Export Credits Guarantee Department Annual Review and Resource Accounts 2008-09

The UK's Official Export Credit Agency

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Minister's Foreword

I am very pleased to introduce ECGD's Annual Review and Resource Accounts for 2008-09, which have now been laid before Parliament.

ECGD was established in 1919 as the world's first Export Credit Agency. Since then, it has maintained its role to support exporters, investors and banks through the provision of insurance and guarantees, developing new products to help them to meet new challenges and to take advantage of new opportunities. Now, as ECGD celebrates its 90th birthday, it is once again looking at how it can improve its service to exporters through and beyond the current economic downturn.

When ECGD supports exports it puts taxpayers' money at risk, and so it must control the risks which it takes on, in order to safeguard the interests of taxpayers. With the current worldwide instability, ECGD's business environment has become more uncertain. After several years of decline, enquiries and business volumes are now rising, as buyers across the world look to official Export Credit Agencies to obtain the finance they would previously have sourced from the international capital markets.

In December 2007, ECGD launched a Public Consultation on the future of its Fixed Rate Export Finance Scheme. In view of the effects of the downturn, in November 2008 the Chancellor announced in the Pre-Budget Report that the current scheme, which had been extended to 31 December 2008 to allow ECGD to explore options for a revised scheme, would be extended to the end of 2009. An announcement about the future of Fixed Rate Export Finance after 2009 will be made in the autumn.

I am pleased that ECGD has continued to play its part in the Government's broader initiatives to help British business. The Department was one of the first to 'go live' as part of the Solutions for Business programme, which aims to make Government support easier to access and more focussed on the needs of business. And ECGD has played a valuable role in advising the Department for Business Innovation and Skills on the Working Capital Scheme. We are ensuring that ECGD is strengthening its links with UK Trade and Investment, and we look forward to seeing the two organisations co-operate more closely to help exporters.

Any organisation is only as good as its people. ECGD staff have worked hard over the last 90 years to ensure that ECGD has played a valuable role in supporting British exports to markets around the world. I pay tribute to their hard work, dedication and expertise. I am sure they will continue to deliver a high-quality service to British business.

E. Mervyn Davies

Lord Davies of Abersoch, CBE
Minister for Trade, Investment and Business

Chairman's Foreword

Last year I suggested that the turmoil in global markets could result in a significantly greater workload for ECGD. In the event, the levels of the provision of support for the civil aerospace sector and of general inquiries on new business in other sectors have both risen substantially. A concern for exporters has also been the reliability of funding being available from banks against ECGD's guarantee on new business.

As a source of expertise on credit assessment within Government, ECGD staff have also provided advice on the scheme being delivered by the Department for Business, Innovation and Skills to support the provision by banks of working capital loans to businesses generally. This has put pressure on key resources of ECGD.

But the focus of the Management Board has remained on export credits, and in particular on reviewing the potential effect of the economic downturn on the credit risk in ECGD's portfolio and associated implications for its plans for 2008-11.

During the course of the year, the Environmental Audit Committee of the House of Commons (EAC) reviewed ECGD's compliance with the environmental aspects of its Business Principles. In general, the EAC found ECGD has continued to make progress on sustainable development.

The task of overseeing the Department has become more challenging in view of the more adverse risk environment and I would like to thank all the Board members for their considerable contribution to that task.

I would also like to express particular appreciation for the work Professor Jonathan Kydd has done as acting Chairman of EGAC. He stepped up to this role in 2007 to enable us to search for a new Chair and has steered EGAC with great skill. On the appointment of a new Chair, Professor Kydd will retire from EGAC which he has served as a member since 9 November 2000. We are all very grateful for his excellent advice.

Finally, I would like to compliment Patrick Crawford and his team for the continued assistance they give to the UK's exporters and for the broader role they have been playing in supporting the Government's wider initiatives to address difficulties in credit markets.

Graham Pimlott
ECGD Chairman

Chief Executive's Foreword

This has been a year of two halves. Up to September 2008, our main focus was on taking steps to implement our 2008-11 Strategic Plan, with a focus on reducing our administrative costs. For instance, in mid-2008 we re-organised our office space, freeing up a half-floor at our Docklands headquarters and cutting £500,000 a year off our accommodation costs. After September 2008 the global economic downturn increased the importance to exporters of ECGD and its products. In the second half of the year, the number of new Airbus aircraft supported rose by around 88 per cent above that of the second half of 2007-08, and enquiries on other types of business grew rapidly. ECGD has not experienced a material increase in claims, but we do not expect to be unscathed over the next financial year.

In his Pre-Budget Report on 9 November 2008 the Chancellor announced that ECGD would be developing a £1bn Working Capital Guarantee Scheme aimed at smaller exporters. On 14 January 2009, the Government announced that this scheme would be expanded into a £10bn scheme aimed at all companies with an annual turnover of under £500m. As this scheme was designed to include non-exporting companies, it fell outside ECGD's remit and has been delivered by the Department for Business, Innovation and Skills with advice from ECGD.

The value of guarantees and insurance policies issued by ECGD was £1.46bn. The total number of guarantees and policies issued was 136, an increase from 96 in 2007-08. The value of guarantees represented by Airbus deliveries grew to 72 per cent of business underwritten and 85 per cent of numbers of facilities. Given the importance to Airbus of export credit support from France, Germany and the UK, accounting for approximately 21 per cent of its total deliveries in 2008-09, we have continued to work with our French and German counterparts to align our working practices more closely in order to improve our service. We will be pursuing this further in the coming year.

We have continued to make good progress in the recovery of past claims paid in relation to aircraft, against the background of a then-buoyant civil aviation sector. All repossessed aircraft remaining to be sold are placed with an Aircraft Management and Remarketing Manager, Macquarie AirFinance, which is one of our sources of expert technical advice in the current downturn in the aviation sector with increasing credit stress being experienced by airlines.

Throughout the year we have continued to take action to increase our operating efficiency and effectiveness.

I pay tribute to the staff at ECGD for their continued commitment and hard work in this very busy time. 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 and Departmental Strategic Objective

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	**2008–09 £m**	2007–08 £m	2006–07 £m	2005–06 £m	2004–05 £m
Guarantees issued	**1460**	1830	1798	2230	1995
• of which OII	**87**	138	152	239	351
Premium income	**38**	60	55	88	45
• of which OII	**1**	1	1	2	3
Claims authorised	**44**	53	61	79	87
Net operating income	**299**	597	401	1699	1108

Guarantees and Insurance Policies Issued

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

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Australia				
Airbus S.A.S.	Qantas Airways Ltd	Airbus aircraft	–	47,673,882
Brazil				
Airbus S.A.S.	Tam Linhas Aereas SA	Airbus aircraft	–	92,815,013
Reviss Services (UK) Ltd	Companhia Brasiliera de Esterlilzacoa S.A.	Cobalt 60 radiation source for sterilising healthcare equipment	Medium	600,736
Chile				
Airbus S.A.S.	Lan Airlines S.A.	Airbus aircraft	–	76,791,836
Balfour Beaty Rail Projects Ltd	Metro S.A.	Rail track and equipment	Medium	14,394,571
Columbia				
Airbus S.A.S.	Aerovias Del Continente S.A. (Avianca)	Airbus aircraft	–	13,827,309
Czech Republic				
Airbus S.A.S.	Czech Airlines	Airbus aircraft	–	8,001,050
Egypt				
Fira International Ltd	Ministry of Trade and Industry	Furniture Testing Technical Centre	Low	319,526
Ghana				
PW Ltd	Ghana Civil Aviation Authority	Kotoka International Airport Extension	Medium	18,720,905
Greece				
Airbus S.A.S.	Aegean Airlines	Airbus aircraft	–	25,578,801
India				
Airbus S.A.S.	Jet Airways	Airbus aircraft	–	18,911,208
Indonesia				
Thales Airborne System (UK) Ltd	Ministry of Defence	Equipment for four naval ships	–	12,136,297
Kuwait				
Airbus S.A.S.	ALAFCO Aviation Lease and Finance Company (KSCC)	Airbus aircraft	–	12,794,151

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

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Luxembourg				
Rolls-Royce plc	Cargolux Airlines International	Aero engines	–	7,217,973
Malaysia				
Airbus S.A.S.	AirAsia Berhad	Airbus aircraft	–	23,066,673
Airbus S.A.S.	AirAsia X	Airbus aircraft	–	46,723,963
Netherlands				
Airbus S.A.S.	Aercap BV	Airbus aircraft	–	32,068,001
Airbus S.A.S.	Aerventure Ltd	Airbus aircraft	–	7,451,739
Nigeria				
Airbus S.A.S.	Arik Air	Airbus aircraft	–	30,491,805
Gentec Energy Plc	Tower Power Utilities Ltd	5MW Gas-capture Power Plant	Medium	7,992,882
Gentec Energy Plc.	Coronation Power & Gas Ltd	12.75MW Gas-capture Power Plant	Medium	13,541,179
Philippines				
Airbus S.A.S.	Philippine Airlines Incorporated	Airbus aircraft	–	17,351,928
ABN Amro Bank	N/A	Loan to Coke Power Project[2]	–	38,266,004
Portugal				
Airbus S.A.S.	Transportes Aéreos Portugueses	Airbus aircraft	–	21,411,727
Qatar				
Airbus S.A.S.	Qatar Airways (Q.C.S.C.)	Airbus aircraft	–	16,226,433
Saudi Arabia				
Fluor Ltd and other UK exporters	Saudi Kayan Petrochemical Co	Kayan Petrochemical Complex	High	247,019,359
Hawker Beechcraft Inc	National Air Services	Corporate Jets	High	4,953,088
South Africa				
BNP Paribas	N/A	Loan to Mozal Aluminium Smelter[2]	–	17,109,034
Deutsche Bank	N/A	Loan to Mozal Aluminium Smelter[2]	–	12,799,761

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

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Turkey				
Airbus S.A.S.	Turkish Airlines Inc	Airbus aircraft	–	82,976,616
United States of America				
Airbus S.A.S.	Aviation Capital Group Corporation	Airbus aircraft	–	43,317,829
Airbus S.A.S.	International Lease Finance Corporation	Airbus aircraft	–	153,290,571
Airbus S.A.S.	CIT group Inc	Airbus aircraft	–	212,430,662
Airbus S.A.S.	Genral Electric Capital Corporation	Airbus aircraft	–	41,279,725
Vietnam				
Airbus S.A.S.	Vietnam Airlines Corporation	Airbus aircraft	–	21,522,784
	Sub-Total			**1,441,085,021**
	Other Business not listed[3]			18,525,192
	Grand Total			**1,459,610,213**

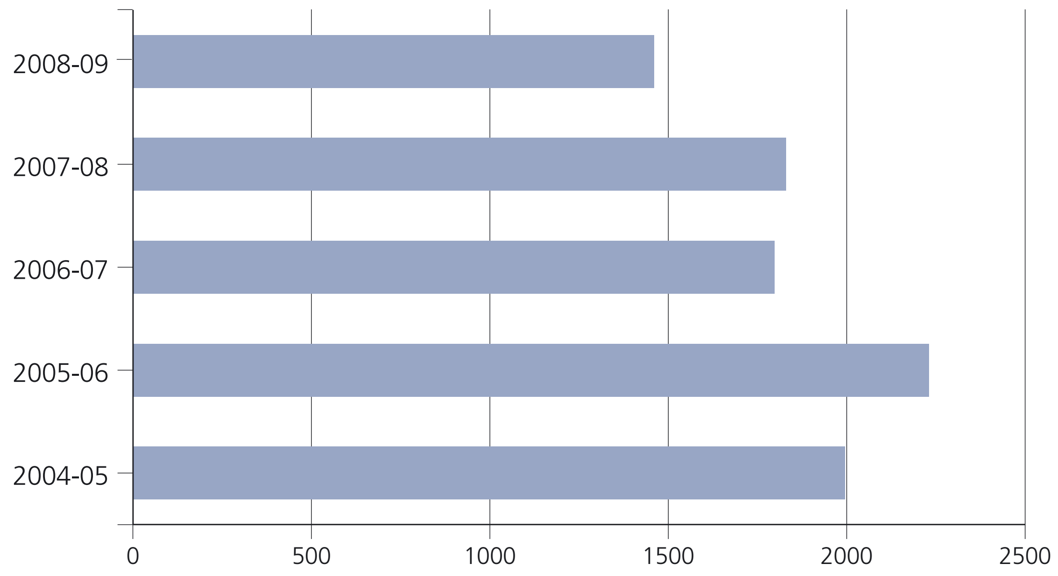
[1] The level of environmental and/or social impacts that could potentially occur without the intervention of the impact elimination systems. See the ECGD website for more information on ECGD's case impact analysis process at: http://www.ecgd.gov.uk/index/pi_home/case_impact_analysis_process.htm

[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

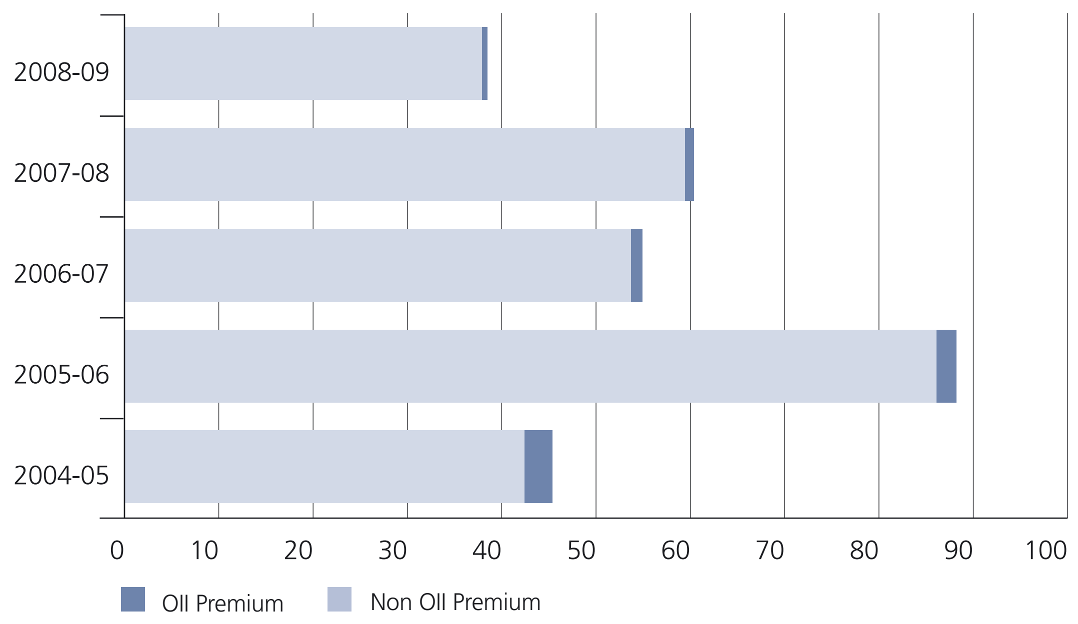


During 2008-09, ECGD supported exports and investments through issuing guarantees and insurance policies with an aggregate value of £1,460m. This represented a 20 per cent decrease from the level of business supported in 2007-08. Buyer Credit and Supplier Credit financing accounted for £1,373m of support, Supplier Credit Insurance for £0.3m and Overseas Investment Insurance (OII) business for £86.7m.

The business supported related to 22 overseas countries, compared with 24 for the previous year, and the total number of guarantees and insurance policies issued increased from 96 to 136 (including nine OII renewals).

Net premium income was £38.5m, down by 36 per cent from 2007-08 levels.

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



Aerospace

ECGD support for the UK civil aerospace industry was around 20 per cent higher by value than the previous year; ECGD guaranteed financing for more than 100 aircraft deliveries. This represented the largest number of Airbus aircraft ever supported by ECGD in a single financial year. The aircraft were delivered to 23 airlines and operating lessors in Australia, Brazil, Chile, Columbia, Czech Republic, Greece, India, Kuwait, Luxembourg, Malaysia, Netherlands, Nigeria, Philippines, Portugal, Qatar, Turkey, USA and Vietnam. Of the more than 100 aircraft delivered, approximately 40 per cent had a UK aero-engine element (from either Rolls-Royce or IAE). It is of particular note that ECGD provided support for the first time for an A380 aircraft, purchased by Qantas, which was financed in Australian dollars.

During the year, ECGD was able to take forward its co-operation arrangements with the French and German export credit agencies, which involve providing a form of re-insurance support to each other, in support of Airbus business. For a trial period, one of the export credit agencies (ECAs) will front the transaction with the airline concerned on most new transactions; the other two will provide its support to that lead agency. This approach is intended to provide a more efficient service to Airbus and its customers and to permit better use of ECA resources at a time of increased demand for support.

The dislocation in the financial markets that began in 2007 led to a sharp reduction in commercial banks' appetite to fund transactions in the aviation sector. As a result, there has been a significant rise in the demand for ECA support. It is expected that ECGD will support an even higher number of aircraft deliveries in 2009-10.

Figure 5: Value of business supported by sector (%) 2008-09

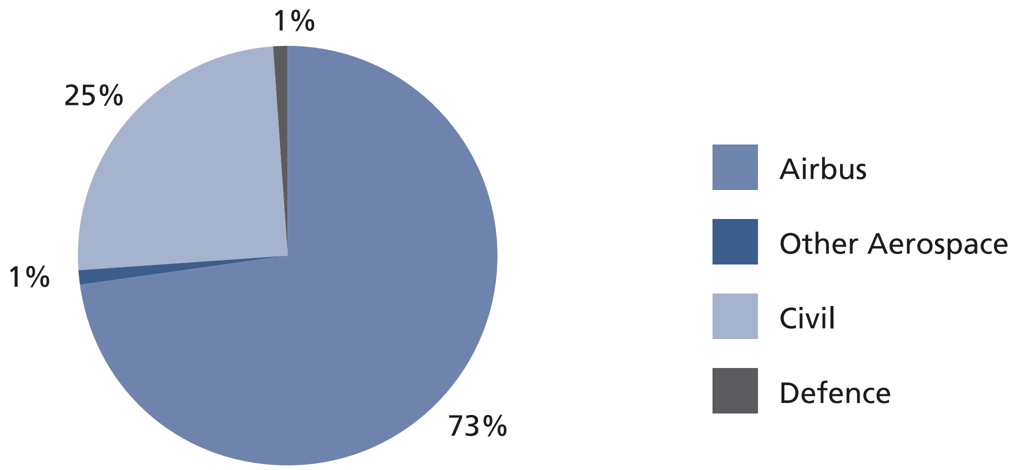


Figure 6: Value of business supported by sector (%) – five year summary

	2008–09	2007–08	2006–07	2005–06	2004–05
Airbus	**72**	29	27	44	31
Other Aerospace	**1**	1	2	3	1
Civil	**26**	13	29	30	30
Defence	**1**	57	42	23	38
Total	**100**	**100**	**100**	**100**	**100**

ECGD supported one transaction for Rolls-Royce engines on Boeing aircraft. Further support was not possible due to delays in the Boeing 787 programme. ECGD did establish a new relationship, with Hawker Beechcraft Inc, for the sale of six business jets to National Air Services Ltd of Saudi Arabia.

ECGD is prepared to consider offering support for second-hand aircraft under OECD Aircraft Sector Understanding terms and expects to see related transactions being proposed to ECGD in 2009-10.

Project finance

ECGD continued to see a material increase in enquiries for support for project finance-type transactions in the oil and gas sector and, increasingly, in other sectors, with a broad range of transactions under consideration.

In May 2008, ECGD issued a guarantee for a US$500m project finance loan (which became effective in November 2008) to finance contracts for the provision of engineering services to the Saudi Kayan project, situated in Jubail Industrial City, Saudi Arabia. The project sponsor, Saudi Kayan Petrochemical Company, is an affiliate of the Saudi Basic Industries Corporation. The project is intended to be the world's largest integrated petrochemical complex. The ECGD-supported facility forms part of a diverse US$6bn financing arrangement for the project that includes local, regional and international debt providers, finance supported by the Italian and Korean ECAs as well as ECGD, and an Islamic financing tranche.

Infrastructure and Power

ECGD provided support for two private sector gas-capture power plants in Nigeria, supplied by Gentec Energy Plc. The first contract, for US$13.3m, is for a 5MW plant to provide both heat and power to an aluminium plant near Lagos for Tower Power Utilities Ltd. The plant will facilitate an increase in production compared to the previously intermittent power supply from the national grid. The second contract, for US$22.9m, is to provide a 12.75MW plant and compressed natural gas system. The plants will be installed at separate sites in Lagos and Otta to support food processing and brewing operations of the Sona Brewery Company. Both projects will use gas currently being flared into the atmosphere and may, therefore, qualify for 'carbon credits' under the Clean Development Mechanism. They will also both replace diesel fuel operations being used for heat and power at the project sites, and should leave more electric power available for other grid users.

In May 2008, a loan agreement was signed between BNP Paribas and the Ghana Civil Aviation Authority (GCAA) to provide a US$33.6m loan to finance Phase III of the project to upgrade the international airport at Kotoka, Accra. The finance structure for this phase, which will become effective only once the agreed environmental conditions have been met, closely follows that of Phase II which was underwritten by ECGD in 2000. ECGD's security will be in the form of an assignment and charge on an escrow account (managed by HSBC) into which GCAA earnings from overflight and landing fees from a number of international airlines will be credited. There will be no direct recourse, therefore, to the Government of Ghana. Under the US$51m contract, UK contractor PW Ltd, in association with its local partner, PW (Ghana) Ltd, will be responsible, among other things, for the construction of a new fire station and the rehabilitation of a taxiway.

Transport

Supplier Credit Finance support of US$42.4m was provided by ECGD under a multi-source ECA facility entered into between BNP Paribas and Metro SA, Chile, to assist with the expansion of the Santiago metro network. The UK contractor, Balfour Beatty Rail Projects Ltd, will supply track, switches and crossings for extensions to two lines, which will help reduce traffic congestion and vehicle pollution in the capital city.

Sovereign Star Facility

Support was provided for the first of several contracts in the pipeline under the Sovereign Star Trade Finance facility, which is a financing programme aimed primarily at supporting direct SME export contracts. The US$1.2m contract, undertaken by Reviss Services (UK) Ltd, is to provide for improved sterilisation of medical equipment for the Brazilian healthcare sector.

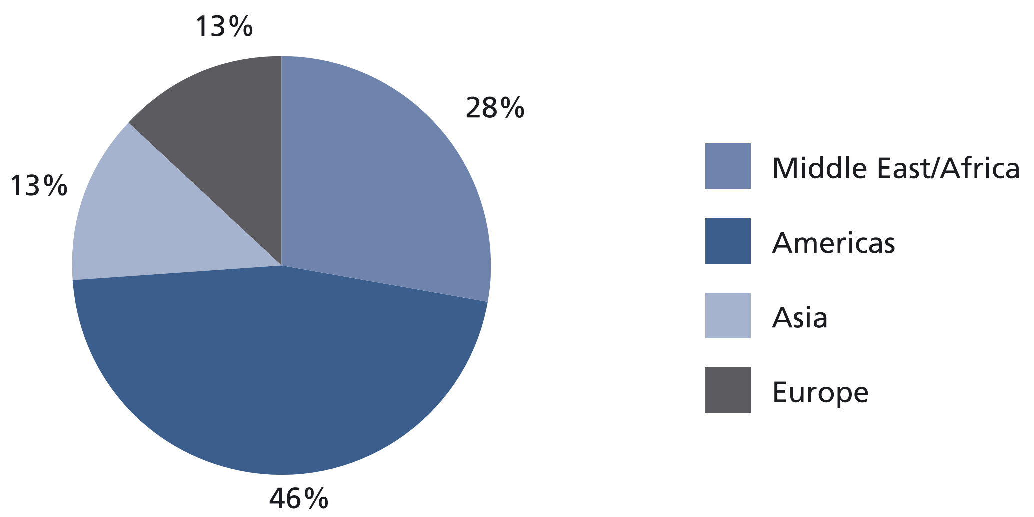
Defence

ECGD provided Atradius (the Dutch ECA) with reinsurance to cover a €12.5m contract won by Thales (UK). The order was to supply a range of electronic equipment (radar detectors, decoys, underwater telephones) to be fitted on four Dutch Sigma-class corvette naval vessels being supplied to the Indonesian Ministry of Defence. During the year, BAE Systems decided not to continue its insurance with ECGD for the Saudi-British Defence Co-operation Programme, on which it is the prime contractor.

Overseas Investment Insurance

Under its OII scheme, ECGD provides political risk insurance in respect of investments by UK firms overseas. No new investments were insured during the year. The maximum liability in respect of OII stands at £81m at 31 March 2009, a reduction from £138m in 2007-08.

Figure 7: Business supported by region (%) 2008-09



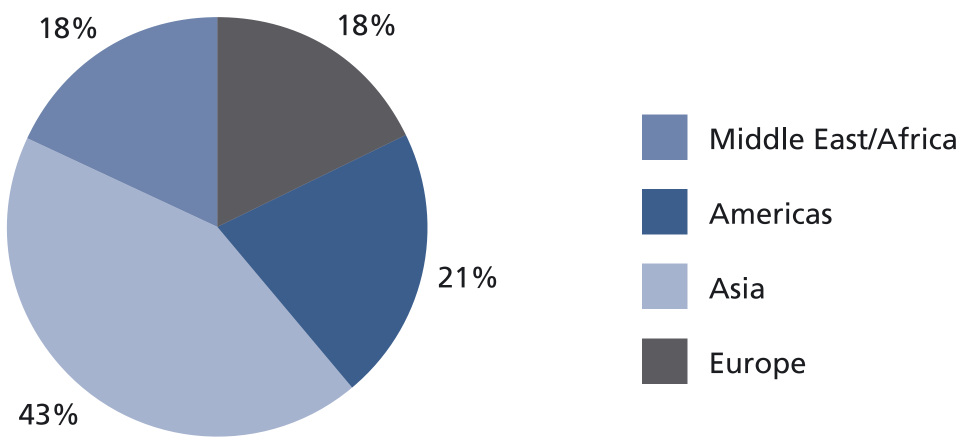
Claims and Recoveries

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).

Figure 8: Claim payments by region (%) 2008-09



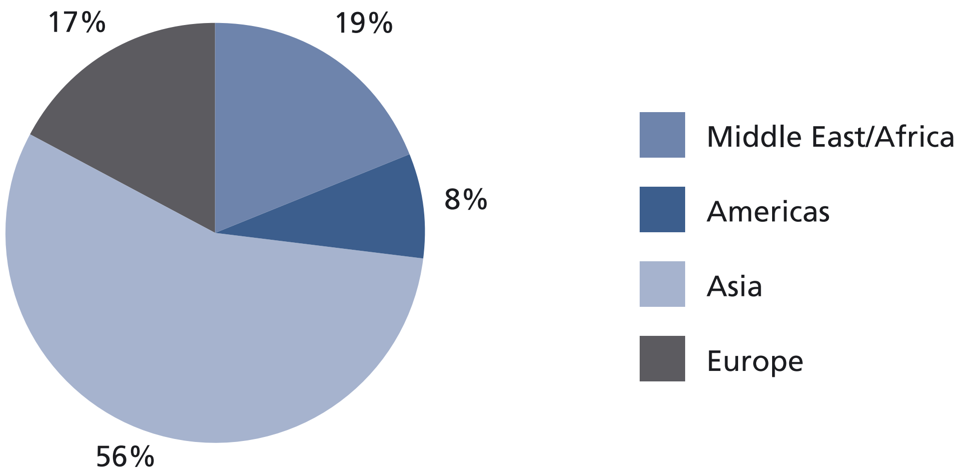
Claims

The reduction in the level of paid claims has continued. Payments authorised on capital goods and project business decreased from £53m in 2007-08 to £44m.

Recoveries

Recoveries in 2008-09 were £110m compared to £389m in the previous year due to fewer prepayments.

Figure 9: Recoveries by region (%) 2008-09



Paris Club Activity

ECGD received £197.8m in rescheduled debt and interest payments in 2008-09, compared to £697m in 2007-08. ECGD participated in four rescheduling negotiations through the Paris Club, with the Republic of Congo, Liberia, Seychelles and Togo respectively. Unlike in the previous two years, no debtors opted to prepay their outstanding debt.

As a result of repayments and further debt reduction, the amount owed to ECGD under Paris Club arrangements was £2.5bn at 31 March 2009 compared to £2.7bn at 31 March 2008.

Non-Paris Club Recoveries

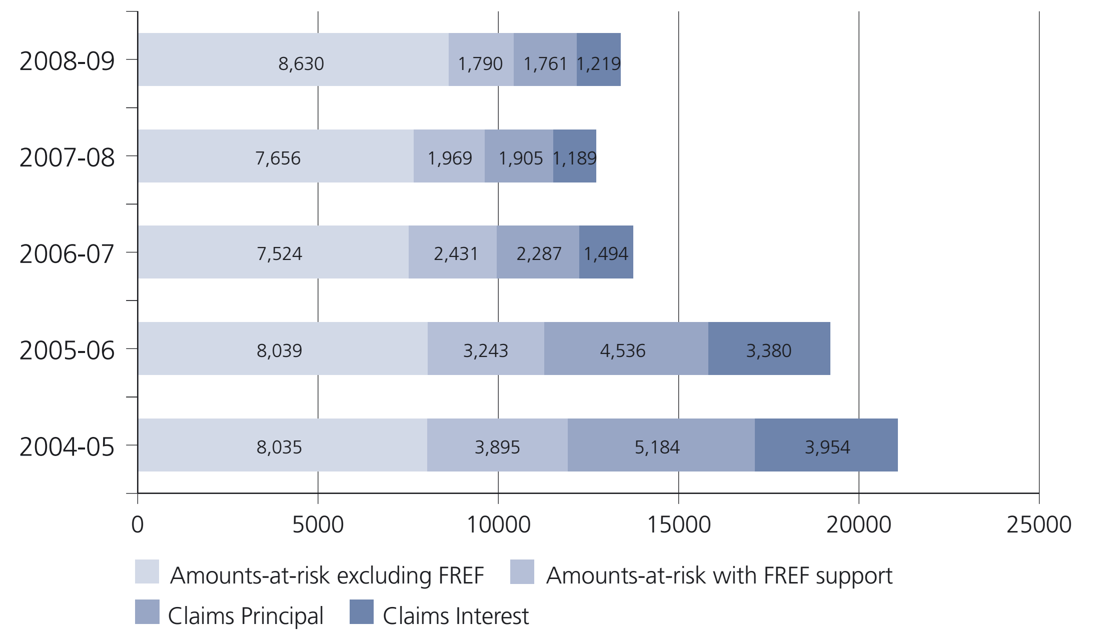
Recovery work was dominated by the aircraft sector. One aircraft, which had been repossessed by an agent bank from a failed airline, was sold, while the leases of 20 aircraft, to two airlines, were successfully restructured.

As a result, ECGD's distressed airline portfolio at 31 March 2009, where aircraft have been repossessed or where the lease repayments have been restructured, accounted for 39 aircraft involving five airlines: 34 aircraft with an exposure of £199m remain in operation with their original airlines on restructured leases;

of the remaining five repossessed aircraft, there are firm prospects for sale in respect of one. This compares to a portfolio of 60 aircraft involving eight airlines at 31 March 2008. ECGD's distressed aircraft exposure at 31 March 2009 was £284m, a reduction from £352m at 31 March 2008.

Recoveries of £31.2m were made during the year, compared with £52.3m in 2007-08.

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



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$, € and ¥-denominated 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 decided that the existing FREF scheme should continue for a further period ending on 31 December 2008.

However, in response to the challenging conditions facing banks and exporters, it was announced in the 2008 Pre-Budget Report that ECGD would, subject to continued availability of funds under the current FREF scheme, extend its validity until 31 December 2009. During this period, ECGD will continue discussions with the British Bankers' Association and exporters to explore the possibility of devising a new scheme to be implemented by 31 December 2009. Once the outcome of these discussions is known, the Government will produce a Final Response to the Public Consultation.

Credit Risk Management

ECGD undertakes comprehensive credit risk management reporting, with regular country reviews and up to date ratings and risk parameters for both corporate and sovereign business. These are used to inform its risk appetite and its pricing on new business.

Corporate default statistics used in modelling and pricing are updated every six months, and aircraft values are updated regularly on the basis of advice from an independent professional valuation firm.

The credit risk portfolio is subjected to extensive stress testing and scenario analysis in line with best market practice in order to measure ECGD's risk exposure against its financial objectives.

As a result of the turmoil in the credit markets over the last eighteen months and the onset of a global economic downturn, the risk of defaults by borrowers or of debt restructurings has grown. This is especially so in the airline sector which is approaching a low point in its business cycle and experiencing material stress, similar in severity, if not worse, than that experienced in the early 2000s. New claims on ECGD have yet to occur, but there has been an increase in the number of cases that have been put on 'credit-watch'.

Against the backdrop of this deteriorating risk environment, ECGD has increased the frequency and depth of analysis in relation to both its new business and its existing portfolio.

The overall risk quality of the portfolio has nevertheless remained stable when measured by the rating profile and expected loss rate. Total nominal exposure has increased on Account 2 (business underwritten since 1991), as a result of the significant depreciation of sterling against exposures in US$, ¥ and €, which form a large proportion of the portfolio.

The civil aerospace sector remains ECGD's largest concentration of exposure. It is expected to increase during 2009-10 as a consequence of continued tight credit markets and the lack of appetite in private markets for the provision of new credits.

Subject to the severity and duration of the current downturn, ECGD expects to have an adequate pool of experienced staff to deal with watchlist cases or actual defaults. Resources already have been strengthened, for example to support risk assessment and increased volumes of aerospace business. Further external recruitment will be undertaken if necessary.

Although the global banking industry has been under stress, ECGD's aggregate credit exposure to banks comprises less than ten per cent of its total portfolio; it principally relates to credits ranked investment grade.

International Developments

ECGD represents the UK on the OECD Export Credits Group.

In June 2008, OECD members agreed on an enhanced Peer Review process for export credits. This will apply to the monitoring arrangements in respect of environmental and anti-bribery measures for OECD export credits. It includes an earlier release of the responses to the surveys completed by OECD members to Civil Society Organisations for comment, and enhanced reporting of the outcomes of the OECD review process.

In November 2008, OECD members met to discuss the financial crisis and to share information on measures taken to support trade finance.

In January 2009, minor amendments to the OECD Arrangement on Officially Supported Export Credits were agreed; these expanded the number of countries eligible for 10-year repayment terms, increased the permitted level of ECA participation in some Project Finance transactions, and allowed flexible repayment profiles for renewable energy projects.

Following the agreement reached in 2007 on a new Aircraft Sector Understanding, OECD countries and Brazil have continued to meet regularly to monitor the sector and refine the text of the agreement.

The focus of the OECD in 2009 will be on the review of the terms that apply to renewable energy and water projects and to nuclear power plants.

Sustainable Development Report

Introduction

This is ECGD's annual Sustainable Development Report.

ECGD contributes to sustainable development mainly through its analysis of the environmental and social impacts of overseas projects related to the exports or investments that it is asked to support. ECGD's Business Principles Unit (BPU) reviews applications in accordance with ECGD's policies on environmental and social impacts. These policies provide that projects that comply with the relevant international standards will normally be considered acceptable on environmental and social impact grounds.

ECGD also seeks to ensure that its own environmental footprint is minimised. ECGD addresses its contribution to sustainable development through its Sustainable Development Action Plan (SDAP) and its reporting under the Sustainable Development in Government initiative (SDiG).

Sustainable Lending

In 2008, the OECD agreed that loans to low income countries supported by its members' ECAs should reflect sustainable lending policies. To implement this agreement, the OECD adopted the Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries (April 2008 Revision)[1]. This agreement supports efforts by the IMF and the World Bank, following the substantial debt relief provided under the HIPC initiative and the Multilateral Debt Relief Initiative, to help countries to avoid creating new unsustainable debt burdens. ECAs are required to seek comments from the IMF and the World Bank as part of their consideration of support for exports to the identified low-income countries.

ECGD has revised its related guidance (previously known as Productive Expenditure) for applicants who seek ECGD support for exports to low income countries. The new guidance describes how ECGD, with assistance from other government departments, assesses applications, and explains the processes involved.

Environmental Audit Committee (EAC)

In July 2008, the EAC conducted an inquiry into ECGD and sustainable development. In advance of this inquiry, the EAC commissioned a report from the National Audit Office (NAO)[2]. ECGD submitted a memorandum directly to the EAC. The Minister for Energy and ECGD's Chief Executive and its Business Group Director gave oral evidence to the Committee.

1 Available at: http://www.olis.oecd.org/olis/2008doc.nsf/LinkTo/NT000031BE/US$FILE/JT03246229.PDF
2 See http://www.publications.parliament.uk/pa/cm200708/cmselect/cmenvaud/929/929we13.htm

The EAC report[3] concluded that, since the Committee's previous examination of ECGD in 2003, ECGD "has continued to make progress on sustainable development that deserves to be recognised. Sound foundations have been laid and mechanisms put in place that offer a good framework for further action." However, the EAC considered that "there is still room for improvement in the way sustainable development is incorporated into ECGD's decision-making and ECGD must ensure its activities are in line with wider Government aspirations on sustainable development." The EAC also concluded that "ECGD must improve the transparency of its assessment processes" and do "more to attract renewable energy and other projects that support sustainable development."

The Government response to the EAC's conclusions and recommendations was published on 5 March 2009. In its response, the Government stated that:

- it does not believe there should be limits on the categories of business that ECGD may support;
- ECGD cannot control the portfolio of business it supports. ECGD must support all eligible business; it cannot reshape its portfolio, for example to favour carbon-neutral business;
- ECGD must take government policies into account but is not responsible for creating them;
- the Government believes the best way to raise environmental and social standards for ECAs is through multilateral agreements in international forums; and
- ECGD will continue to monitor applications for its support against international standards.

Reporting

During 2008-09, ECGD announced that in future it will publish estimates of the annual greenhouse gasses (GHG) emissions of certain projects which it supports during their normal operations. These estimates will appear in ECGD's Sustainable Development Report for the year in which its support for the relevant project is committed. For projects with high potential environmental and social impacts, such reporting is included in this report. For projects with medium potential environmental and social impacts, this reporting will commence in ECGD's Sustainable Development Report for 2009-10.

The Government response to the EAC contained the commitment that ECGD would disclose its reasons for its categorisation of all categorised cases in its annual Sustainable Development Report and to publish Notes of Decision for all high potential impact projects where ECGD has agreed to provide its support.

3 See: http://www.publications.parliament.uk/pa/cm200708/cmselect/cmenvaud/929/92902.htm

Sustainable Lending cases for which support was issued during 2008-09	
Market / Exporter	**Overseas project**
Ghana / PW Ltd	Kotoka International Airport extension
Nigeria / Gentec Plc	Gas-capture power station
Nigeria / Gentec Plc	Gas-capture power station

Information related to ECGD's Case Impact Analysis Process	
	Number
Insurance policies and guarantees issued that were screened for environmental impacts	7
Insurance policies and guarantees issued for which an environmental impact assessment was provided	3
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	6
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	2
Transactions that ECGD declined to support on environmental/ social impact grounds	0

Environmental/social impacts of civil, non-aerospace cases for which support was issued during 2008-09			
Market/ Exporter	**Overseas project**	**Exported goods/ services**	**Potential Environmental and Social Impact: Explanations, Relevant International Standards and Compliance**
Brazil/ Reviss Services (UK) Ltd	Medical equipment sterilisation plant	Cobalt 60 radiation	Medium Potential Impact: this is to an existing plant with no new land take. Potential negative impacts warranted further review by ECGD. Benchmarked against International Atomic Energy Agency standards, and found to be materially compliant at date of issue of support.
Chile/ Balfour Beatty Rail Projects Ltd	Santiago Metro System	Supply, installation and commissioning of track, conductor rail switches and crossings	Medium Potential Impact as major infrastructure works involved. Benchmarked against IFC/EHS Guidelines, and found to be materially compliant at date of issue of support
Egypt/Fira International Ltd	Furniture testing technical centre	Furniture testing	Low Potential Impact, as no significant potential negative environmental, social or human rights impacts. Therefore benchmarking against international standards not required.
Ghana/PW Ltd	Infrastructure upgrade at Kotoka airport centre	Project management services	Medium Potential Impact: existing airport with no new land take. Potential negative impacts warranted further review by ECGD. Benchmarked against European and World Bank standards. Requirement for material compliance as condition precedent to support becoming effective.
Nigeria/ Gentec Energy Plc	Gas Capture Power Station	Supply, installation & commissioning of 5MW power station	Medium Potential Impact: this is to an existing plant with no new land take. Potential negative impacts warranted further review by ECGD. Benchmarked against European standards and found to be materially compliant at date of issue of support.
Nigeria/ Gentec Energy Plc	Gas Capture Power Station	Supply, installation & commissioning of 12.75MW independent power station	Medium Potential Impact: this is to an existing plant with no new land take. Potential negative impacts warranted further review by ECGD. Benchmarked against European standards and found to be materially compliant at date of issue of support.
Saudi Arabia/Fluor Ltd and other UK exporters	Kayan Petrochemical complex	Supply of refinery and petrochemical plant	High Potential Impact as major new petrochemical plant. Benchmarked against World Bank standards. Requirement for material compliance as condition precedent for support becoming effective. **Estimated annual greenhouse gas emissions during normal operations**: 5.9m metric tonnes CO2 equivalent.

Civil aerospace and defence export cases are subject to separate screening arrangements. All new civil aircraft and aero engines supported by ECGD must meet European Union and International Civil Aviation Organisation environmental and noise standards. Defence exports are subject to the export licensing procedure operated by the Department for Business, Innovation and Skills (BIS) Export Control Organisation with advice from the Foreign and Commonwealth Office, the Ministry of Defence and, where relevant, the Department for International Development (DFID).

All OII cases supported during the year were renewals of policies originally issued before the introduction of the Case Impact Analysis Process.

Co-operation with other ECAs

Other OECD ECAs with which ECGD has collaborated during its assessment of the environmental and social impacts of individual projects during 2008-09 include Atradius (the Netherlands), CESCE (Spain), and Coface (France).

Outreach to ECAs of non-OECD countries

As part of the OECD Export Credit Group's outreach agenda, ECGD has had regular contact with Sinosure, the Chinese ECA. Discussions have included ECGD's anti-bribery and corruption practices and the OECD Sustainable Lending principles.

Representatives from China, India, Israel, Russia and Slovenia attended the ECAs' Environment Practitioners' meeting in February 2009 in Tokyo where a special one-day workshop was held to introduce the representatives to the OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits.

Supply Chain Standards

During the Public Consultation on ECGD's foreign content rules conducted during 2006 and 2007, a submission was made by some special interest groups which expressed concern that a relaxation in its foreign content rules could give rise to ECGD providing support for supplies that had involved adverse environmental or social impacts in their production. This concern was raised against a background where it has not been ECGD's policy to make enquiries about the production standards of the foreign content it supported.

The Government response to the Public Consultation stated that ECGD would undertake a separate review and, as appropriate, make proposals, taking into account the practices of other ECAs and of multilateral International Financial Institutions (IFIs), and the possible impact on UK exporters of any policy change in this area.

ECGD has completed a programme of research to further its understanding of supply chain management issues. This included discussions with exporters, special interest groups, ECAs, IFIs and other UK Government Departments. This research established that:

- some of ECGD's customers, particularly large companies, employ supply chain management policies and practices but usually where they have a degree of control over the supply chain; in the main, SMEs do not employ supply chain policies;
- some IFIs have sought to address supply chain management issues but primarily at a strategic country level;
- no other ECA operates supply chain management policies and practices; and
- a number of international agreements exist which address supply chain management issues, although these are expressed in general terms, do not contain specific definitions of production standards for capital goods business, and are voluntary.

Ministers have decided that further work on supply chain management by ECGD should be pursued multilaterally. ECGD is now taking this forward internationally with a view to exploring the potential scope to develop a common understanding regarding supply chain policies and practices for capital goods business which could be followed by ECAs.

This subject was raised by ECGD at the annual Berne Union meeting in Banff in October 2008 and with the Environment Practitioners of the other OECD ECAs at their meeting in Tokyo in February 2009. Representatives of several ECAs expressed interest in participating in an informal working group to discuss how this work could be progressed. To this end, ECGD will be seeking to engage with other ECAs during 2009 to try to establish support for this initiative.

Anti-bribery and corruption

ECGD implemented new anti-bribery policies in 2006, following a Public Consultation. Under these policies ECGD will do all that it reasonably can to avoid supporting transactions tainted by bribery and corruption. ECGD's policies are consistent with the revised OECD Council Recommendation on Bribery and Officially Supported Export Credits, which was issued in December 2006.

During the year, ECGD continued to be involved with other parts of government in various matters concerning international corruption. In April 2008, ECGD gave evidence to the OECD Working Group on Bribery as part of its review of the UK's implementation of the OECD Anti-Bribery Convention.

The Government encourages companies to adopt the OECD Guidelines for Multinational Enterprises. These voluntary guidelines are recommendations on responsible business conduct addressed by governments to multinational enterprises operating in or from their territories. An ECGD representative is a member of the Steering Board, which oversees the work of the UK National Contact Point for the Guidelines.

Sustainable Development in Government

Since 1999, the Government has publicly reported its progress in meeting sustainable development objectives in the management of its own estate. In 2002, it started developing the Framework for Sustainable Development on the Government Estate (SOGE), establishing common targets for key operational areas such as energy. Departments are required to report annually on whether they have met their targets, and progress is assessed in the annual Sustainable Development in Government report (SDiG). The responsibility for assessing Government performance against the framework annually rests with the Sustainable Development Commission (SDC).

The 2007-08 SOGE reporting period (the most recent) shows ECGD as being on course to meet seven of its nine applicable SOGE targets. It will be necessary for ECGD to maintain performance through to the various target dates in order for these achievements to be recognised. ECGD has either met or is on course to meet the targets to:

- reverse upward trend in carbon emissions by April 2007. *ECGD achieved this target by the due date;*
- reduce carbon emissions (from offices) by 12.5 per cent by 2010-11, relative to 1999-00 levels. *ECGD is exceeding this target, reducing emissions by 32.4 per cent by 2007-08;*
- reduce carbon emissions (from road vehicles used for administrative operations) by 15 per cent by 2010-11, relative to 2005-06 levels. *ECGD is exceeding this target, reducing emissions by 72.5 per cent by 2007-08;*
- increase recycling figures to 40 per cent of waste arisings by 2010. *ECGD is exceeding this target, increasing recycling by 65.6 per cent by 2007-08;*
- reduce water consumption by 25 per cent on the office and non-office estate by 2020, relative to 2004-05 levels. *ECGD is exceeding this target, reducing water consumption by 70.8 per cent by 2007-08;*
- source at least 10 per cent of electricity from renewables by 31 March 2008. *ECGD achieved this target, sourcing 12.8 per cent by the due date;* and

- source at least 15 per cent of electricity from Combined Heat and Power by 2010. *ECGD is meeting this target, sourcing 20.6 per cent by 2007-08.* (The building owner reviews the purchasing of energy at ECGD's London premises on an annual basis. As a result, the energy supplier and type is subject to change.)

The remaining two targets, which ECGD continues to address, are to:

- increase energy efficiency per m^2 by 15 per cent by 2010, relative to 1999-00 levels. *ECGD's energy efficiency has decreased by 25.2 per cent compared to baseline;* and

- reduce waste arisings by 5 per cent by 2010, relative to 2004-05 levels. *ECGD's waste arisings have increased by 35.4 per cent compared to baseline.*

ECGD is, however, 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 per m^2 has decreased as it has relinquished floor space by housing staff more closely together. More efficient use of floor space results in work stations and computers being more densely arranged; this results in increased energy use for the remaining floor space. However, it should be noted that despite the decrease in energy efficiency, the actual level of energy use within ECGD has fallen by 20.7 per cent over the last four years.

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

ECGD purchases carbon offsets for its air and rail travel.

ECGD's Sustainable Development Action Plan

During 2008-09, ECGD has continued to make progress towards the domestic and international goals within its 2007 SDAP.

ECGD published a new SDAP for the period 2009-11 in June 2009. This continues to place emphasis on international goals with respect to Sustainable Development. In addition, ECGD will continue to review and to seek to improve its performance in relation to the SOGE targets set for Government Departments.

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 particular sectors or business receiving its support, international debt and ECGD's organisational structure.

In 2008-09, ECGD received 57 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 2008-09 and 2007-08

Issue	2008-09	2007-08
Anti-bribery and corruption procedures	4	2
Defence business	3	2
Environmental information	6	20
General business matters	13	19
International debt	3	4
Organisation/procurement	28	8
Total	**57**	**55**

ECGD responded to 87.7 per cent of cases within the statutory time limit.

Two cases were referred to the Information Commissioner, and two further cases were referred to the Information Tribunal.

People

ECGD is committed to ongoing and effective communication with its staff. In addition to normal day-to-day operational contact between staff and senior managers, each business area formally meets together each month for 'Team Briefings', led by its senior management, to communicate departmental developments and local issues. In addition, the Chief Executive holds briefings with all staff on a six-monthly basis.

Following the last Staff Survey, conducted in July 2007, the Human Resources Division gave presentations to all staff in 2008-9, to provide updates on progress made against the actions agreed to address the priority issues. These include: addressing poor performance, improving consistency of performance assessments, and maintaining ECGD's commitment to diversity awareness. These presentations also briefed staff on progress under ECGD's Joint Equality Scheme Action Plan.

ECGD remains committed to consultation with staff and Trades Union representatives in respect of material changes to organisational structure and working conditions. At the beginning of the financial year, management completed an extensive period of consultation on the introduction of a revised Staff Appraisal System, which has since been implemented.

A new Learning and Development Strategy has been developed in recognition of the need to take a fresh and systematic look at the range of skills and behaviours needed across ECGD. During 2008-09 a coordinated programme of learning and development interventions has been deployed to address those needs. A central aim of the strategy has been to support managers in transferring knowledge from experienced staff to new staff, to support the long-term sustainability of their business areas.

ECGD in the community

ECGD actively engages with the Tower Hamlets Education Business Partnership to enable students from the local community to benefit from work placements in ECGD every year. ECGD also encourages volunteering on the part of its staff (including marking National Volunteers Week each year) and provides additional paid leave to enable them to do so.

ECGD operates a Give As You Earn Scheme (GAYE). In 2008-09, 23 per cent of staff contributed to UK charities in this way. In recognition of this outstanding contribution by staff, ECGD was presented with the Payroll Giving Gold Award in July 2008.

Forward Look

International

ECGD will continue to work towards a level playing field for ECAs through continued collaboration with the Environment Practitioners of other ECAs, continued outreach to the ECAs of non-OECD countries, and preparation by the UK for the next review of the OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits that is scheduled for completion by the end of 2010.

Supply Chain Management

ECGD is planning to host a forum of ECAs to consider how supply chain management might be taken into account as part of ECA due diligence before offering export credit support.

Anti-bribery and corruption

ECGD will be conducting a review of its anti-bribery and corruption policies during the latter half of 2009 in fulfilment of a commitment made to the Trade and Industry Select Committee after the introduction of its new policies in July 2006.

Export Guarantees Advisory Council Annual Report 2008-9

The remit of the Council is defined by the Export & Investment Guarantees Act (EIGA) 1991. Its Terms of Reference, the minutes of each EGAC meeting, and a register of members' interests, are available on the ECGD website.

The Council's broad remit is to provide advice to Ministers on the principles that should guide ECGD's pursuit 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, though it does carry out retrospective reviews of 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.

During the period covered by this report, the membership of the Council was as follows:

Chair

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

Members

Dr Robert Barrington (Director of Governance and Socially Responsible Investment, F&C Asset Management Plc to July 2008, then 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, Trowers & Hamlins to June 2008, then 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.

The Council met four times in 2008-9, and considered a range of issues. We also met ECGD's Minister, Ian Pearson, in April 2009; this provided an opportunity to discuss a number of topics.

As in previous years, the Council spent the majority of its time during the year focussing its attention on policies stemming from ECGD's Business Principles and their application to ECGD's activities.

One of the Council's standing agenda items is its review of the work of ECGD's Business Principles Unit (BPU) over the previous twelve months. This review took place in May 2008. For the period concerned, aside from its routine work, including case assessments and the monitoring of issued cases with high potential impacts, the BPU had undertaken work in a range of areas. Specifically, it spent considerable time developing ECGD's first Sustainable Development Action Plan, which was published in April 2007, and providing input to the Sustainable Development Commission (SDC)'s Sustainable Development in Government report, in which ECGD was ranked as the most improved department. The BPU was actively involved in the negotiations leading to the revised OECD Recommendation on Common Approaches on the Environment and Officially Supported Export Credits, which was agreed by the OECD Export Credits Group in June 2007. The BPU also continued to attend meetings of ECA Environmental Practitioners, with the purpose of reviewing and advocating multilateral improvements to due diligence practices for environmental and social issues relating to projects.

In May, the Council was also updated on three topics ECGD had been involved with within the OECD. Specifically, these concerned the OECD Survey on ECA anti-bribery policies, where ECGD's policies had been found to be fully compliant with the OECD's Recommendation; developments in OECD standards on Productive Expenditure and Sustainable Lending; and proposals by NGOs for a peer review process designed to monitor ECA implementation of the OECD Recommendation on Common Approaches on the Environment. The Council supported ECGD's work in these areas.

At its December meeting, the Council considered the Government's proposed response to the Environmental Audit Committee's report on ECGD and Sustainable Development.

The Council also received a briefing on ECGD's experience of its revised anti-bribery and corruption rules, covering the second year of their implementation, 1 July 2007 to 30 June 2008. The Council asked ECGD to make public a report of its experience; ECGD has since done so.

The Council received briefings on three related issues: the Woolf Committee's Report into the ethical policies and processes of BAE Systems; the recent Report by the Committees on Arms Export Controls; and the OECD Phase 2 bis report on the UK's implementation of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In light of these reports, the Council's view was that, while ECGD's policies on bribery and corruption remained adequate, the 2009 review of ECGD's anti-bribery policies should take into account each of these reports.

In light of events in the world economy, the Council requested that its February meeting should be centred on a discussion with groups representing ECGD's exporter community, with a view to gauging opinion on ECGD's role in the Government's response to the economic downturn. This meeting raised a number of pressing issues arising from current events, which the Council is discussing with ECGD; it is grateful to the exporter representatives for their comments.

The Council met NGO representatives in March 2009, 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, while others are being taken into account as the Council considers its agenda for the coming year. The Council would like to express its appreciation for the comments from NGOs.

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

At each meeting, Patrick Crawford, ECGD's Chief Executive, briefed the Council on the Department's financial performance 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, and on information released by ECGD under the Freedom of Information Act 2000 (FOIA) and Environmental Information Regulations 2004 (EIRs) in the periods between its meetings. It also received an annual briefing on ECGD's experience and performance in handling information requests under the FOIA; over the period in question, the Council noted the significant improvements in timeliness made by ECGD in this area.

The Council considers that ECGD operated in accordance with its Business Principles during the period covered by this report. During 2009-10, the Council intends to retain its focus on how the Business Principles relate to the day-to-day work of ECGD. Specifically, it will be carrying out a review of a major case underwritten by ECGD in recent years, as well as providing input into the review of ECGD's bribery and corruption policies. Issues raised at its recent meetings with both customer representatives and NGOs will also form part of its agenda for the coming year.

Professor Jonathan Kydd
Chair

The Management Board

Back row: L-R: David Godfrey, Nicholas Ridley, David Havelock, Graham Pimlott (Chairman), Peter Haslehurst, Steve Dodgson

Front row: L-R: David Harrison, Patrick Crawford (Chief Executive), Katherine Letsinger, Nigel Addison Smith

The Board

ECGD's Management Board is responsible for advising and supporting the Accounting Officer in respect of the governance of ECGD. It consists of a Non-Executive Chairman, four independent Non-Executive Directors and five members of the Executive Committee. 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 is accountable to the Secretary of State for Business, and the Minister for Trade, Investment and Business Innovation and Skills for:

- exercising oversight of the Chief Executive and the Executive Committee;
- monitoring the application of the principles of good governance (including the application of ECGD's Business Principles);
- 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 and Assurance, 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.

Officials of the Shareholder Executive meet the Non-Executive Directors annually, in the absence of ECGD members of staff, to review governance.

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 Chief Executive is advised on the management of ECGD's business by the Executive Committee. The Executive Committee, which meets weekly, supports the Chief Executive in the discharge of his responsibility as the Accounting Officer for the overall organisation, performance and management of ECGD within the policy and resource framework set by Ministers and policies on which the Board has provided advice.

The sub-committees of the Executive Committee are the Risk Committee, the Business Systems and Infrastructure Committee, and the Information Management Assurance Committee. 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 concluded that ECGD complies 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 and advise the Accounting Officer on ECGD's arrangements for financial reporting, risk, internal control, and to provide assurances to the Board.

The Audit Committee Chair formally reports to the Board after each meeting of the Audit Committee and gives an overview report on the whole year. 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

The internal audit strategy and plan are important elements of ECGD's 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.

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. The status of these 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 to the Executive Committee by senior managers on the arrangements for managing risks in their areas of responsibility. 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.

ECGD also undertakes an annual programme of visits to banks and exporters to check for compliance with certain terms and conditions of the issued guarantees. Where appropriate, this may include a site visit to gain a better understanding of the contract under review.

Performance

Introduction

The key elements of ECGD's performance are:

- the service provided to exporters, in terms of guarantees and insurance for UK exports and overseas investments, and of payment of claims in the event of default;
- the protection afforded to the taxpayer by maintaining sound standards on the risk ECGD takes in providing new support to exporters and by meeting the financial objectives set for it; and
- ECGD's performance in relation to policy objectives set by Ministers, as set out in its Mission Statement.

In line with the performance management regime introduced under the 2007 Comprehensive Spending Review for 2008-11, ECGD's performance objectives, previously presented as Service Delivery Agreement Targets, have been consolidated into a single Departmental Strategic Objective, consisting of the Mission and Objectives set out in ECGD's Mission Statement.

2008-09 Performance

Guarantees and Insurance Policies Issued

In 2008-09, ECGD provided £1.460bn of guarantees and investment insurance. Full details are shown on pages 12-14.

Performance against Financial Objectives

ECGD is not an "Exchequer Department" in the sense that such a department receives money from HM Treasury and expends it for statutory or other purposes. ECGD charges for the services it provides to exporters and investors. Its financial objectives are to charge premiums for its products, which broadly cover the risk of those products and all administrative expenses.

The nature of the guarantees and insurance offered by ECGD is such that, from time to time, claims are made which are required to be funded. ECGD then seeks to recover these claims together with related interest as far as is possible. As a result, ECGD's cash position can be volatile. But the use of fund accounting ensures that surpluses are not declared until some years after the premiums are received, by which time it is expected that any claims which relate to these premiums will have materialised.

The financial framework under which ECGD operates includes detailed financial objectives and controls which inform the monitoring of the financial performance of ECGD's operations. ECGD's performance in respect of these objectives and controls is reported to HM Treasury on a monthly basis, as ECGD is required to retain the consent of HM Treasury to operate under the Export and Investment Guarantees Act 1991.

Departmental Strategic Objective – Delivery Indicators
Overall Summary: 10 of the 11 targets were achieved throughout the year. One target was not achieved for the period August to December 2008. However, this target was achieved for the year in aggregate, and it recovered to exceed the target by the end of the year.

Financial Objectives on the provision of Fixed Rate Export Financing	
Objective and Description	***Results***
2005 FREF Portfolio The total cost of this portfolio must remain no greater than £10m. The total cost is measured by the aggregate of the Mark-to-Market value, the cumulative cash outturn, and the administrative cost of the portfolio.	**Met** The total cost remained within the agreed limit.
All FREF Portfolios The interest rate risks arising from the FREF portfolios (other than risks arising from Prepayment Optionality) must be contained within agreed sensitivity limits.	**Met** There were no breaches of the sensitivity limits.
Arrangements in Old FREF Portfolio with Prepayment Optionality The interest rate risks arising from Prepayment Optionality in the Old FREF Portfolio must be contained within agreed sensitivity limits.	**Partially Met** There were two technical breaches. Additional reporting agreed between ECGD and HMT showed that there had been no material adverse impact on the underlying interest rate risk. On this basis, HMT agreed that the breaches could be waived.

Financial Objectives on guarantee and insurance business issued since 1991	
Objective and Description	***Results***
Maximum Commitment. This measure places a cap on the maximum amount of nominal risk exposure (that is, the total amount of taxpayers' money that may be put at risk by ECGD).	**Met**. The maximum exposure in the year was £12.4bn, against a notional maximum commitment of £25bn (unadjusted for foreign-exchange movements).
Risk Appetite Limit. This limit places a constraint on ECGD's appetite for risk at the 99.1 percentile of ECGD's estimated ten-year Loss Distribution.	**Met**. ECGD's 99.1 percentile of the ten-year Loss Distribution was £1.0bn, against a notional Risk Appetite Limit of £2.5bn (unadjusted for foreign-exchange movement).
Reserve Index. This index ensures that ECGD has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5 per cent level of confidence	**Met**. The reserve index did not fall below 3.32 in the year against a target of 1.00.
Pricing Adequacy Index. This index tests whether, over time, ECGD earns enough premium to cover all its risk and operating costs. It is measured over three different periods:	
(i) Past Two Years and Present Financial Year:	**Met**.This index for 2008-09 was 1.30 against a target of 1.00.
(ii) Previous, Present and Next Year:	**Met**. This index did not fall below 1.06 against a monthly target of 1.00.
(iii) Present Year and Next Two Years:	**Partly met**. At the year end this was 2.72; between August and October this fell to 0.995 against a monthly target of 1.00.
Premium to Risk Ratio. This measure ensures that each year ECGD charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to administrative costs.	Met. This ratio did not fall below 1.74 against a target of 1.35.

Performance against other Policy Objectives

Objective	Annual Review Section
To achieve Financial Objectives set by Ministers	pages 45-46
To operate in accordance with its Business Principles To ensure its activities accord with other Government objectives, including those on: Sustainable Development Human Rights	Sustainable Development – page 26 Export Guarantees Advisory Council – page 37
Good Governance	Management board – page 40 Statement on Internal Control – page 67
Trade	Business Overview – page 15
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	International Developments – page 25
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	Business Overview – page15
To ensure ECGD's facilities are, in broad terms, complementary to those in the private sector	Guarantees and Insurance Policies Issued – page 12 Business Overview – page 15
To provide an efficient, professional and proactive service for customers, which focuses on solutions and innovation	Business Overview – page 15
To employ good management practice to recruit, develop and retain the people needed to achieve the Department's business goals and objectives	People – page 35

Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6 (4)

Export Credits Guarantee Department

Resource Accounts 2008-09

(For the year ended 31 March 2009)

Ordered by the House of Commons to be printed 13 July 2009

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HC 458

Contents

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 2008-09 of £299.4 million, as compared to £597 million in 2007-08. The large reduction in operating income was caused by a marked decrease in Net investment return including interest caused by lower levels of recoverable claims and the fact that 2007-08 had benefited from significant provision releases. In addition the mechanism for capital charging (notional interest) changed during the year such that while ECGD received a capital income for 2007-08 the change in methodology give rise to a capital charge for 2008-09. The lower income was partially offset by a foreign exchange gain of £126.7m (£4.6m loss 2007-08) caused by revaluation of claims balances denominated in USD from $1.99 (2007-08) to $1.43 at the end of the year. 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, Innovation and Skills. 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 Section 3 of 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 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 2009 and up to the date of these accounts were:

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

The Rt Hon Lord Mandelson, Secretary of State for Business, Enterprise and Regulatory Reform (from 3 October 2008 to 5 June 2009), First Secretary of State, Secretary of State for Business, Innovation and Skills, and Lord President of the Council (from 5 June 2009)

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

Mr Ian Pearson MP, Economic and Business Minister (from 3 October 2008 to 5 June 2009)

Lord Davies of Abersoch CBE, Minister for Trade, Investment and Business (from 5 June 2009)

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 (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 37).

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 respect of business supported under Account 2.

Segmental Information

16 The Annual Review and Resource Accounts contain information regarding the regional analysis of ECGD's guarantees and policies issued and its exposure as at 31 March 2009. 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 £19.7 million.

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 2008–09, ECGD paid 100.0 per cent of invoices within the policy requirement. In addition ECGD is following guidance given during year that all Government departments should plan to make payments within 10 working days.

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. 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 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. Both the successful candidates were female and both were from an ethnic minority group.
- 1 candidate as Financial Planning and Analysis Manager (Pay Band 7) in conjunction with Morgan Hunt for a eighteen month fixed term appointment. The successful candidate was female and from an ethnic minority group.
- 1 candidate as GEFCO & Treasury Policy Support Officer (Pay Band 6) in conjunction with Huxley. The successful candidate was male and from an ethnic minority group.

- 2 candidates as Trainee Finance Professionals (Pay Band 6) in conjunction with Capita Resourcing and a number of other Government Departments. Both the successful candidates were male and both were not from an ethnic minority group.

- 2 candidates as Operational Research Analysts (Pay Band 5) recruited via the Government Operational Research Service. One of the successful candidates was male and none was from an ethnic minority group.

- 11 candidates were appointed on a fixed term contract of 12 months or less. Of these 3 were female, and 2 were from an ethnic minority group.

One of the above has declared a disability.

Days Lost due to Absence

20 ECGD encourages a culture where good attendance is expected and valued. However, it recognises that from time to time absences for medical reasons may be unavoidable. ECGD aims to treat its staff who are ill with sympathy and fairness and, where possible, to provide them with support which will enable them to recover their health and attend work regularly.

Over the period 1 April 2008 to 31 March 2009, the average working days lost per full time employee was 8.3 days. This compares favourably to the most recently published Civil Service average figures of 9.3 days.

Further Information on ECGD Activities

21 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

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

Management Commentary – Five Year Summary Contents

	£m 2008-09	£m 2007-08	£m 2006-07	£m 2005-06	£m 2004-05
Operating Statement					
Overall Value of Guarantees and Insurance Policies Issued	**1,460**	**1,830**	**1,798**	**2,230**	**1,995**
Premium Income	**38**	**60**	**55**	**88**	**45**
Net Operating Income – total	**299**	**597**	**401**	**1,699**	**1,108**
– Account 1	91	388	211	1,464	892
– Account 2	202	176	157	143	89
– Account 3	0	18	23	54	51
– Account 4	6	15	10	38	76
Cash flow					
Claims Recoveries – total	**110**	**389**	**872**	**720**	**590**
– Account 1	11	307	735	682	530
– Account 2	99	82	137	38	60
Interest Recoveries in the year – total	**146**	**362**	**593**	**958**	**595**
– Account 1	93	301	573	948	563
– Account 2	53	61	20	10	32
Claims Paid – total	**44**	**59**	**61**	**83**	**89**
– Account 1	0	0	0	4	0
– Account 2	44	59	61	79	89
Net Cash Flows – total	**239**	**782**	**1,557**	**1,815**	**1,427**
– Account 1	59	599	1,306	1,608	914
– Account 2	139	138	168	103	66
– Account 4	41	45	83	103	447
Balance Sheet					
Amounts at Risk	**10,420**	**9,625**	**9,955**	**11,282**	**10,958**
Non-FREF	8,630	7,656	7,524	8,039	8,035
FREF	1,790	1,969	2,431	3,243	2,923
Recoverable Claims – Gross	**1,762**	**1,905**	**2,287**	**4,536**	**5,184**
– Account 1	910	1,092	1,444	3,574	4,289
– Account 2	852	813	843	962	895
Recoverable Claims – Net	**872**	**861**	**1,127**	**1,909**	**2,322**
– Account 1	328	315	540	1,233	1,694
– Account 2	544	546	587	676	628
Interest on Unrecovered Claims – Net	**148**	**150**	**184**	**601**	**212**
– Account 1	128	109	127	565	212
– Account 2	20	41	57	36	0
Underwriting Funds	**506**	**583**	**642**	**723**	**763**
– Account 1	3	3	5	6	21
– Account 2	503	580	624	687	660
– Account 3	0	0	13	32	82
Direct Funding balance	**492**	**701**	**998**	**1,475**	**1,878**
FREF Loans balance	**1,365**	**1,419**	**1,737**	**2,570**	**2,923**

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:

- In the recent past the majority of Net Operating Income for Account 1 was generated when recoveries of claims or interest exceeded the book value net of provisions. During 2008-09, Operating Income reduced sharply to £91 million from £388 million (2007-08) as a result of the significant reduction in recoveries noted above. The income for the year includes an exchange gain of £53 million on claims held in foreign currencies.

- Claims Recoveries were £11 million, compared to £307 million in 2007-08. As predicted last year recoveries have reduced substantially as the balance of recoverable claims have fallen.

- Recoveries of interest on claims were £93 million, compared to £301 million in 2007-08. The main markets were Angola (£48 million), and Serbia (£13 million). The reduction in interest recoveries is consistent with the recoverable claims above.

- Recoverable Claims which have reduced significantly over the last few years continue to reduce but at a slower rate during the year. The balances for gross claims decreased from £1,092 million (2007-08) to £910 million during the year, while those for net claims increased from £315 million (2007-08) to £328 million during the same period due to movement in foreign exchange rates effecting claims and provisions disproportionately.

- Recoverable Interest on Unrecovered Claims has increased from £109 million (2007-08) to £128 million including receipts from Angola and Serbia during the year (see above). The increase reflects 3 factors being the effect of changes in foreign currency exchange rates (£26 Million), changes in provision rates (£22 million) offset partly by interest received exceeding interest charged for the year (£29 million).

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 £1,460 million compared to £1,830 million for 2007-08.

- Premium Income was £38 million compared to £60 million in 2007-08. The reduction in premium for the year was caused by a significant reduction in defence business which included the non-renewal of cover on the Saudi British Defence Cooperation Programme.

- Claims authorised and paid or payable during the year decreased to £44 million from £59 million in 2007-08. There were no new claims in the year; the total was in respect of further payments of claims previously authorised.

- Net Operating Income was £202 million compared to £176 million in 2007-08. 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 (1999-2000 Credit Fund and

2005-06 Cash Fund) was £117 million compared to £91 million in 2007-08. In addition a significant part of the income was derived from exchange gains (£74 million) largely on claim balances held in foreign currencies.

- Claims Recoveries for the year were £99 million compared to £82 million in 2007-08 while Gross Claims balances were £852 million as against £813 million in 2007-08. Net Claims balances were £545 million, compared to £546 million in the previous year.

Account 3

Account 3 represents guarantees issued on the instruction of Ministers which ECGD Accounting Officer has advised do not meet normal underwriting criteria.

There were no new guarantees issued or claims made on this Account during the year. There was no income for the year compared to £18 million for 2007-08 as there are no longer any significant Underwriting Funds for this Account.

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 £1,365 million from £1,419 million in 2007-08, due to loan instalments being paid.

- The Direct Funding balance represents the funds loaned by HM Treasury to reduce the cost of FREF. The balance continued to reduce during the year to £492 million from £701 million in 2007-08, as both regular instalments and early repayments were made.

- Net Operating Income reduced to £6 million in 2007-08 from £15 million in 2007-08. The decrease was caused by a change in the capital charging mechanism from HM Treasury. In previous years ECGD made a net income on the interest it receives from GEFCO after deduction of the capital charge, while the new capital charge mechanism does not allow for any net income on this revenue source.

All Accounts

- Operating expenses decreased £3.5 million to £22.9 million due mainly to a reduction of £4.0m in staffing costs and an increase in other costs due to an onerous lease provision on empty property. ECGD's staffing level decreased from an average full time equivalent of 238 for the year ended 31 March 2008 to 209 for the year ended 31 March 2009.

- For the reasons set out above (see Account 1), the major asset of ECGD, being Net Recoverable Claims, increased from £861 million (2007-08) to £872 million during the year. (Gross claims however reduced from £1.9 billion to £1.8 billion).

Future Developments

It was stated last year that ECGD had identified a requirement to address the balance between its income and its costs and had embarked on a programme of measures to reduce costs over the period to March 2011. These focussed on staff numbers, accommodation costs and IT efficiencies, in order to match expected levels of future income. During the year under review the credit crisis has significantly increased the level of enquiries for ECGD products and furthermore possible new products have been identified to assist British exporters during this difficult period. The cost and staff reduction programme will be reviewed in the light of these new demands.

Financial Risk Management

The objectives and policies of ECGD for the management of financial risks and its exposure to those risks, where material, are disclosed within note 36 to the Departmental Resource Accounts entitled ECGD Risk Management.

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 £37.1 million compared to an Estimate of £42.9 million. The variance was largely due to the Estimate including an amount of £5.0 million for possible unwinding of derivative contracts, which in the event, was not required.

RfR 2 Provision of export credit guarantees and insurance

This RfR includes the 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 £79.8 million compare with £128.0 million in the Estimate. The Estimate included 1) £9 million for the possible adverse movement in the market value of credit default swaps, while the actual Outturn was a gain, 2) £14 million for onerous lease provisions while the Outturn was £1.5 million, 3) £10 million for new defaults while none occurred. In addition expenses were £2.3 million below Estimate and the Capital Charge was £8 million below that estimated. 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	2008-09 £'000	2007-08 £'000
Net Resource Outturn (Estimates)	2	(37,066)	(43,437)
Consolidated Fund Extra Receipts in the OCS	3a	336,488	640,870
Net Operating Income (Accounts)		299,422	597,433
Other Consolidated Fund Extra Receipts	3a	(336,488)	(640,870)
Other adjustments		(10,743)	23,143
Resource Budget Outturn (Budget)		(47,809)	(20,294)
of which			
Departmental Expenditure Limits (DEL)		(5,898)	(19,694)
Annually Managed Expenditure (AME)		(41,911)	(600)

Parliament sets a limit on the annual amount of resource that ECGD can consume through the Supply Estimate process. Whereas, the Government controls public expenditure by way of a Resource Budget. This table reconciles ECGD's outturn results between the supply estimate and the resource budget.

Operating income is ECGD's total operating income as shown in the Operating Statement. Parliament limits the type and amount of income that ECGD is able to retain (A. in A.) and only income within this limit is shown in Resource Outturn (as shown in the Statement of Parliamentary Supply). Income beyond the limit is shown as CFER Income and Surplus A. in A. The Resource Budget Outturn includes GEFCO's net expenditure which is not within the limits set by Parliament nor does it form part of ECGD's net operating income.

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 undertook 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
26 June 2009

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 the state of affairs of ECGD and of its 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). Each year, in the light of economic evidence and movements in the private and wider public sector markets for senior executives, the SSRB makes recommendations to the Prime Minister on SCS pay covering the pay bands, increases to base salary and bonus payments. In light of the SSRB's recommendations, the Government makes decisions about SCS pay.

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

4 The SCS pay structure currently comprises 3 core pay bands – Pay Bands 1, 2 and 3. The pay band structure is underpinned by a tailored job evaluation scheme, Job Evaluation for Senior Posts (JESP), which provides a consistent basis for comparing the relative value of jobs within and across Departments.

5 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.

6 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, strongest contributors are paid a more significant award than those who have performed at a lower level.

7 The applicable base pay ranges from 1 April 2008 were:

Pay Band	Minimum	Recruitment & Performance Ceiling (RPC)
	£	£
1	£57,300	£116,000
2	£81,600	£160,000
3	£99,960	£205,000

8 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

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

10 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
- the advisory role; that they do not carry the same legal responsibilities as Non-Executive Directors in the private sector.

Remuneration Committee

11 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 2008-09 was:

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

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

[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 role of the Committee is to ensure that Cabinet Office rules and guidance are properly applied in the operation of the Senior Civil Service 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 and authorises decisions on individual awards;
- 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.

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

Service Contracts

Executive Directors

15 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.

16 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.

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

Non-Executive Directors

18 Non-Executive Directors are appointed in keeping with 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)*

	2008-09		2007-08	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Executive Directors				
Patrick Crawford *Chief Executive* *(Appointed July 2004)*	255-260	2,900	245-250	3,800
Nigel Addison Smith *Finance Director* *(Appointed June 2005)*	125-130	-	120-125	-
Steve Dodgson *Director,Business Group* *(Appointed July 2006)*	110-115	-	100-105	-
David Havelock *Director,Credit Risk Group* *(Appointed October 2005)*	125-130	-	115-120	-
Nicholas Ridley *General Counsel* *(Appointed June 1999)*	140-145	-	130-135	-
Non Executive Directors				
Graham Pimlott *Non Executive Chair* *(Appointed December 2003)*	60-65	-	45-50	-
David Godfrey *(Appointed March 2005)*	10-15	-	15-20	-
David Harrison *(Appointed February 2002)*	15-20	-	15-20	-
Peter Haslehurst *(Appointed September 2006)*	15-20	-	15-20	-
Katherine Letsinger *(Appointed January 2007)*	15-20	-	15-20	-

Salary

19 'Salary' includes gross salary, bonuses and other emoluments paid via payroll. This report is based on payments made by ECGD and thus recorded in the Financial accounts.

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 during the period.

Pension Benefits (the following information is subject to audit)

21 The pension provision is as follows:

	Accrued pension at pension age as at 31/3/09 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/09	CETV at 31/3/08[2]	Real increase in CETV
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Executive Directors					
Patrick Crawford *Chief Executive*	5-10	0-2.5	170	124	31
Nigel Addison Smith *Finance Director*	5-10	0-2.5	85	59	17
Steve Dodgson *Director, Business Group*	40-45 Plus lump sum of 130-135	2.5-5 Plus lump sum of 7.5-10	836	722	48
David Havelock *Director, Credit Risk Group*	5-10	0-2.5	120	80	30
Nicholas Ridley *General Counsel*	10-15 Plus lump sum of 40-45	0-2.5 Plus lump sum of 2.5-5	302	255	24
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, or 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 who joined from October 2002 could 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, immediately after the scheme year end, the accrued pension is uprated 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] The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008

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 Occupational Pension Schemes (Tranfer Values) (Amendment) Regulations and do not take account of any actual potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

28 This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, 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
26 June 2009

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 its Executive Committee.

1.3 I report to the Secretary of State for Business, Enterprise and Regulatory Reform and the Economic and Business Minister. The Shareholder Executive is responsible for giving the Secretary of State independent advice on his responsibilities for ECGD. I have regular meetings with the Economic and Business Minister, 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 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 aims, 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 2009 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 Chief Executive's Office is responsible for strategic and operational risk management policy and coordination.

3.3 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 and internal control. 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.

3.4 The Finance Director is responsible for the 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.

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

3.6 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.

3.7 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.

3.8 The General Counsel manages legal risk.

3.9 The Security Information Risk Officer is responsible for information security policy and procedures.

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. This has included:

- The introduction of a revised Treasury Consent and new Financial Framework, which came into effect on 1 April 2008. The new Financial Framework represents a continuation of the main risk principles within which ECGD operates. Some changes to systems and procedures were made, in particular, in relation to ECGD's administrative costs which are now subject to Comprehensive Spending Review disciplines;

- Establishing a Chief Executive's Office to improve capacity for strategic and operational planning and delivery. The Chief Executive's Office supports the Chief Executive in oversight and implementation of the corporate governance framework, and strategic and operational risk management policy and co-ordination. The Chief Executive's Office has assessed the current risk management framework with a view to enhancing the risk management process in 2009;

- Reinforcing controls over claims handling in preparation of the expected increase in distressed cases. The Business Group has now assumed responsibility for all transactions from initial inquiry by an applicant to the management of guarantees and insurance policies once issued, including claims and recoveries;
- Establishing a comprehensive Business Systems Reconfiguration Programme to improve the efficiency and control of core business and financial processes and supporting IT systems;
- The development and implementation of new policies, process and controls for the management of issued guarantees and insurance policies;
- Formal implementation of a new Publications Scheme;
- The update and consolidation of IT policy and standards;
- The launch of a new Learning and Development strategy to deliver greater value and effectiveness in the training provided to staff. The Staff Handbook is also being updated with the aim of presenting policies more clearly and bringing it into line with changing legislation;
- New Information Assurance requirements in line with Cabinet Office guidance have been produced, including completion of an independent benchmarking exercise carried out against the HMG Information Assurance Maturity Model; and
- An anti-fraud policy and a fraud response plan are in place. ECGD has also developed a fraud risk profile in order to identify possible risks to which it is exposed.

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 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 the achievement of its 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.

Information Risk

- Information asset owners receive training in information security in order to understand the risks associated with handling information within and outside ECGD. They are responsible for the identification of information assets, locations and uses.

- Information security risk is reviewed and access to sensitive information is restricted. Procedures are in place to respond to staff needs for access to information on a basis consistent with protecting that information while fully using the asset for the public good.

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 process implemented by senior management, in order to provide assurance 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 chairs of the Business Systems and Infrastructure, and the Information Assurance Management Committees;

- An annual review of actual or potential litigation 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 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: -

- Market conditions: the economic downturn is presenting ECGD with increased demand for existing products, risk propositions are becoming more challenging and time consuming to assess, and the level of distressed cases requiring attention is expected to rise. New product lines are being explored and may be launched in 2009. To manage ECGD resources and support this growth, a number of measures are being taken. These include a review and update of the 2008-11 Strategic Plan; the introduction of new and more efficient and effective operating procedures; the assessment of resource capacity; and a programme of recruitment and training to reinforce the breadth and depth of knowledge in areas most likely to come under pressure.

- Systems and data: the Business Systems Reconfiguration programme continues to update and improve the efficiency of business systems and their related processes and controls. This will enable ECGD to accommodate the impact expected from higher business volumes and new product initiatives. A major data cleansing exercise was substantially complete at the year end and work is now focused on improving how we manage data to reduce operational risk. Further work streams will deliver increased automation, integration and centralisation of core business processes during 2009-10.

JPS Crawford

Accounting Officer

Export Credits Guarantee Department
26 June 2009

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 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Statement and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Strategic 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 there under 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 51-59 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 48 and in the unaudited part of the Remuneration Report from pages 61 to 66 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 2009, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, total 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 51-59 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.

Amyas C E Morse
Comptroller and Auditor General
July 2009

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Statement of Parliamentary Supply

For the year ended 31 March 2009

Summary of Resource Outturn 2008-09

	2008-09 Estimate			2008-09 Outturn			2008-09	2007-08 Outturn
Request for Resources	Gross Expenditure	A. in A.	NET TOTAL	Gross Expenditure	A. in A.	NET TOTAL	Net Outturn Compared with Estimate Savings/ (Excess)	NET TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 Export Finance Assistance	77,802	34,897	42,905	71,963	34,897	37,066	5,839	43,437
2 Export Credit Guarantees and Insurance	127,974	127,972	2	79,783	79,783	0	2	0
Total Resources	**205,776**	**162,869**	**42,907**	**151,746**	**114,680**	**37,066**	**5,841**	**43,437**
Non-Operating Cost A. in A.			**0**			**0**	**0**	**0**

Net cash requirement 2008-09

		2008-09		2008-09	2007-08
		Estimate	Outturn	Net Total outturn compared with estimate: saving/ (excess)	Outturn
	Note	£'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, the following income relates to ECGD and is payable to the Consolidated Fund (cash receipts being shown in italics):

		2008-09 Forecast		Outturn 2008-9	
		Income	*Receipts*	Income	*Receipts*
	Note	£'000	*£'000*	£'000	*£'000*
Total	5	307,609	***443,313***	336,488	***447,536***

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 2009

	Note	2008-09 £'000	2007-08 £'000
Export Credit Guarantees and Insurance			
Gross Premium Income		41,182	63,567
Less ceded to other insurers		(2,687)	(3,179)
Net Premium Income	11	**38,495**	**60,388**
Net Investment Return	12	99,759	424,460
Claims (Charge) / Credit for the Year	14	(28,462)	66,254
Changes in Provisions for Losses on Future Claims	28	77,004	59,308
Staff Costs	15	(9,854)	(13,362)
Other Administration and Operating Costs	16	(10,093)	(9,595)
Foreign Exchange Gain/(Loss)	17	126,691	(4,637)
Net Income arising from Export Credit Guarantees and Insurance Activities		293,540	582,816
Export Finance Assistance			
Net Investment Return	12	8,862	18,048
Staff Costs	15	(1,472)	(1,997)
Other Administrative and Operating Costs	16	(1,508)	(1,434)
Foreign Exchange Loss	17	0	0
Net Income on Export Finance Assistance Activities		**5,882**	**14,617**
Net Operating Income for the year		**299,422**	**597,433**

All income and expenditure is derived from continuing operations.

Statement of Total Recognised Gains and Losses

	2008-09 £'000	2007-08 £'000
Net Operating Income and total recognised gains or (losses) relating to the Financial Year	299,422	597,433
Other recognised gains or (losses) since the last Resource Accounts	-	(9,273)
Total recognised gains or losses since the last Resource Accounts	299,422	588,160

The notes on pages 79 to 110 form part of these accounts

Balance Sheet

As at 31 March 2009

	Note	2008-09 £'000	2007-08 £'000
Tangible Fixed Assets	**19**	**1,382**	**1,576**
Loans and Receivables due after one year	21	333,171	493,235
Insurance Assets due after one year	22	896,681	897,145
Assets due after one year		**1,229,852**	**1,390,380**
Financial Assets held at Fair Value	20	98,956	55,599
Loans and Receivables due within one year	21	174,914	226,058
Insurance Assets due within one year	22	133,394	121,341
Prepayments and Accrued Income	23	2,162	1,493
Cash at Bank and in Hand	26	413,432	865,060
Total Current Assets		**822,858**	**1,269,551**
Insurance Liabilities due within one year	27	(548)	(688)
Financial Liabilities held at Fair Value	32	(71,172)	(43,119)
Accrued Expenses	30	(9,960)	(4,284)
Other Payables	31	(21,462)	(45,997)
Payable to Consolidated Fund	29	(413,432)	(865,060)
Total Net Current Assets		306,284	310,403
Total Assets less Current Liabilities		1,537,518	1,702,359
Insurance Liabilities due after one year	27	0	0
Other Payables	31	0	0
Payable to Consolidated Fund	29	(163,828)	(167,243)
Underwriting Funds	28	(505,697)	(582,701)
Total Net Assets		867,993	952,415
TAXPAYERS' EQUITY			
Exchequer Financing	33	(1,566,238)	(1,187,758)
Cumulative Trading Surplus	33	2,424,916	2,131,376
General Fund	33	9,315	8,797
Total		867,993	952,415

The notes on pages 79 to 110 form part of these accounts.

JPS Crawford

Accounting Officer

Export Credits Guarantee Department
26 June 2009

Cash Flow Statement

For the year ended 31 March 2009

	Note	2008-09 £'000	2007-08 £'000
Net cash outflow from operating activities	35(a)	239,492	781,709
Capital expenditure and financial investment	35(b)	208,044	293,155
Payments to the Consolidated Fund of amounts received in the prior year	35(d)	(865,060)	(1,763,164)
Financing	35(c)	0	0
Payments to the Consolidated Fund of amounts received in the current year		(34,104)	(209,803)
(Decrease)/Increase in Cash in period	**35(d)**	**(451,628)**	**(898,104)**

The notes on pages 79 to 110 form part of these accounts.

Statement of Net Operating Costs by Departmental Strategic Objectives

For the year ended 31 March 2009

	2008-09			2007-08		
	Gross Expenditure £'000	**Gross Income £'000**	**Net £'000**	**Gross Expenditure £'000**	**Gross Income £'000**	**Net £'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, by providing 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	(61,817)	270,710	208,893	(77,854)	287,942	210,088
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	(681)	0	(681)	(766)	0	(766)
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	(48,473)	139,683	91,210	(6,570)	394,681	388,111
Total	**(110,971)**	**410,393**	**299,422**	**(85,190)**	**682,623**	**597,433**

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 Notes on pages 79 to 110 form part of these accounts.

Notes to the Departmental Resource Accounts

1 Statement of accounting policies

(a) Application of FReM

The financial statements have been prepared in accordance with the 2008-09 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.

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 which cover ECGD's Underwriting Activities and Account 4 which 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.

(b) 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.

(c) 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 due to the long term nature of the products and the absence of a market in similar contracts.

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 short credit terms 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.

(d) 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

During the year ECGD determined that, based on its experience over the recent years, interest on unrecovered claims was as likely to be recovered as the outstanding claims to which it related. As a result the method used for calculating the provision required has been changed from that set out below such that interest is now provisioned at the same rate as the claim to which it applies. The effect of the change is to reduce the level of provisions by £29 million. Had the 2007-08 provision been calculated on the current basis the provisions would have also reduced by £29 million.

Prior Years Method of calculating Provisions on Interest: Interest receivable in relation to markets where the rate of provision applied to any claim's principal balance is below 25% (deemed to be performing markets) was 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 claim's principal balance was 25% or greater (deemed to be non-performing markets) was 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;

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.

(e) 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.

(f) 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 country 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.

(g) 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 16).

(h) 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.

(i) Capital Charge

A charge reflecting the cost of the capital utilised by ECGD is included in operating costs. For Accounts 1-3 the charge is based on the net assets plus a calculated amount for capital required. A variable interest rate applies to Accounts 1 – 3, while the capital charge for Account 4 is calculated to equal the net income from Gefco on certain direct loans. Where interest rates are used they are set by HM Treasury.

(j) 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

(k) Leases

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

(l) 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.

(m) Exchequer Financing

To reflect the long-term nature of ECGD's activities, and recognising that operating and investment cashflows in a particular year may 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.

(n) 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.

(o) 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 or 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 or 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 21. '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 or 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.

(p) Financial Liabilities

Financial liabilities at 'fair value through profit or 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 contracts).

(q) 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 38.

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

								2008-09	2007-08
						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	18,232	0	18,232	13,102	5,130	5,898	768	0
Section B - GEFCO loans and interest equalisation	0	21,325	32,406	53,731	21,795	31,936	37,007	5,071	43,437
Total	**0**	**39,557**	**32,406**	**71,963**	**34,897**	**37,066**	**42,905**	**5,839**	**43,437**
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	24,076	0	0	24,076	1,149	22,927	41,911	18,984	26,445
Section B - Export credits	0	55,707	0	55,707	78,634	(22,927)	(41,909)	(18,982)	(26,445)
Total	24,076	55,707	0	79,783	79,783	0	2	2	0
Resource Outturn	24,076	95,264	32,406	151,746	114,680	37,066	42,907	5,841	43,437

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 £79.8 million compares with £128 million in the Estimate. Certain costs included in the Estimate were not reflected in the Outturn including provisions for empty property, restructuring and new defaults. In addition, other costs were generally lower than the Estimate. There was sufficient income to return the Request for Resources to zero.

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

3 Reconciliation of outturn to net operating cost and against Administration Budget

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

	Note	2008-09 £'000 Outturn	2008-09 £'000 Supply Estimate	2008-09 £'000 Outturn compared with Estimate	2007-08 £'000 Outturn
Net Resource Outturn	2	(37,066)	(42,907)	5,841	(43,437)
Prior Period Adjustments		0	0	0	0
Non-Supply income (CFERs)	5	336,488	307,609	28,879	640,870
Net Operating Income		**299,422**	**264,702**	**34,720**	**597,433**

(b) Outturn against final Administration Budget

	Note	Budget £'000	2008-09 Outturn £'000	2007-08 Outturn £'000
Gross Administration Budget		43,963	24,076	27,360
Income Allowable against the Administration Budget		2,052	1,149	915
Net outturn against final Administration Budget	**2**	**41,911**	**22,927**	**26,445**

4 Reconciliation of resources to cash requirement

	Note	Estimate £'000	Outturn £'000	Net total outturn compared with estimate: savings / (excess) £'000
Net total Resources	2	(42,907)	(37,066)	5,841
Capital				
Acquisition of fixed assets	19	(542)	(155)	387
Non-operating A. in A.				
Repayment of export finance loans		0	0	0
Accruals adjustments				
Non-cash items		83,007	58,845	(24,162)
Movements in provisions		44,522	59,717	15,195
Movements in working capital other than cash	18	98,536	50,113	(48,423)
Excess Cash receipts surrenderable to the consolidated fund	5	(182,618)	(131,454)	51,164
Net cash Requirement		**(2)**	**0**	**2**

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

Overall there is a reduction of £51m in the excess cash outturn when compared to the estimate. The cost of capital charges were £14m lower due to reduced interest rates while movements in provisions and working capital amount to £33m lower due to lower claims paid and reduced recoveries.

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):

		2008-09		2008-09	
	Note	Forecast Income	*Forecast Receipts*	Income	*Outturn Receipts*
		£'000	*£'000*	£'000	*£'000*
Operating income and Receipts - Excess A. in A.		83,920	*37,006*	290,560	*63,958*
Other operating income and receipts not classified as A. in A.		223,689	*223,689*	45,928	*42,499*
Subtotal		**307,609**	***260,695***	**336,488**	***106,457***
Non-operating income and Receipts	7	0	*0*	0	*209,625*
Excess Cash receipts surrenderable to the Consolidated fund		0	*182,618*	0	*131,454*
Total		**307,609**	***443,313***	**336,488**	***447,536***

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

	Note	2008-09	2007-08
		£'000	£'000
Income	10	451,168	710,672
Adjustment for transactions between RfRs		0	0
Gross income		**451,168**	**710,672**
Income authorised to be Appropriated in Aid		(114,680)	(69,802)
Operating income payable to the Consolidated Fund	**5**	**336,488**	**640,870**

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

	2008-09	2007-08
	£'000	£'000
Principal repayments of voted loans	209,625	296,399
Proceeds on disposal of fixed assets	0	0
Other	0	0
Non-operating income - excess A. in A.	**209,625**	**296,399**

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 2009

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Export Credit Guarantees and Insurance					
Gross Earned Premiums	0	41,182	0	0	41,182
Less Ceded to other Insurers	0	(2,687)	0	0	(2,687)
Net Earned Premiums	**0**	**38,495**	**0**	**0**	**38,495**
Net Investment Return	67,086	32,669	4	0	99,759
Claims (Charge) / Credit for the Year	(26,659)	(1,803)	0	0	(28,462)
Changes in Provisions for Losses on Future Claims	95	76,823	86	0	77,004
Staff Costs	(1,133)	(8,721)	0	0	(9,854)
Non-Staff Administration and Operating Costs	(1,160)	(8,933)	0	0	(10,093)
Underwriting Foreign Exchange Gain/(Loss)	52,981	73,710	0	0	126,691
Net Income Arising from Export Credit Guarantees and Insurance	**91,210**	**202,240**	**90**	**0**	**293,540**
Export Finance Assistance					
Net Investment Return	0	0	0	8,862	8,862
Staff costs	0	0	0	(1,472)	(1,472)
Other Administrative and Operating Costs	0	0	0	(1,508)	(1,508)
Foreign Exchange Gain/(Loss)	0	0	0	0	0
Net Income Arising from Export Finance Assistance	**0**	**0**	**0**	**5,882**	**5,882**
Net Operating Income for the Year	**91,210**	**202,240**	**90**	**5,882**	**299,422**

Comparatives for the total column are given in the Operating Statement

9.2 Balance Sheet

As at 31 March 2009

	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000
Tangible Fixed Assets	0	1,382	0	0	1,382
Loans and Receivables due after one year	0	0	0	333,171	333,171
Insurance Assets due after one year	345,546	551,135	0	0	896,681
Assets due after one year	**345,546**	**551,135**	**0**	**333,171**	**1,229,852**
Financial Assets held at Fair Value	0	20,185	0	78,771	98,956
Loans and Receivables due within one year	0	0	0	174,914	174,914
Insurance Assets due within one year	110,404	22,990	0	0	133,394
Prepayments and Accrued Income	0	2,162	0	0	2,162
Cash at Bank and in Hand	59,175	137,537	0	216,720	413,432
Total Current Assets	**169,579**	**182,874**	**0**	**470,405**	**822,858**
Insurance Liabilities due within one year	0	(548)	0	0	(548)
Financial Liabilities held at Fair Value	0	0	0	(71,172)	(71,172)
Accrued Expenses	0	(2,087)	0	(7,873)	(9,960)
Other Payables	(11,610)	(9,274)	0	(578)	(21,462)
Payable to Consolidated Fund	(59,175)	(137,537)	0	(216,720)	(413,432)
Total Net Current Assets	**98,794**	**33,428**	**0**	**174,062**	**306,284**
Total Assets less Current Liabilities	444,340	585,945	0	507,233	1,537,518
Insurance Liabilities due after one year	0	0	0	0	0
Other Payables	0	0	0	0	0
Payable to Consolidated Fund	(127,986)	(29,760)	0	(6,082)	(163,828)
Underwriting Funds	(2,962)	(502,692)	(43)	0	(505,697)
Total Net Assets	**313,392**	**53,493**	**(43)**	**501,151**	**867,993**
TAXPAYERS' EQUITY					0
Exchequer Financing	(836,371)	(1,120,017)	(101,686)	491,836	(1,566,238)
Cumulative Trading Surplus	1,149,763	1,173,510	101,643	0	2,424,916
General Fund	0	0	0	9,315	9,315
Total	**313,392**	**53,493**	**(43)**	**501,151**	**867,993**

Comparatives for the total column are given in the summary Balance Sheet.

9.3 Cashflow Statement

For year ended 31 March 2009

	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000
Net cash outflow from operating activities	59,175	139,118	0	41,199	239,492
Capital expenditure and financial investment	0	(1,581)	0	209,625	208,044
Payments to the Consolidated Fund of amounts received in the prior year	(598,374)	25,869	0	(292,555)	(865,060)
Financing	0	0	0	0	0
Payments to the Consolidated Fund of amounts received in the current year	0	0	0	(34,104)	(34,104)
Increase/(Decrease) in Cash in Period	**(539,199)**	**163,406**	**0**	**(75,835)**	**(451,628)**

Comparatives 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:

	RfR 1	RfR 2	2008-09 Total	2007-08 Total
	£'000	£'000	£'000	£'000
Net Premium Income	0	38,495	38,495	60,388
Interest Receivable	0	115,192	115,192	330,316
Claims Credit for the Year	0	0	0	61,617
Changes in Provisions for Losses on Future Claims	0	77,004	77,004	59,308
Administration	0	1,149	1,149	972
Foreign Exchange Gain	0	126,691	126,691	0
Interest Support Costs	44,311	0	44,311	52,330
Interest Income – Directly Funded Export Loans	36,514	0	36,514	51,597
Notional Interest	0	0	0	81,923
Fair Value CDS Gain (incl. counterparty risk provision adjustment)	0	11,812	11,812	12,221
Total Income for the year	**80,825**	**370,343**	**451,168**	**710,672**

11 Premium Income

	Buyer Credit		Overseas Investment Insurance		Supplier Credit Financing Facility		Other		Total	
	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08
Africa	1,304	206	227	253	1,736		2	3	3,269	462
Americas	15,112	9,422	89	349	621			111	15,822	9,882
Asia	13,604	17,665	329	374	748	5	81	29,643	14,762	47,687
Europe	4,642	2,290							4,642	2,290
Other		(3)				70			0	67
Total	**34,662**	**29,580**	**645**	**976**	**3,105**	**75**	**83**	**29,757**	**38,495**	**60,388**

12 Net Investment Return

	Note	2008-09 £'000	2007-08 £'000
Export Credit Guarantees and Insurance			
Gain / (Loss) on Credit Default Swaps		11,812	12,221
Interest credit for the year	13	115,192	330,316
Capital (Charge) / Income	33	(27,245)	81,923
Total		**99,759**	**424,460**
Export Finance Assistance			
Interest Support Costs		2,393	6,001
Net Movement in Fair Value of Derivatives		2,361	3,487
Interest Income		36,514	51,597
Capital (Charge)	33	(32,406)	(43,037)
Total		8,862	18,048
Net Investment Return Total		**108,621**	**442,508**

13 Interest Receivable

				2008-09				2007-08
	Account 1	**Account 2**	**Account 3**	**Total**	**Account 1**	**Account 2**	**Account 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Recoverable Interest arising from Claims	86,218	28,584	0	114,802	283,549	45,902	0	329,451
Other Interest	389	1	0	390	865	0	0	865
Interest credit for the year	**86,607**	**28,585**	**0**	**115,192**	**284,414**	**45,902**	**0**	**330,316**

Other Interest includes bank interest on balances with commercial banks and also arises from late receipt of premium income.

14 Claims (charge) / credit for the year

			2008-09			2007-08
	Account 1	**Account 2**	**Total**	**Account 1**	**Account 2**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Claims Authorised in Year	(13)	(43,862)	(43,875)	(2)	(59,140)	(59,142)
Anticipated Recoveries on those Claims	13	25,147	25,160	2	35,203	35,205
Movement in Provisions on Previous Claims	(26,659)	16,912	(9,747)	83,383	6,808	90,191
Claims (charge) / credit for year	**(26,659)**	**(1,803)**	**(28,462)**	**83,383**	**(17,129)**	**66,254**

15 Staff Numbers and Costs

A. Staff costs consist of:

	2008-09	2007-08
	£'000	£'000
Salaries and Wages	8,680	10,027
Social Security Costs	809	869
Early Retirement Costs	0	2,539
Other Pension Costs	1,837	1,924
Total	**11,326**	**15,359**
Less Restructuring Cost	0	0
Staff Cost after Restructuring	**11,326**	**15,359**
Of which:		
Export Credit Guarantees and Insurance	9,854	13,362
Export Finance Assistance	1,472	1,997

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

For 2008-09, employers' contributions of £1,814,724 were payable to the PCSPS (2007-08 £1,901,707) 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 2009-10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 to be paid when the member retires and not the benefits paid during this period to existing pensioners.The contribution rates are set to meet the costs of the benefits accruing during 2008-09 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 £20,204 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,266, 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 £673. 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:

		2008-09		2007-08
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	152	72	174	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	2	4	0
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	53	26	60	4
Total	**209**	**100**	**238**	**14**

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

	2008-09 £000	2007-08 £000
IT	2,983	4,189
Indirect staff and Personnel Expenses	1,380	779
Business Promotion	15	49
Rent (including Onerous Lease Provisions)	3,070	3,022
Other Establishment Costs	1,128	917
Underwriting Expenses	136	374
Claims and Recovery Expenses	145	186
Non-Refundable Premium Administration Income	(160)	(150)
Other Administration Costs	2,083	769
Depreciation	349	380
Fixed Asset Charges	48	0
Travel, Subsistence and Hospitality	424	383
Restructuring Cost	0	131
Expenditure	**11,601**	**11,029**
Of which:		
Export Credit Guarantees and Insurance	10,093	9,595
Export Finance Assistance	1,508	1,434
Auditor's remuneration included in the above figures:		
Audit Fees	223	200

17 Foreign Exchange Gain/(Loss)

	2008-09					2007-08				
	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	143,017	102,915	0	0	245,932	(4,670)	(3,143)	0	0	(7,813)
Exchange gain/(loss) on provisions against recoverable claims and interest	(80,880)	(29,051)	0	0	(109,931)	2,039	1,086	0	0	3,125
Exchange gain/(loss) on premium debtors	0	5,841	0	0	5,841	0	1,789	0	0	1,789
Exchange gain/(loss) on other working capital	0	0	0	0	0	0	0	0	0	0
Realised gain/(loss)	(9,156)	(5,995)	0	0	(15,151)	(773)	(965)	0	0	(1,738)
Exchange (loss)/gain for year	**52,981**	**73,710**	**0**	**0**	**126,691**	**(3,404)**	**(1,233)**	**0**	**0**	**(4,637)**

Day to day transactions are converted at the rate prevailing on the date of posting. Assets and liabilities are revalued at the year end rates. The table below shows the exchange rates applicable on the principle currencies.

Currency	**Currency equivalent to £ 1**	
	2008-09	**2007-08**
Euro	1.08	1.26
Japanese Yen	141.50	198.35
US Dollars	1.43	1.99

18 Movements in Working Capital Other Than Cash

	2008-09 £'000	2007-08 £'000
The movements in working capital used in the reconciliation of resources to cash requirement comprise		
Claims	66,505	329,875
Receivables,Non AinA Other Debtors, and Prepayments	2,252	6,252
Payables, Insurance Liabilities and Accruals	(18,644)	(20,384)
Net Decrease in Working Capital Other Than Cash	50,113	315,743
The movements in working capital other than cash used in the cashflow statement comprise:		
Claims	66,505	329,875
Receivables,Other Debtors, and Prepayments	4,945	29,060
Payables, Insurance Liabilities and Accruals	(18,644)	(20,384)
Net Decrease in Working Capital Other Than Cash	**52,806**	**338,551**

19 Tangible Fixed Assets

	IT Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost			
Balance at 1 April 2008	4,106	2,970	7,076
Disposals	0	0	0
Additions	155	0	155
Balance at 31 March 2009	**4,261**	**2,970**	**7,231**
Accumulated Depreciation			
Balance at 1 April 2008	3,589	1,911	5,500
On Disposals	0	0	0
Charge for the Year	218	131	349
Balance at 31 March 2009	**3,807**	**2,042**	**5,849**
Net book value			
39903	**454**	**928**	**1,382**
39538	517	1,059	1,576

20 Financial Assets

Fair Value Through Profit or Loss:

	Note	31 March 2009 £'000	31 March 2008 £'000
Export Credit Guarantees and Insurance			
Credit Default Swaps	36	20,185	6,947
Export Finance Assistance			
Interest rate derivatives in relation to Export Finance Loan Guarantees	36	61,950	37,015
Interest rate derivative contracts entered into for hedging purposes	36	16,821	11,637
Total		**98,956**	**55,599**

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

21 Loans and Receivables

	Note	31 March 2009 £'000	31 March 2008 £'000
Export Finance Loans due from GEFCO	37	491,836	701,461
Export Finance Interest due from GEFCO	37	6,082	9,511
Other Export Finance Receivables		10,167	8,321
Total		**508,085**	**719,293**
Due			
within one year		174,914	226,058
after one year		333,171	493,235

Loans and Receivables are calculated on the Amortised Cost basis (refer to accounting policy Note 1(o), i for an explanation of Amortised Cost basis). The Fair Value of Export Finance Loans due from GEFCO is £536,828,000. The Fair Value of the other receivables is considered to be the same as Amortised Cost.

22 Insurance Assets

	Note	31 March 2009 £'000	31 March 2008 £'000
Premium Debtors		9,822	7,923
Recoverable Claims	24	872,245	860,581
Recoverable Interest	25	147,924	149,809
Other Debtors - Policyholders		84	173
Total		**1,030,075**	**1,018,486**
Due			
within one year		133,394	121,341
after one year		896,681	897,145

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

23 Prepayments and Accrued Income

	31 March 2009 £'000	31 March 2008 £'000
Prepayments	**2,162**	**1,493**
Due		
within one year	2,162	1,493
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	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2008	1,079,515	12,798	1,092,313	701,869	111,013	812,882	1,905,195
Reclassifications	2,620	(226)	2,394	(2,376)	(18)	(2,394)	0
Claims in the Year	13	0	13	5,347	38,515	43,862	43,875
Recoveries in the Year	(10,505)	(2)	(10,507)	(74,191)	(25,682)	(99,873)	(110,380)
Recoveries Abandoned in the Year	(229,081)	(9,555)	(238,636)	0	0	0	(238,636)
Foreign Exchange Gain/(Loss)	64,520	0	64,520	59,146	38,426	97,572	162,092
Balance at 31 March 2009	**907,082**	**3,015**	**910,097**	**689,795**	**162,254**	**852,049**	**1,762,146**
Provisions							
Balance at 1 April 2008	766,248	11,151	777,399	214,247	52,968	267,215	1,044,614
Additional Provisions during the Year	25,419	1,240	26,659	(6,664)	8,467	1,803	28,462
Provision on Recoveries Abandoned	(229,081)	(9,555)	(238,636)	0	0	0	(238,636)
Reclassifications	(11,228)	0	(11,228)	11,229	(1)	11,228	0
Foreign Exchange Gain/(Loss)	28,325	1	28,326	10,395	16,740	27,135	55,461
Balance at 31 March 2009	**579,683**	**2,837**	**582,520**	**229,207**	**78,174**	**307,381**	**889,901**
Net Unrecovered Claims as at 31 March 2009	**327,399**	**178**	**327,577**	**460,588**	**84,080**	**544,668**	**872,245**
Net Unrecovered Claims as at 31 March 2008	313,267	1,647	314,914	487,622	58,045	545,667	860,581
Provision as a % of Unrecovered Claims at 31 March 2009	**63.9%**	**94.1%**	**64.0%**	**33.2%**	**48.2%**	**36.1%**	**50.5%**
Provision as a % of Unrecovered Claims at 31 March 2008	71.0%	87.1%	71.2%	30.5%	47.7%	32.9%	54.8%

There are no recoverable claims on Accounts 3 and 4.

As at 31 March 2009, the total of unrecovered political claims was £1,596,880,000 (2007-08 £1,781,384,000).

25 Interest on Unrecovered Claims

	Account 1	Account 2	Total
	£'000	£'000	£'000
Balance at 1 April 2008	1,137,645	51,337	1,188,982
Reclassifications	8,587	(8,587)	0
Interest in the year	135,559	40,865	176,424
Interest Received in the Year	(93,187)	(52,870)	(146,057)
Recoveries Abandoned in the Year	(96,503)	0	(96,503)
Foreign Exchange Adjustment	78,497	5,343	83,840
Balance at 31 March 2009	1,170,598	36,088	1,206,686
Provisions			
Balance at 1 April 2008	1,028,633	10,540	1,039,173
Additional Provisions during the Year	49,341	12,281	61,622
Provision on Recoveries Abandoned	(96,503)	0	(96,503)
Reclassifications	8,587	(8,587)	0
Foreign Exchange Adjustment	52,554	1,916	54,470
Balance at 31 March 2009	1,042,612	16,150	1,058,762
Net Recovered Interest as at 31 March 2009	**127,986**	**19,938**	**147,924**
Net Recovered Interest as at 31 March 2008	109,012	40,797	149,809
Provision as a % of Unrecovered Interest at 31 March 2009	**89.1%**	**44.8%**	**87.7%**
Provision as a % of Unrecovered Interest at 31 March 2008	90.4%	20.5%	87.4%

26 Cash at Bank and In Hand

	£'000
Balance at 31 March 2008	865,060
Net Cash Inflow to ECGD	447,536
Paid to the Consolidated Fund	(899,164)
Balance at 31 March 2009	413,432

The following balances are held at:	
The Office of Paymaster General	402,074
Commercial Banks and Cash in Hand	11,358
Balance at 31 March 2009	413,432

27 Insurance Liabilities

	31 March 2009	31 March 2008
	£'000	£'000
Policyholders	**548**	**688**
Due		
within one year	548	688
after one year	0	0

28 Underwriting Funds

		2008-09		2007-08
	£'000	£'000	£'000	£'000
Balance at 1 April 2008		582,701		642,009
Release of Provision				
Account 1	(96)		(1,782)	
Account 2	(123,982)		(101,474)	
Account 3	(3,242)		(12,712)	
		(127,320)		(115,968)
Increase in Provision				
Account 1	1		0	
Account 2	47,159		56,621	
Account 3	3,156		39	
		50,316		56,660
Balance at 31 March 2009		**505,697**		**582,701**

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 2009, the expected loss value on amounts at risk on unexpired guarantees or policies in respect of Account 2 was £181.4 million.

29 Payable to the Consolidated Fund

	31 March 2009	31 March 2008
	£'000	£'000
Due within one year	413,432	865,060
Due after one year	163,828	167,243
Total	**577,260**	**1,032,303**

The balance due within one year represents ECGD's bank balance at 31 March 2009.

The balance due after one year is based on the calculation methodology described in Note 1(l).

30 Accruals and Deferred Income

	31 March 2009	31 March 2008
	£'000	£'000
Accruals	**9,960**	**4,284**
Due		
within one year	9,960	4,284
after one year	0	0

31 Other Payables

	31 March 2009 £'000	31 March 2008 £'000
Income Tax and National Insurance	281	284
Other	21,181	45,713
Total	**21,462**	**45,997**
Due		
within one year	21,462	45,997
after one year	0	0

32 Financial Liabilities

	Note	31 March 2009 £'000	31 March 2008 £'000
Export Credit Guarantees and Insurance			
Credit Default Swaps	36	0	0
Export Finance Assistance			
Interest rate derivatives in relation to Export Finance Loan Guarantees	36	16,090	1,100
Interest rate derivative contracts entered into for hedging purposes	36	55,082	42,019
Total		**71,172**	**43,119**

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

A counterparty risk provision of £ 0.1 million has been made on the Account 4 Export Finance business to reflect the £22 million amount 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)	2008-09 Total	2007-08 Total
Balance at 1 April 2008	(1,187,758)	2,131,376	8,797	952,415	1,231,009
Prior Year Adjustments	0	0	0	0	(9,273)
Re-stated balance	**(1,187,758)**	**2,131,376**	**8,797**	**952,415**	**1,221,736**
Transfers					
Funding non-breakeven Activities	37,770	0	(37,770)	0	0
Other movements					
CFER arising in year transferred to current liabilities	(447,536)	0	0	(447,536)	(1,074,863)
Long term Consolidated Fund Creditor	3,415	0	0	3,415	246,795
Non Cash adjustments					
Notional Capital Charge/(Income)	27,245	0	32,406	59,651	(38,886)
Notional Audit Fees & Fixed Assets Charges	626	0	0	626	200
Transfer from Operating Statement					
Surplus for year	0	293,540	5,882	299,422	597,433
Balance at 31 March 2009	**(1,566,238)**	**2,424,916**	**9,315**	**867,993**	**952,415**

34 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.

Notional capital charges are based on a) a charge of 1.25% of the Portfolio Unexpected Loss b) Net Financial Assets for Accounts 1, 2 and 3 at 6 months Libor plus .5% c) Charge for Fixed Assets at rate provided by HM Treasury d) For Account 4 an amount which gives ECGD no net income or loss on direct funded loans through GEFCO.

35 Notes to the Cashflow Statement

	2008-09 £'000	2007-08 £'000
(a) Reconciliation of Operating Income to Operating Cashflow		
Net Operating Income	299,422	597,433
Adjust for Non-Cash Transactions:		
Capital Charges	59,651	(38,886)
Depreciation & Fixed Assets Charges	397	380
Claims Credit for Year	28,462	(66,254)
Interest Credit for Year	31,255	32,171
Changes in Provisions for Future Claims	(77,004)	(59,308)
Unrealised Foreign Exchange Gain/(Loss)	(141,842)	2,899
Gain / Loss in Credit Default Swaps Fair Valuation	(11,812)	(12,221)
Audit Fee	223	200
Other Non-Cash Items:		
Movements in Working Capital Other than Cash	52,806	338,551
Changes in Creditors due after more than one year	0	0
Financial Instruments – Change in Fair Value	(2,066)	(13,256)
Net Cash Inflow from Operating Activities	239,492	781,709

	2008-09 £'000	2007-08 £'000
(b) Analysis of Capital Expenditure and Financial Investment (RfR 2)		
Purchase of Fixed Assets	(155)	(451)
Purchase of Financial Instruments	(1,426)	(2,793)
Advance of Export Finance Loans	0	0
Repayment of Export Finance Loans	209,625	296,399
Net Cash Inflow from Investing Activities	**208,044**	**293,155**
(c) Analysis of Financing		
From Consolidated Fund – current year	0	0
From Consolidated Fund – prior year	0	0
Exchequer Financing – prior periods undrawn grant adjustment	0	0
Net Financing	**0**	**0**
(d) Reconciliation of Net Cash Requirement to increase in cash		
Net Cash Requirement	0	0
From Consolidated Fund - current year	0	0
Prior Periods Undrawn Grant Adjustment	0	0
From Consolidated fund - prior year	0	0
Amounts due to Consolidated Fund received in prior year and paid over	(865,060)	(1,763,164)
Amounts due to the Consolidated Fund received and not paid over	0	0
Excess A. in A. and CFERs	203,807	568,662
Excess Non-Operating A. in A.	209,625	296,399
Increase/(Decrease) in Cash	**(451,628)**	**(898,104)**

36 ECGD 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 2009 is as set out below.

		31 March 2009		31 March 2008
	£'000	£'000	£'000	£'000
	Fair Value Asset	Fair Value Liability	Fair Value Asset	Fair Value Liability
Total Credit Default Swaps	20,185	0	6,947	0

Sensitivity to changes in credit spreads at 31 March 2009:

On the basis of the recent volatility in credit spreads an increase of 80% in credit spreads would increase market value by £24,614,690, while a decrease of 80% in credit spreads would decrease the market value by £29,452,926.

The maturity profile of ECGD's credit default swaps is as follows:

Amounts due to mature within	31 March 2009 £'000	31 March 2008 £'000
1 Year	17,453	10,100
1 to 5 years	183,728	106,800
5 to 15 years	92,339	140,900
Total	**293,520**	**257,800**

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 the Risk Committee, while day to day hedging activity is undertaken by ECGD's Treasury Division pursuant to agreed policies.

ECGD's interest rate risk is managed in accordance with limits agreed by the 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 2009, the fair values of ECGD's interest rate derivatives were as follows:

		31 March 2009		31 March 2008
	£'000	£'000	£'000	£'000
	Fair Value	Fair Value	Fair Value	Fair Value
	Asset	Liability	Asset	Liability
Interest rate Swap arrangement on Export Finance Loan Guarantees	61,950	(16,090)	37,015	(1,100)
Interest rate derivative contracts entered into for hedging purposes	16,821	(55,082)	11,637	(42,019)
Total	**78,771**	**(71,172)**	**48,652**	**(43,119)**

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

Sensitivities as at 31 March 2009: Impact on Profit

	1% Increase in Interest Rates £ 000's	1% Decrease in Interest Rates £ 000's
Interest rate Swap arrangement on Export Finance Loan Guarantees	(18,645)	17,289
Interest rate derivative contracts entered into for hedging purposes	19,877	(20,498)
Total	**1,232**	**(3,209)**

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

Sensitivities as at 31 March 2009: Impact on Profit

	5% Increase in Interest Rate volatility £ 000's	5%Decrease in Interest Rate volatility £ 000's
Interest rate Swap arrangement on Export Finance Loan Guarantees	(503)	411
Interest rate derivative contracts entered into for hedging purposes	339	(256)
Total	**(164)**	**155**

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

Position as at 31 March 2009,

Maturities within:	**1 Year £ 000's**	**1 to 5 Years £ 000's**	**5 to 15 years £ 000's**	**Total £ 000's**
Interest rate Swap arrangement on Export Finance Loan Guarantees	133,069	502,116	182,332	817,517
Interest rate derivative contracts entered into for hedging purposes	211,763	545,451	228,235	985,449
Total	**344,832**	**1,047,567**	**410,567**	**1,802,966**

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.

37 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 Banking Group 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 2008-09 transactions between ECGD and GEFCO comprised:

- net repayments of principal under loans made by ECGD to GEFCO: £209,625,000 (£296,399,000 in 2007-08);
- net interest received under those loans: £39,943,000 (£56,616,000 in 2007-08)

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

	Loan £'000	Interest £'000
Balance at 1 April 2008	701,461	9,511
Interest Charged in Year	0	36,514
Cash Received in Year	(209,625)	(39,943)
Balance at 31 March 2009	**491,836**	**6,082**

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 2009, those deductions totalled £2,826,000 (£2,725,000 in 2007-08)

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.

38 Contingent Liabilities

(i) Amounts at Risk and other contingent liabilities

	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2008	77,860	9,507,644	39,052	0	9,624,556
Guarantees and Insurance Policies Issued and Renewed		1,830,090		0	1,830,090
Run Off	(21,342)	(3,229,698)	(14,829)	0	(3,265,869)
Foreign Exchange Adjustments	3,130	2,223,515	4,325	0	2,230,970
Balance at 31 March 2009	59,648	10,331,551	28,548	0	10,419,747

(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 2009 and the cumulative outstanding commitments set against them:

				31 March 2009				31 March 2008
	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	31,277,700	66,277,700	35,000,000	30,000,000	24,810,210	59,810,210
Commitments	1,025,598	9,931,254	10,432,474	11,458,072	2,137,179	9,931,254	8,213,217	10,350,396
Section 6(3) amounts								
Statutory Limit	15,000,000	10,000,000	10,425,900	25,425,900	15,000,000	10,000,000	8,270,070	23,270,070
Commitments	0	0	0	0	0	0	0	0
Totals								
Statutory Limit	**50,000,000**	**40,000,000**	**41,703,600**	**91,703,600**	**50,000,000**	**40,000,000**	**33,080,280**	**83,080,280**
Commitments	**1,025,598**	**9,931,254**	**10,432,474**	**11,458,072**	**2,137,179**	**9,931,254**	**8,213,217**	**10,350,396**

At 31 March 2009, 1 SDR = £1.04259

At 31 March 2008, 1 SDR = £0.82701

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.

39 Leasehold Obligations

Annual Commitments of ECGD in 2008-09 under non-cancellable operating leases are:

	31 March 2009 Land and Buildings	31 March 2008 Land and Buildings
	£'000	£'000
Leases which expire after five years	**2,529**	**2,529**

40 Losses

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

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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