0	0	(4,637)
Net Income Arising from Export Credit Guarantees and Insurance	**388,111**	**176,571**	**18,134**	**0**	**582,816**
Export Finance Assistance					
Net Investment Return	0	0	0	18,048	18,048
Staff Costs	0	0	0	(1,997)	(1,997)
Other Administrative and Operating Costs	0	0	0	(1,434)	(1,434)
Foreign Exchange Gain/(Loss)	0	0	0	0	0
Net Income Arising from Export Finance Assistance	**0**	**0**	**0**	**14,617**	**14,617**
Net Operating Income for the Year	**388,111**	**176,571**	**18,134**	**14,617**	**597,433**

Comparative figures for the totals are given in the Operating Statement.

9.2 Balance Sheet

As at 31 March 2008

	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000
Tangible Fixed Assets	**0**	**1,576**	**0**	**0**	**1,576**
Loans and Receivables due after one year	0	0	0	493,235	493,235
Insurance Assets due after one year	375,793	521,352	0	0	897,145
Assets due after one year	**375,793**	**521,352**	**0**	**493,235**	**1,390,380**
Financial Assets held at Fair Value	0	6,947	0	48,652	55,599
Loans and Receivables due within one year	0	0	0	226,058	226,058
Insurance Assets due within one year	48,273	73,068	0	0	121,341
Prepayments and Accrued Income	0	1,493	0	0	1,493
Cash at Bank and in Hand	598,374	(25,869)	0	292,555	865,060
Total Current Assets	**646,647**	**55,639**	**0**	**567,265**	**1,269,551**
Insurance Liabilities due within one year	(363)	(325)	0	0	(688)
Financial Liabilities held at Fair Value	0	0	0	(43,119)	(43,119)
Accrued Expenses	0	0	0	(4,284)	(4,284)
Other Payables	(30,824)	(14,400)	0	(773)	(45,997)
Payable to the Consolidated Fund	(598,374)	25,869	0	(292,555)	(865,060)
Total Net Current Assets	**17,086**	**66,783**	**0**	**226,534**	**310,403**
Total Assets less Current Liabilities	**392,879**	**589,711**	**0**	**719,769**	**1,702,359**
Insurance Liabilities due after one year	0	0	0	0	0
Other Payables	0	0	0	0	0
Payable to the Consolidated Fund	(109,012)	(48,720)	0	(9,511)	(167,243)
Underwriting Funds	(3,057)	(579,515)	(129)	0	(582,701)
Total Net Assets	**280,810**	**(38,524)**	**(129)**	**710,258**	**952,415**
TAXPAYERS' EQUITY					
Exchequer Financing	(777,743)	(1,009,794)	(101,682)	701,461	(1,187,758)
Cumulative Trading Surplus	1,058,553	971,270	101,553	0	2,131,376
General Fund	0	0	0	8,797	8,797
Total	**280,810**	**(38,524)**	**(129)**	**710,258**	**952,415**

Comparative figures for the totals are given in the summary Balance Sheet.

9.3 Cashflow Statement

For the year ended 31 March 2008

	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	598,374	137,876	0	45,459	781,709
Capital expenditure and financial investment	0	(3,244)	0	296,399	293,155
Payments to the Consolidated Fund of amounts received in the prior year	(1,326,693)	(139,119)	28	(297,380)	(1,763,164)
Financing	0	0	0	0	0
Payments to the Consolidated Fund of amounts received in the current year	0	0	0	(209,803)	(209,803)
Increase/(Decrease) in Cash in Period	**(728,319)**	**(4,487)**	**28**	**(165,325)**	**(898,103)**

Comparative figures for totals are given on the Cashflow Statement.

10 Income

This represents all income generated during the period and includes non-cash items such as changes in provisions:

			2007-08	2006-07 Restated
	RfR 1	RfR 2	Total	Total
	£'000	£'000	£'000	£'000
Net Premium Income	0	60,388	60,388	54,852
Interest Receivable	0	330,316	330,316	177,372
Claims Credit for the Year	0	61,617	61,617	39,263
Changes in Underwriting Funds	0	59,308	59,308	80,638
Income from Underwriting Administration Charges	0	972	972	274
Foreign Exchange Gain	0	0	0	0
Interest Support Costs	52,330	0	52,330	46,735
Interest Income – Directly Funded Export Loans	51,597	0	51,597	70,243
Notional Interest	0	81,923	81,923	61,963
Fair Value Gain on CDS (including counterparty risk)	0	12,221	12,221	1,254
Total Income for the year	**103,927**	**606,745**	**710,672**	**532,594**

11 Premium Income

	Buyer Credit		Overseas Investment Insurance		Supplier Credit Financing Facility		Other		Total	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Africa	206	256	253	326	-	-	3	3	462	585
Americas	9,422	5,321	349	481	-	-	111	370	9,882	6,172
Asia	17,665	16,196	374	424	5	-	29,643	29,887	47,687	46,507
Europe	2,290	1,169	-	-	-	-	-	422	2,290	1,591
Other	(3)	(3)	-	-	70	-	-	0	67	(3)
Total	**29,580**	**22,939**	**976**	**1,231**	**75**	**0**	**29,757**	**30,682**	**60,388**	**54,852**

12 Net Investment Return

	Note	2007-08	2006-07 (Restated)
		£'000	£'000
Export Credit Guarantees and Insurance			
Gain / (Loss) on Credit Default Swaps		12,221	(3,308)
Interest Receivable	13	330,316	177,372
Capital Income	33	81,923	61,963
Total		**424,460**	**236,027**
Export Finance Assistance			
Interest Support Costs		6,001	1,972
Net Movement in Fair Value of Derivatives		3,487	3,441
Interest Income		51,597	70,243
Capital Charge	33	(43,037)	(60,235)
Total		**18,048**	**15,421**
Net Investment Return		**442,508**	**251,448**

13 Interest Receivable

				2007-08				2006-07
	Account 1	Account 2	Account 3	Total	Account 1	Account 2	Account 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Moratorium Interest	235,051	40,760	0	275,811	132,030	39,598	0	171,628
Other Interest	49,363	5,142	0	54,505	4,565	1,179	0	5,744
Credited to Trading Account	**284,414**	**45,902**	**0**	**330,316**	**136,595**	**40,777**	**0**	**177,372**

Other Interest includes delay interest (i.e. interest which is payable on late payment of Moratorium Interest), bank interest on balances with commercial banks; it also arises from late receipt of premium income.

14 Claims Credit /(Charge) for the Year

	2007-08			2006-07		
	Account 1	Account 2	Total	Account 1	Account 2	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Claims Authorised in Year	(2)	(59,140)	(59,142)	(9)	(60,692)	(60,701)
Anticipated Recoveries on those Claims	2	35,203	35,205	0	37,713	37,713
Movement in Provisions on Previous Claims	83,383	6,808	90,191	68,173	43,959	112,132
Credit from/(Charge) to Account	**83,383**	**(17,129)**	**66,254**	**68,164**	**20,980**	**89,144**

15 Staff Numbers and Costs

A. Staff Costs consist of:

	2007-08	2006-07
	£'000	£'000
Salaries and Wages	10,027	10,130
Social Security Costs	869	917
Early Retirement Costs	2,539	4,019
Other Pension Costs	1,924	2,019
Total	**15,359**	**17,085**
Less Restructuring Cost	0	(2,818)
Staff Cost after Restructuring	**15,359**	**14,267**
Of which:		
Export Credit Guarantees and Insurance	13,362	11,110
Export Finance Assistance	1,997	3,157

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme and ECGD is unable to identify its share of the underlying assets and liabilities. The scheme's Actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, employers' contributions of £1,901,707 were payable to the PCSPS (2006-07 £2,006,156) at one of four rates in the range of 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised, but the rates will remain the same. (The rates will change with effect from April 2009).

The contribution rates are set to meet the costs of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a Partnership Pension Account, a stakeholder pension with an employer contribution. Employers' contributions of £18,220 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,549, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the Partnership Pension providers at the balance sheet date were £1,624. Contributions prepaid at that date were £Nil.

B. The average number of full-time equivalent persons employed (including senior management) and full time equivalent of temporary workers during the year was as follows:

		2007-08		2006-07
Objective	**Employed**	**Temporary**	**Employed**	**Temporary**
1 To provide UK exporters with guarantees and insurance to help win business: in accordance with its Business Principles, in accord with Government objectives, complementary to the private sector, and employing good management practice	174	10	207	10
2 To secure an efficient market by ensuring as much as practicable a “level playing field” internationally in relation to government-supported Export Credit Agencies	4	0	9	1
3 To recover as much as possible of the debt in respect of claims paid in a manner consistent with the Government’s policy on debt forgiveness	60	4	29	1
Total	**238**	**14**	**245**	**12**

Salary

‘Salary’ includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pension

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based “final salary” defined benefit schemes (Classic, Premium, and Classic Plus). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality “money purchase” stakeholder based arrangement with a significant employer contribution (Partnership Pension Account).

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years’ pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member’s pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse’s pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the Classic Scheme, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure, the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member’s pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse’s pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of the Premium Scheme, but with benefits in respect of service before 1 October 2002 calculated broadly as per the Classic Scheme.

Pensions payable under the Classic, Premium, and Classic Plus Schemes are increased in line with the Retail Prices Index.

(d) Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25 per cent of the fund as a lump sum. As at 31 March 2008, five employees were members of this scheme.

16 Other Administrative and Operating Costs

	2007-08 £'000	**2006-07 £'000**
IT	4,189	4,811
Indirect Staff and Personnel Expenses	779	761
Business Promotion	49	28
Rent (incuding Onerous Lease Provisions)	3,022	2,184
Other Establishment Costs	917	977
Underwriting Expenses	374	230
Claims and Recovery Expenses	186	(412)
Non-Refundable Premium Administration Income	(150)	(247)
Other Administration Costs	769	738
Depreciation Charges	380	369
Travel, Subsistence and Hospitality	383	444
Restructuring Cost	131	1,523
Expenditure	**11,029**	**11,406**
Of which:		
Export Credit Guarantees and Insurance	9,595	9,513
Export Finance Assistance	1,434	1,893
Auditor's remuneration included in the above figures:		
Audit Fees	200	200

17 Foreign Exchange Gain/(Loss)

	2007-08					2006-07 (Restated)				
	Account 1	Account 2	Account 3	Account 4	Total	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Exchange gain/(loss) on recoverable claims and interest before provisions	(4,670)	(3,143)	0	0	(7,813)	(138,799)	(44,484)	0	0	(183,283)
Exchange gain/(loss) on provisions against recoverable claims and interest	2,039	1,086	0	0	3,125	110,868	11,128	0	0	121,996
Exchange gain/(loss) on premium debtors	0	1,789	0	0	1,789	0	(235)	0	0	(235)
Exchange gain/(loss) on other working capital	0	0	0	0	0	0	0	0	0	0
Realised gain/(loss)	(773)	(965)	0	0	(1,738)	12,929	(530)	0	0	12,399
Exchange (loss)/gain for year	**(3,404)**	**(1,233)**	**0**	**0**	**(4,637)**	**(15,002)**	**(34,121)**	**0**	**0**	**(49,123)**

18 Movements in Working Capital Other Than Cash

	2007-08	2006-07 (Restated)
	£'000	£'000
The movements in working capital used in the reconciliation of resources to cash requirement comprise		
Claims	329,875	811,418
Other Receivables, Other Debtors, and Prepayments	6,252	6,196
Payables, Insurance Liabilities and Accruals	(20,384)	(2,620)
Net Decrease in Working Capital Other Than Cash	**315,743**	**814,994**
The movements in working capital other than cash used in the cashflow statement comprise:		
Claims	329,875	811,418
Other & Gefco Interest Receivables, Other & Premium Debtors, and Prepayments	29,060	33,375
Payables, Insurance Liabilities and Accruals	(20,384)	(2,620)
Net Decrease in Working Capital Other Than Cash	**338,551**	**842,173**

19 Tangible Fixed Assets

	IT Equipment	Leasehold Improvements	Total
	£'000	**£'000**	**£'000**
Cost			
Balance at 1 April 2007	3,737	3,138	6,875
Disposals	0	(250)	(250)
Additions	369	82	451
Balance at 31 March 2008	**4,106**	**2,970**	**7,076**
Accumulated Depreciation			
Balance at 1 April 2007	3,418	1,952	5,370
On Disposals	0	(250)	(250)
Charge for the Year	171	209	380
Balance at 31 March 2008	**3,589**	**1,911**	**5,500**
Net book value			
31 March 2008	**517**	**1,059**	**1,576**
31 March 2007	319	1,186	1,505

20 Financial Assets

Fair Value through Profit & Loss:

	31 March 2008	31 March 2007
	£'000	**£'000**
Export Credit Guarantees and Insurance		
Credit Default Swaps (in Financial Liabilities in 2006-07)	6,947	0
Export Finance Assistance		
Interest rate derivatives in relation to Export Finance Loan Guarantees	37,015	22,080
Interest rate derivative contracts entered into for hedging purposes	11,637	8,573
	55,599	**30,653**

Credit Default Swaps are valued using prices provided by bank counterparties.

All interest rate derivatives are valued using valuation techniques and pricing models commonly employed by market participants and market-observable inputs.

21 Loans and Receivables

	Note	31 March 2008	31 March 2007
		£'000	£'000
Export Finance Loans due from GEFCO	38	701,461	997,860
Export Finance Interest due from GEFCO	38	9,511	14,530
Other Receivables		8,321	12,871
		719,293	**1,025,261**
Due			
within one year		226,058	292,545
after one year		493,235	732,716

Loans and Receivables are calculated on the Amortised Cost basis (refer to accounting policy Note 1 (i) for an explanation of Amortised Cost basis). The Fair Value of Export Finance Loans due from GEFCO is £725,834,000. The Fair Value of the other receivables is considered to be the same as Amortised Cost.

22 Insurance Assets

		31 March 2008	31 March 2007
	Note	£'000	£'000
Premium Debtors		7,923	25,827
Recoverable Claims	24	860,581	1,127,295
Recoverable Interest	25	149,809	183,575
Other Debtors - Policyholders		173	190
		1,018,486	**1,336,887**
Due			
within one year		121,341	344,534
after one year		897,145	992,353

All Insurance Assets are shown at historical cost less, where appropriate, a provision to reduce them to the expected level of recoveries. The greater majority of the balances are subject to market rates of interest.

23 Prepayments and Accrued Income

	31 March 2008	31 March 2007
	£'000	£'000
Prepayments	**1,493**	1,274
Due		
within one year	1,493	1,274
after one year	0	0

Prepayments and Accrued Income are shown at historical cost and include prepaid rent, maintenance contracts and subscriptions.

24 Recoverable Claims

			Account 1			Account 2	Grand
	Political	Buyer	Total	Political	Buyer	Total	Total
Unrecovered Claims - Gross							
Balance at 1 April 2007	1,429,096	15,020	1,444,116	727,286	115,994	843,280	2,287,396
Reclassifications	0	0	0	0	0	0	0
Claims in the Year	0	2	2	9,862	49,278	59,140	59,142
Recoveries in the Year	(305,138)	(2,224)	(307,362)	(27,763)	(53,892)	(81,655)	(389,017)
Recoveries Abandoned in the Year	(41,367)	0	(41,367)	(4,867)	(0)	(4,867)	(46,234)
Foreign Exchange (Loss)/Gain	(3,076)	0	(3,076)	(2,649)	(367)	(3,016)	(6,092)
Balance at 31 March 2008	**1,079,515**	**12,798**	**1,092,313**	**701,869**	**111,013**	**812,882**	**1,905,195**
Provisions							
Balance at 1 April 2007	893,123	11,066	904,189	209,272	46,640	255,912	1,160,101
Reclassifications	0	0	0	0	0	0	0
Additional Provisions during the Year	(83,468)	85	(83,383)	10,194	6,935	17,129	(66,254)
Provision on Recoveries Abandoned	(41,367)	0	(41,367)	(4,867)	(0)	(4,867)	(46,234)
Foreign Exchange Gain (Note 17)	(2,040)	0	(2,040)	(352)	(607)	(959)	(2,999)
Balance at 31 March 2008	**766,248**	**11,151**	**777,399**	**214,247**	**52,968**	**267,215**	**1,044,614**
Net Unrecovered Claims as at 31 March 2008	**313,267**	**1,647**	**314,914**	**487,622**	**58,045**	**545,667**	**860,581**
Net Unrecovered Claims as at 31 March 2007	535,973	3,954	539,927	518,014	69,354	587,368	1,127,295
Provision as a % of Unrecovered Claims at 31 March 2008	**71.0%**	**87.1%**	**71.2%**	**30.5%**	**47.7%**	**32.9%**	**54.8%**
Provision as a % of Unrecovered Claims at 31 March 2007	62.5%	73.7%	62.6%	28.8%	40.2%	30.3%	50.7%

There are no recoverable claims on Accounts 3 and 4.

As at 31 March 2008, the total of unrecovered political claims was £1,781,384,000 (2006-07 £2,156,382,000).

25 Interest on Unrecovered Claims

	Account 1	Account 2	Total
	£'000	**£'000**	**£'000**
Balance at 1 April 2007	1,426,280	67,927	1,494,207
Interest in the Year	73,898	45,218	119,116
Interest Received in the Year	(300,806)	(61,681)	(362,487)
Recoveries Abandoned in the Year	(60,133)	0	(60,133)
Foreign Exchange Adjustment	(1,594)	(127)	(1,721)
Balance at 31 March 2008	**1,137,645**	**51,337**	**1,188,982**
Provisions			
Balance at 1 April 2007	1,299,281	11,351	1,310,632
Net release of Provisions During the Year	(210,516)	(684)	(211,200)
Recoveries Abandoned in the Year	(60,133)	0	(60,133)
Foreign Exchange Adjustment	1	(127)	(126)
Balance at 31 March 2008	**1,028,633**	**10,540**	**1,039,173**
Interest on Unrecovered Claims as at 31 March 2008	**109,012**	**40,797**	**149,809**
Interest on Unrecovered Claims as at 31 March 2007	126,999	56,576	183,575
Provision as a % of Unrecovered Interest at 31 March 2008	**90.4%**	**20.5%**	**87.4%**
Provision as a % of Unrecovered Interest at 31 March 2007	91.1%	16.7%	87.7%

26 Cash at Bank and In Hand

	£'000
Balance at 31 March 2007	1,763,164
Net Cash Inflow to ECGD	1,074,863
Paid to the Consolidated Fund	(1,972,967)
Balance at 31 March 2008	**865,060**
The following Balances at 31st March 2007 were held at:	
The Office of Paymaster General	853,019
Commercial Banks and Cash in Hand	12,041
Balance at 31 March 2008	**865,060**

27 Insurance Liabilities

	31 March 2008	31 March 2007
	£'000	**£'000**
Policyholders	688	7,514
Due		
within one year	688	1,156
after one year	0	6,358

28 Underwriting Funds

	2007-08		2006-07 (Restated)	
	£'000	£'000	£'000	£'000
Balance at 1 April 2007		642,009		722,646
Release of Provision				
Account 1	(1,782)		(1,085)	
Account 2	(101,474)		(109,593)	
Account 3	(12,712)		(20,258)	
		(115,968)		(130,936)
Increase in Provision				
Account 1	56,621		48,596	
Account 2	39		1,703	
Account 3	0		0	
		56,660		50,299
Balance at 31 March 2008		**582,701**		**642,009**

Each Underwriting Fund is set at the higher of (i) the current expected loss on amounts at risk on unexpired guarantees or policies, or (ii) accumulated premiums plus interest earned, less both administration costs and provisions made for the unrecovered proportion of paid claims. In the case of the latter, the premium income credited to a provision is net of any reinsurance premium ceded to re-insurers where ECGD, as lead insurer, has reinsured a proportion of the total contract risk.

As at 31 March 2008, the expected loss value on amounts at risk on unexpired guarantees or policies in respect of Account 2 was £174.2million.

29 Payable to the Consolidated Fund

	31 March 2008	31 March 2007
	£'000	£'000
Due within one year	865,060	1,763,164
Due after one year	167,243	414,038
Total Payable to the Consolidated Fund	**1,032,303**	**2,177,202**

The balance due within one year represents ECGD's bank balance at 31 March 2008.

The balance due after one year is based on the calculation methodology described in Note 1(i). In prior periods, all income that had been recorded as debtor balances was included. The new methodology is considered to be a more appropriate means of predicting CFER payable to the Consolidated Fund where income has been accrued. Of the reduction in the year of £247 million, £57 million was the 2007-08 movement under the new methodology and £190 million was due to the change in methodologies. Other than a minor impact on Notional Interest, the change in methodology has had no impact on results for the year, net income, the Statement of Parliamentary Supply, or cash.

30 Accruals and Deferred Income

	31 March 2008	31 March 2007
	£'000	**£'000**
Accruals	**4,284**	**12,333**
Due		
within one year	4,284	12,333
after one year	0	0

31 Other Payables

	31 March 2008	31 March 2007
	£'000	**£'000**
Income Tax and Social Insurance	284	280
Other	45,713	51,227
Total	**45,997**	**51,507**
Due		
within one year	45,997	51,507
after one year	0	0

32 Financial Liabilities

	31 March 2008	31 March 2007
	£'000	**£'000**
Export Credit Guarantees and Insurance		
Credit Default Swaps (in Financial Assets in 2007-08)	0	8,067
Export Finance Assistance		
Interest rate derivatives in relation to Export Finance Loan Guarantees	1,100	8,022
Interest rate derivative contracts entered into for hedging purposes	42,019	30,354
Total Financial Liabilities	**43,119**	**46,443**

Credit Default Swaps are valued using prices provided by bank counterparties.

All interest rate derivatives are valued using valuation techniques and pricing models commonly employed by market participants and market-observable inputs.

A counterparty risk provision of £1.2 million has been made on the Account 4 Export Finance business to reflect the £250 million amounts at risk with banking counterparties. This provision has been included within the fair values of the financial instruments to which they relate.

33 Taxpayers' Equity

	(i) Movement on Exchequer Financing	(ii) Movement in Cumulative Trading Surplus	(iii) Movement on General Fund (Export Finance)	2007-08 Total	2006-07 Total
Balance at 1 April 2007	(332,936)	1,557,833	6,112	1,231,009	2,493,958
Prior Year Adjustments	0	(9,273)	0	(9,273)	(6,747)
Balance at 1 April 2007 Restated	**(332,936)**	**1,548,560**	**6,112**	**1,221,736**	**2,487,211**
Transfers					
Funding non-breakeven Activities	54,969	0	(54,969)	0	0
Other movements					
CFER arising in year transferred to current liabilities	(1,074,863)	0	0	(1,074,863)	(2,024,126)
Long term Consolidated Fund Creditor	246,795	0	0	246,795	359,093
Non Cash adjustments					
Capital Charge/(Income)	(81,923)	0	43,037	(38,886)	(1,728)
Audit Fees (notional)	200	0	0	200	0
Transfer from Operating Statement					
Surplus for year	0	582,816	14,617	597,433	401,286
Balance at 31 March 2008	**(1,187,758)**	**2,131,376**	**8,797**	**952,415**	**1,221,736**

34 Prior Period Adjustment/Reconciliation of Movement in Cumulative Trading Surplus

Application of FRS 26 has resulted in a change in the income/cost recognition of Credit Default Swaps. The change in recognition has resulted in the following:

	Cumulative	Financial Instruments	
	Trading Surplus	Assets	Liabilities
	£'000	£'000	£'000
At 1 April 2006 previously reported	1,164,392	15,740	16,206
Prior Period Adjustment relating to application of fair values to CDS under FRS 26	(6,747)	(15,740)	(8,994)
At 1 April 2006 Restated	**1,157,645**	**0**	**7,212**
Operating Income, CDS Assets and Liabilities respectively for 2006-07 previously reported	393,441	7,526	5,855
Prior Period Adjustment relating to application of fair values to CDS under FRS 26	(2,526)	(7,526)	(5,000)
Operating Income, CDS Assets and Liabilities respectively for 2006-07 Restated	**390,915**	**0**	**855**
At 31 March 2007 Restated	**1,548,560**	**0**	**8,067**

35 Movement in Exchequer Financing

The resources consumed by ECGD in respect of its export finance activities and trading operations are supplied annually by Parliament through the "Supply Procedure" of the House of Commons. The Estimate voted on in the "Supply Procedure" also sets an annual ceiling on ECGD's voted net cash requirement. By the provisions of Section 14(2) of the Export and Investment Guarantees Act, 1991 (the "Act"), ECGD is able to pay claims direct from the Consolidated Fund in the event that sufficient funds have not been voted for the purpose by Parliament.

The Exchequer balances also include notional amounts for interest in respect of the year of £81,923,000 (2006-07 £61,963,000). The average floating interest rate for the year as agreed with HM Treasury was 5.6756 per cent as compared with 5.1537 per cent in 2006-07.

36 Notes to the Cashflow Statement

36(a) Reconciliation of Operating Income to Operating Cashflow

	2007-08	2006-07 (Restated)
	£'000	£'000
Net Operating Income	597,433	401,286
Adjust for Non-Cash Transactions:		
Capital Charges	(38,886)	(1,728)
Depreciation	380	369
Claims Credit for Year	(66,254)	(89,144)
Interest Credit for Year	32,171	415,871
Changes in Provisions for Future Claims	(59,308)	(80,638)
Unrealised Foreign Exchange Gain/(Loss)	2,899	61,521
Gain / Loss in Credit Default Swaps Fair Valuation	(12,221)	3,308
Other Non-Cash Items:		
Movements in Working Capital Other than Cash	338,551	842,173
Loss on disposal of Fixed Assets	0	500
Notional Audit Fees	200	0
Financial Instruments – Change in Fair Value	(13,256)	(4,158)
Net Cash Inflow from Operating Activities	**781,709**	**1,549,360**

36(b) Analysis of Capital Expenditure and Financial Investment (RfR 2)

	2007-08	2006-07 (Restated)
	£'000	£'000
Purchase of Fixed Assets	(451)	(123)
Purchase of Financial Instruments	(2,793)	(2,454)
Advance of Export Finance Loans	0	0
Repayment of Export Finance Loans	296,399	477,343
Net Cash Inflow from Investing Activities	**293,155**	**474,766**

36(c) Analysis of Financing

	2007-08	2006-07 (Restated)
	£'000	£'000
From the Consolidated Fund – current year	0	0
From the Consolidated Fund – prior year	0	0
Exchequer Financing – prior periods undrawn grant adjustment	0	0
Net Financing	**0**	**0**

36(d) Reconciliation of Net Cash Requirement to increase in cash

	2007-08	2006-07 (Restated)
	£'000	£'000
Net Cash Requirement	0	0
From the Consolidated Fund - current year	0	0
Prior Periods Undrawn Grant Adjustment	0	0
From the Consolidated Fund - prior year	0	0
Amounts due to the Consolidated Fund received in prior year and paid over	(1,763,164)	(2,105,780)
Amounts due to the Consolidated Fund received and not paid over	0	0
Excess A. in A. and CFER	568,662	1,285,821
Excess Non-Operating A. in A.	296,399	477,343
Increase/(Decrease) in Cash	**(898,103)**	**(342,616)**

37 Financial Instrument Risk Management

Underwriting

Credit Default Swaps

ECGD periodically purchases credit default protection on selected Reference Entities to reduce its exposure to portfolio credit risk volatility.

When evaluating the case for purchasing Credit Default Swaps, the main risk ECGD has to take into account is 'basis risk', i.e. the probability that ECGD could suffer a default on the exposure it wishes to protect without it also triggering a Credit Event on the Credit Default Swap. ECGD makes an economic assessment of the likelihood of such a mismatch occurring and of the consequences for its hedging strategy.

Having purchased the Credit Default Swap, ECGD is then exposed to (i) changes in the credit spread of the entity on which the protection has been bought i.e. the Reference Entity, and (ii) counterparty credit risk in the event of the failure of ECGD's counterparty to meet its obligations under the Credit Default Swap.

ECGD monitors the fair value of its Credit Default Swaps on a regular basis. The position as at 31 March 2008 is as set out below.

	31 March 2008		31 March 2007	
	Fair Value Asset	Fair Value Liability	Fair Value Asset	Fair Value Liability
	£'000	£'000	£'000	£'000
Total Credit Default Swaps	**6,947**	**0**	**0**	**(8,067)**

Sensitivity to changes in credit spreads at 31 March 2008:

The value of ECGD's Credit Default Swaps is sensitive to changes in credit spreads. A 1% increase in credit spreads would cause an increase in market value of £238,007, while a 1% decrease in credit spreads would cause a reduction in market value of £238,479.

ECGD believes that the following change in credit spreads is possible due to the current volatility of the market an increase of 100% in credit spreads would increase market value by £22,061,000, while a decrease of 80% in credit spreads would decrease the market value by £20,367,000.

The maturity profile of ECGD's Credit Default spreads is as follows:

	31 March 2008	**31 March 2007**
Amounts due to mature within	**£'000**	**£'000**
1 Year	10,100	0
1 to 5 years	106,800	108,700
5 to 15 years	140,900	137,300
	257,800	**246,000**

ECGD seeks to limit its counterparty risk by imposing credit limits on its counterparties and by restricting its hedging activities to bank counterparties that achieve its minimum risk standards.

Export Finance

Interest Rate Derivatives

ECGD is exposed to interest rate risk through its Fixed Rate Export Finance ('FREF') scheme. The FREF scheme enables UK exporters to offer medium and long term finance to their overseas buyers at officially supported fixed rates of interest. Such official financing support is provided by a number of governments or export credit agencies pursuant to the OECD Arrangement on Officially Supported Export Credits (the 'OECD Arrangement'). The minimum fixed interest rates which may be supported under the OECD Arrangement in this manner are called Commercial Interest Reference Rates ('CIRRs').

ECGD provides FREF support in the form of interest make up ('IMU') arrangements between itself and the lending bank under Export Finance loans. The economic effect of these IMU arrangements is analogous to an interest rate swap between ECGD and the lending bank under which ECGD receives interest from the lending bank at CIRR and pays interest to the lending bank at LIBOR plus an agreed lending margin. These IMU arrangements between ECGD and the lending bank consequently expose ECGD to interest rate risk.

ECGD manages its exposure to interest rate risk through a programme of active hedging using interest rate swaps, swaptions and interest rate floors. The Department's interest rate hedging programme is overseen by its Risk Committee, while day to day hedging activity is undertaken by the Department's Treasury Division pursuant to agreed policies.

ECGD's interest rate risk is managed in accordance with limits agreed by its Risk Committee and reviewed at least annually. These are designed to limit ECGD's sensitivity to changes in interest rates and interest rate volatility and are expressed in terms of 'delta' and 'vega'. 'Delta', in relation to the interest rate derivatives to which ECGD is exposed, is the change in the present value of that instrument resulting from a unit change in the underlying interest rate and is expressed in pounds sterling per 1 basis point (0.01%) increase in interest rates. 'Vega' is, in relation to said interest rate derivatives, the change in their present value resulting from a unit change in the volatility of the interest rate applicable to them and is expressed as pounds sterling per 1% increase in the annualised volatility of that interest rate.

As at 31 March 2008, the fair values of ECGD's interest rate derivatives were as follows:

		31 March 2008		31 March 2007
	£'000	**£'000**	**£'000**	**£'000**
	Fair Value Asset	**Fair Value Liability**	**Fair Value Asset**	**Fair Value Liability**
Interest rate Swap arrangement on Export Finance Loan Guarantees	37,015	(1,100)	22,080	(8,022)
Interest rate derivative contracts entered into for hedging purposes	11,637	(42,019)	8,573	(30,354)
	48,652	**(43,119)**	**30,653**	**(38,376)**

The sensitivity of these positions to changes in interest rates is set out below:

Sensitivities as at 31 March 2008: Impact on Profit

	1% Increase in Interest Rates	1% Decrease in Interest Rates
	£'000	**£'000**
Interest rate Swap arrangement on Export Finance Loan Guarantees	(17,697)	16,418
Interest rate derivative contracts entered into for hedging purposes	17,640	(14,543)
	(57)	**1,875**

The sensitivity of these positions to changes in interest rate volatility is set out below:

Sensitivities as at 31 March 2008: Impact on Profit

	5% Increase in Interest Rate volatility	5%Decrease in Interest Rate volatility
	£'000	**£'000**
Interest rate Swap arrangement on Export Finance Loan Guarantees	(1,484)	846
Interest rate derivative contracts entered into for hedging purposes	950	(696)
	(534)	**150**

The maturity profile of ECGD's interest rate derivatives notional values is as follows:

Position as at 31 March 2008

Maturities within:	**1 Year**	**1 to 5 Years**	**5 to 15 years**	**Total**
	£'000	**£'000**	**£,000**	**£'000**
Interest rate Swap arrangement on Export Finance Loan Guarantees	129,084	440,450	193,657	763,191
Interest rate derivative contracts entered into for hedging purposes	376,759	774,810	287,402	1,438,971
	505,843	**1,215,260**	**481,059**	**2,202,162**

Foreign Currency

Account 4 has minimal exposure to foreign currency risk. In the case of loans refinanced through GEFCO, all foreign currency risk is eliminated through the use of cross currency swaps. No hedging is in place in respect of the un-refinanced FREF portfolio.

38 Related Party Transactions

ECGD is a Department of the Secretary of State for Business, Enterprise and Regulatory Reform. As such, it has a number of transactions with other Government Departments and other central government bodies.

None of the members of ECGD's Management Board has undertaken any material transactions with ECGD during the year.

There have been transactions between ECGD and Guaranteed Export Finance Corporation PLC (GEFCO).

GEFCO is an English company owned by two charitable trust companies, First Securitisation Company Limited and its parent, Capita IRG Trustees Limited. GEFCO has three Directors: one appointed by each of its two owners; the other appointed by Lloyds TSB Bank Plc ("Lloyds").

Between 1986 and 2002 GEFCO refinanced a number of export credit loans guaranteed by ECGD. Since 2002 there have been no new re-financings (other than a few in respect of additional drawings under loans refinanced prior to 2002). The loans which GEFCO has refinanced are now in run-off.

GEFCO has raised funds by issuing bonds guaranteed by the Secretary of State and by long term borrowing from ECGD. GEFCO has an overdraft facility with Lloyds, which is guaranteed by ECGD. GEFCO has, in connection with its refinancing of export credit loans in foreign currencies, entered into cross currency swaps and its obligations under those swaps are guaranteed by ECGD.

GEFCO's accounts are not consolidated with those of ECGD, as GEFCO does not meet the criteria for consolidation in the FReM.

In 2007-08 transactions between ECGD and GEFCO comprised:

- net repayments of principal under loans made by ECGD to GEFCO: £296,399,000 (£477,343,000 in 2006-07);
- net interest received under those loans: £56,616,000 (£86,066,000 in 2006-07)

The balances and transactions for the year between GEFCO and ECGD were as follows:

	Loans	Interest Accrued
	£'000	£'000
Balances at 1 April 2007	997,860	14,530
Interest Income	0	51,597
Amounts received	(296,399)	(56,616)
Balances at 31 March 2008	**701,461**	**9,511**

Under the contracts for the refinancing of export credit loans, ECGD has agreed that, at the end of each month GEFCO will deduct from the principal and interest payable to ECGD any expenses incurred by GEFCO in administering the refinanced loans. In the financial year ended 31 March 2008, those deductions totalled £2,725,000.

The expenses deducted include:

- interest payable to Lloyds under the overdraft facility;
- fees payable by GEFCO to Lloyds for managing the refinanced loans; and
- residual margin payments made to banks on ECGD's behalf pursuant to the Agency Agreement between ECGD and GEFCO.

Further information on the financial position of GEFCO can be found in GEFCO's audited accounts, which can be obtained from Companies House (GEFCO's Registered No 1980873). Some of the balances and transactions shown in GEFCO's accounts with regard to ECGD are not directly comparable with those shown in ECGD's accounts. In particular, ECGD values loans to GEFCO on the basis of Amortised Cost while GEFCO's accounting policy is for a fair value (mark to market) valuation of these loans.

39 Contingent Liabilities

(i) Amounts at Risk and other contingent liabilities

	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000
As at 1 April 2007	110,334	9,789,702	53,440	0	9,953,476
Guarantees and Insurance Policies Issued and Renewed	0	1,830,090	0	0	1,830,090
Run-Off	(32,337)	(2,417,680)	(19,425)	0	(2,469,442)
Foreign Exchange Adjustments	(137)	305,532	5,037	0	310,432
As at 31 March 2008	**77,860**	**9,507,644**	**39,052**	**0**	**9,624,556**

(ii) Statutory Limits

The Export and Investment Guarantees Act 1991 sets limits on the maximum liabilities that ECGD may incur in both pounds sterling and foreign currency. The latter is expressed in Special Drawing Rights (SDR). The following table shows the Statutory Limits at 31 March 2008 and the cumulative outstanding commitments set against them:

	31 March 2008				31 March 2007			
	Sterling	Foreign Currency	Sterling Equivalent	Sterling Total	Sterling	Foreign Currency	Sterling Equivalent	Sterling Total
	£'000	SDR'000	£'000	£'000	£'000	SDR'000	£'000	£'000
Section 6(1) amounts								
Statutory Limit	35,000,000	30,000,000	24,810,210	59,810,210	35,000,000	30,000,000	23,137,440	58,137,440
Commitments	2,137,179	9,931,254	8,213,217	10,350,396	3,266,423	10,458,631	8,066,198	11,332,621
Section 6(3) amounts								
Statutory Limit	15,000,000	10,000,000	8,270,070	23,270,070	15,000,000	10,000,000	7,712,480	22,712,480
Commitments	0	0	0	0	125,883	706,118	544,592	670,475
Totals								
Statutory Limit	**50,000,000**	**40,000,000**	**33,080,280**	**83,080,280**	**50,000,000**	**40,000,000**	**30,849,920**	**80,849,920**
Commitments	**2,137,179**	**9,931,254**	**8,213,217**	**10,350,396**	**3,392,306**	**11,164,749**	**8,610,790**	**12,003,096**

At 31 March 2008, 1 SDR = £0.82701

At 31 March 2007, 1 SDR = £0.77125

Section 6(1) of the Act sets limits on the amounts relating to exports and insurance. Section 6(3) of the Act relates to arrangements in the interests of the proper financial management of the ECGD portfolio.

The commitment figures shown above are greater than the Amounts at Risk due to the inclusion of:

- Non-trading activities;
- Commitments contingent upon the full utilisation of credit insurance facilities made available to exporters; and
- Guarantees issued but not yet effective.

40 Leasehold Obligations

Annual Commitments of ECGD in 2007-08 under non-cancellable operating leases are:

	31 March 2008	**31 March 2007**
	Land and Buildings	**Land and Buildings**
	£'000	**£'000**
Leases which expire after five years	2,529	2,677

41 Losses

	31 March 2008	**31 March 2007**
	£'000	**£'000**
Total Value	0	581

There were no errors leading to a financial loss during the year.

DEPARTMENTAL EXPENDITURE REPORT

A Departmental Expenditure Report (DER) is the primary document through which a Department sets out its accountability to Parliament and the public. This DER is presented alongside ECGD's 2007-08 Annual Review and Resource Accounts in order to provide a comprehensive review of ECGD's performance and expenditure during the financial year.

1 ECGD's Aim and Objectives

The aim of ECGD is "to benefit the UK economy by helping exporters of UK goods and services win business, and UK firms to invest overseas, by providing guarantees, insurance and reinsurance against loss, taking into account the Government's international policies".

ECGD's full Mission Statement can be found on page 10. This sets out ECGD's aim and high-level objectives.

2 2007–08 Service Delivery Agreement (SDA) Targets – Results

Key Target 1

To achieve the Financial Objectives set by Ministers.

Measures of Delivery

(i) For its business relating to the provision of guarantees and insurance since April 1991 (Account 2 business), ECGD is required to maintain a Reserves Index of at least 1. The Reserves Index compares the cumulative adjusted[3] reserves and claims provisions to those estimated as required to ensure, with a 77.5% confidence, that the value of cumulative reserves, when added to the value of claims provisions, will be sufficient to cover eventual losses on contingent liabilities and claims paid.

$$\textbf{Reserves Index} = \frac{\text{Claims Provisions + Adjusted Cumulative Account 2 Reserves}}{\text{Claims Provisions + Required Account 2 Reserves}}$$

Result: As at 31 March 2008, the Reserves Index was 3.45, above the required target.

(ii) For Fixed Rate Export Finance (FREF) support, ECGD must maintain a Mark-to-Market (MTM) value on its Old FREF[4] portfolio at a value no lower than minus £204 million. The MTM value must be calculated inclusive of the cumulative cash outturn[5] of the Old FREF portfolio since 1 April 2002 less the cumulative value of Administration Expenses incurred by ECGD in respect of the Old FREF portfolio since 1 April 2001.

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3 That is, after the notional transfer of reserves to cover FREF costs as described under items (iii) to (v) below.

4 Old FREF: that business deriving from FREF commitments entered into by ECGD prior to 1 April 2001, including business deriving from such commitments which had not expired by that date.

5 This measure shall include no more than 7.5 per cent of the value of any cash savings derived from refinancing undertaken by ECGD on the Old FREF portfolio since 1 April 2002 and no more than 7.5 per cent of the value of any future savings derived from such refinancing.

If the MTM value of the Old FREF portfolio is negative, then ECGD must notionally transfer from its cumulative Account 2 Reserves to Account 4[(6)]:

(a) the first £15 million of any negative MTM value equal to or less than £102 million; and

(b) 14.7 per cent of each £1 of such negative MTM value between £102 million and £204 million.

Result: The net MTM valuation of the Old FREF portfolio at 31 March 2008 was -£24.1 million. The target was therefore met. In accordance with the agreed formulae, £15 million was transferred from the cumulative Account 2 reserves to Account 4.

(iii) ECGD must maintain a non-negative MTM value on its New FREF portfolio. Such non-negative MTM value must be calculated inclusive of the cumulative cash outturn([7]) in respect of the New FREF portfolio, less the cumulative value of Administration Expenses incurred by ECGD in respect of the New FREF portfolio[(8)].

If the MTM value of the New FREF portfolio is negative, then ECGD must notionally transfer cumulative Account 2 reserves to Account 4 in order to restore the MTM value of the New FREF portfolio to a non--negative position.

Result: The net MTM value of the New FREF[(9)] portfolio was -£12.7 million at 31 March 2008. Accordingly, the total transfer from cumulative Account 2 reserves at 31 March 2008 in respect of the New FREF portfolio was £12.7 million.

(iv) ECGD must maintain an MTM value on its 2005 FREF([10]) portfolio at a value no lower than minus £30 million. Such MTM value must be calculated inclusive of the cumulative cash outturn in respect of the 2005 FREF portfolio, less the cumulative value of administration expenses incurred by ECGD in respect of the 2005 FREF portfolio.[(11)]If the MTM value of the 2005 FREF portfolio is negative, ECGD must notionally transfer cumulative Account 2 reserves to Account 4 in order to restore the MTM value of the 2005 FREF portfolio to a non-negative position.

Result: The net MTM value of the 2005 FREF portfolio was -£3.8 million at 31 March 2008. £3.8 million was transferred from cumulative Account 2 reserves so as to restore the MTM value of the 2005 FREF portfolio to a non-negative value.

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6 Account 4 comprises the Old FREF, New FREF and 2005 FREF portfolios.

7 The footnote above applies here also to the New FREF portfolio.

8 This obligation is subject to the following exception: when calculating the MTM value of the New FREF portfolio, ECGD is not required to include business deriving from commitments entered into by ECGD between 1 April 2001 and 31 March 2002 (inclusive) in respect of support for Airbus sales under the terms and conditions set out in the Large Aircraft Sector Understanding contained within the OECD Arrangement on Officially Supported Export Credits (LASU). This exception is subject to the condition that ECGD must transfer, from its Account 2 Reserves, the first US$10 million worth of any costs (defined for the purposes of this condition to mean those costs to the Exchequer that arise from ECGD providing FREF for LASU business committed between 1 April 2001 and 31 March 2002 (inclusive) on terms not consistent with the FREF financial objective), and thereafter 50 per cent of any further costs that may arise, subject to an overall ceiling of US$15 million.

9 New FREF: that business deriving from FREF commitments entered into by ECGD between 1 April 2001 and 31 March 2005 (inclusive), including business deriving from (i) renewals of FREF commitments originally given prior to 1 April 2001, and (ii) FREF commitments which had not expired by 31 March 2005.

10 2005 FREF: that business deriving from FREF commitments entered into by ECGD between 1 April 2005 and 31 March 2008 (inclusive), including business deriving from FREF commitments originally given prior to 1April 2008 which had not expired by that date.

11 This measure shall include no more than 7.5 per cent of the value of any cash savings derived from refinancing undertaken by ECGD on the 2005 FREF portfolio and no more than 7.5 per cent of the value of any future savings derived from such financing.

Key Target 2

To promote an international framework that allows UK exporters to compete fairly by multilaterally limiting or eliminating all subsidies, and by promoting the adoption of consistent practices for assessing projects and buyers.

Measures of Delivery

(i) To continue the process of updating the OECD Arrangement.

Result: A new Aircraft Sector Understanding was agreed, introducing risk differentiated pricing. The participation of Brazil is significant given OECD's outreach efforts.

(ii) To reduce any subsidies inherent within Commercial Interest Reference Rates (CIRRs).

Result: Despite a positive reception to technical work undertaken by ECGD, progress has been limited due to the different views on this issue within EU Member States. Further work towards CIRR reform continues.

(iii) To strengthen the existing Recommendation on Common Approaches to the Environment.

A revised Recommendation on Common Approaches on the Environment and Officially Supported Export Credits was adopted by the OECD Council in June 2007. The revised Recommendation delivered progress in all three of the UK’s priority areas: achieving greater consistency in the identification and categorisation of project impacts; increasing the extent to which social impacts are included in the agreement; and defining more clearly the minimum international standards that must be met. Ongoing peer review and a detailed survey of Export Credit Agency (ECA) implementation are underway to support the new Recommendation.

(iv) To strengthen the anti-bribery and corruption procedures of ECAs.

Result: The OECD has undertaken a detailed survey of ECA implementation of the 2006 Recommendation on Bribery and Officially Supported Export Credits, concluding that the vast majority of OECD ECAs are operating in accordance with the Recommendation.

(v) To build a consensus towards the incorporation into the OECD Arrangement of risk-reflective pricing for non-governmental buyer risk.

Result: Technical discussions in the OECD have not delivered progress on developing guiding principles for common buyer risk assessment and pricing practices to facilitate risk premium convergence. The UK continues to lobby in the OECD and in the EU for renewed efforts to be made.

(vi) To introduce international guidelines to ensure responsible lending to low-income countries.

Result: ECGD has worked with OECD members, the International Monetary Fund (IMF) and the World Bank to develop proposals to ensure that new lending does not lead to unsustainable debt burdens for former Heavily Indebted Poor Countries (HIPCs) and countries that the World Bank classifies as eligible for highly concessional loans and grants from the International Development Association. In January 2008, the OECD agreed new Principles and Guidelines on Sustainable Lending that build the IMF/World Bank Debt Sustainability Framework into ECA assessments of projects in low income countries.

Key Target 3

To provide an efficient, professional and proactive service for exporters of UK goods and services, which focuses on solutions and innovation.

Measures of Delivery

(i) Compliance with service delivery targets set out in ECGD's Customer Charter, performance against which is reported on ECGD's website.

Result: Result: ECGD worked against the service delivery targets as set out in our Customer Charter. Performance in respect of these targets was reported on ECGD's website. Difficulties were noted as follows:

ECGD was unable to meet its target for payment of recoveries to customers following receipt by ECGD of sums through Paris Club arrangements. This was due both to data issues and to process changes affecting the allocation of these amounts, and the number of payments to be made. While the system-related issues have largely been resolved, and an improvement in payment performance can therefore be expected, some market-specific issues continue to lead to payment processing delays.

The target relating to claims payments has been met, except where there was late submission by banks to ECGD of claim documentation.

Revisions to the Customer Charter were introduced at the start of 2007-08 in relation to the issue of Preliminary Response letters in recognition of the fact that the four-day target was inappropriate for more complex cases. New arrangements were put in place, under which ECGD aims to know the deadlines exporters require and to meet that deadline, keeping closely in touch with progress. These are working well. ECGD makes available on its website an on-line premium calculator where approximate premium rates are available for costing purposes for more straightforward business.

Key Target 4

To reduce the concentration of risk prevalent in the ECGD portfolio of business by working with the private sector.

Measures of Delivery

Subject to market potential and satisfaction of value for money criteria:

(i) To have transferred risk of contingent liabilities to the private sector by means of Active Portfolio Management.

Result: ECGD continued to investigate opportunities to transfer risk on contingent liabilities, although no new transactions were completed in the year to 31 March 2008.

3 Core Tables

Please see ECGD's Resource Accounts – pages 42 to 99 of this document. This includes details of resources, spending and investment. Staff numbers and costs are included on pages 82 to 84, in addition to the section on Human Resources in the Annual Review on page 23.

4 Asset Management Strategy

The Department has two classes of assets: property and IT equipment and systems.

ECGD's office is in the London Docklands where there is surplus space which is rented out on medium-term leases. Its archive facility is in Cardiff. No material investment was made in the properties in the year.

ECGD is in the process of implementing mainstream banking systems and integrating those with the Department's processes through database, report and analysis, and communication tools to create a unified platform on which to conduct its business activities. Key activities in the year were to finalise the implementation of the FREF and derivatives management system, finalise the redesign of business processes surrounding the new banking systems, start on the cleansing of historical claims data, and implement a new financial management information system to replace aging spreadsheets. Work to improve ECGD's systems and processes will continue for the next three years.

5 Other Information in the Public Interest

The main body of this Annual Review describes ECGD policies on a wide range of topics. Information on recruitment, training and development, public appointments, and policies related to the environment and to sustainable development, can be found in the relevant sections.

Glossary

ACTIVE PORTFOLIO MANAGEMENT (APM)

The mitigation of risks on ECGD's business whereby, in economic terms, certain of the credit risks that ECGD has assumed under its guarantees and insurances are transferred to counterparties in the private or international public sectors.

AMOUNTS AT RISK (AAR)

AAR is equivalent to the accounting term Contingent Liability. This represents the unexpired portion of the total risks guaranteed by ECGD; thus, AAR would normally be less than Maximum Liability by the amount of expired risk, i.e. payment received or the unutilised amount of a loan.

APPROPRIATIONS IN AID (A. IN A.)

Comprise income received by ECGD, which it is authorised to retain (rather than surrender to the Consolidated Fund) to offset related expenditure. Such income is voted by Parliament and accounted for in the Department's resource accounts. Any receipts in excess of the approved amounts form Excess A. in A. and are payable directly to the Consolidated Fund as CFER.

BUYER CREDIT

A medium to long-term finance facility in which, normally, a 100 per cent unconditional guarantee is given by ECGD to a UK bank. This is in respect of a loan made available to an overseas borrower to finance a contract relating to the supply of Capital Goods and Services by a UK-based supplier to a buyer in an overseas market.

CONSOLIDATED FUND

The Government's "current account", operated by the Treasury, through which pass most government payments and receipts.

CONSOLIDATED FUND EXCESS RECEIPTS (CFER)

Comprise receipts realised or recovered by ECGD in the process of conducting services charged on public funds which are not authorised to be appropriated in aid of expenditure, but which must be paid directly to the Consolidated Fund.

CREDIT DEFAULT SWAPS (CDS)

A market instrument included in the APM programme to transfer credit risk.

ESTIMATE

A statement of how much money the Government needs in the coming financial year, and for what purpose(s), by which Parliamentary authority is sought for the planned level of expenditure and receipts.

EXCESS CASH RECEIPTS

Where cash received is greater than the requested Net Cash Requirement in the Estimate, it is surrenderable to the Consolidated Fund.

EXPORT CREDIT AGENCIES (ECAs)

These are institutions providing government-backed guarantees, insurance and sometimes loans, covering commercial and political risk. Most industrialised nations have an ECA, which is usually a national, public or publicly-mandated agency supporting companies from their home country.

FINANCIAL OBJECTIVES

The Department's financial aim, which is the subject of agreement with HM Treasury.

FIXED RATE EXPORT FINANCE (FREF)

Finance for export contracts involving credit of two years or more provided by lending banks at fixed interest rates determined under The Arrangement, and which is guaranteed by ECGD and is the subject of interest equalisation. The finance can be offered in pounds sterling and a range of standard currencies. Non-standard currencies need to be cleared by HM Treasury and the Bank of England.

HEAVILY INDEBTED POOR COUNTRIES (HIPC)

Heavily Indebted Poor Countries as classified by the World Bank/IMF. See http://www.imf.org/external/np/exr/facts/hipc.htm for more information

OVERSEAS INVESTMENT INSURANCE (OII)

ECGD facility which provides UK investors with insurance for up to 15 years against political risks in respect of new investment overseas. It may also be available to UK banks in respect of overseas lending, whether or not it is in connection with an UK investment or export.

PREMIUM EARNED / PREMIUM INCOME

Consideration receivable for the issue of guarantees and insurance contracts that become effective during the financial year. Premium Income is stated both gross and net of amounts ceded to other ECAs.

PROJECT FINANCE

Transactions which are dependent on generating sufficient revenue from a project to service debt, once commissioned (e.g. a power station or toll road).

PROVISIONS

Amounts which are set aside within ECGD's Trading Accounts to allow for non-recovery of claims already paid and of claims to be paid in the future.

SPENDING REVIEW

This sets Department Expenditure Limits (DEL) and plans Annually Managed Expenditure (AME) for the following three years.

SUPPLIER CREDIT

Credit given by a UK exporter to an overseas buyer. In such cases, the normal method of financing the contract is for the bank to lend the exporter money and for the exporter to repay, usually when it receives payment from the buyer after the agreed credit period. ECGD can provide insurance for this finance under a SCF facility.

SUPPLIER CREDIT FINANCE FACILITY (SCF)

An ECGD facility for the sale of semi-capital or capital goods on two or more years of credit, providing finance to the supplier in the majority of cases without recourse.

THE ARRANGEMENT

The OECD Arrangement on Guidelines for Officially Supported Export Credits, sometimes referred to as "the Consensus". This limits self-defeating competition on export credits among members of the OECD who have undertaken that they will operate within these guidelines when providing official support for export credits of two years or more. The Arrangement covers all officially supported export credits except those for agricultural produce and military equipment. Aircraft, ships, nuclear power plants, water and renewable energy projects are subject to separate sector understandings.

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