UK EXPORT FINANCE

Export Credits Guarantee Department

Export Credits Guarantee Department Annual Report and Accounts 2011–12

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Annual Report presented to Parliament pursuant to section 7(5) of the Export and Investment Guarantees Act 1991.

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Export Credits Guarantee Department
PO Box 2200
2 Exchange Tower
Harbour Exchange Square
London E14 9GS

Telephone 020 7512 7000
Fax 020 7512 7649

www.ukexportfinance.gov.uk

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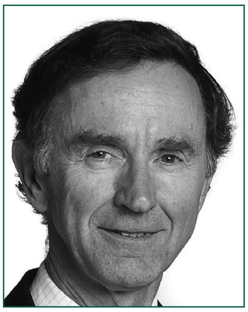
ECGD's name

UK EXPORT FINANCE
Export Credits Guarantee Department

In November 2011 the Export Credits Guarantee Department (ECGD) adopted the operating name *UK Export Finance*. The reason was to convey ECGD's purpose better to UK businesses that are unfamiliar with its products and services. The statutory name Export Credits Guarantee Department remains the Department's legal name. A new logo which incorporated both names was adopted.

The primary purpose of this Annual Report and Accounts is to report to Parliament on the activities of ECGD; hence the name, ECGD, is used throughout.

Minister's Foreword



I am pleased to introduce ECGD's Annual Report and Accounts for 2011-12, which have now been laid before Parliament.

During the year ECGD adopted a new operating name, UK Export Finance; its statutory name remains the Export Credits Guarantee Department. This change was made in the context of decisions taken in the previous year to broaden ECGD's business domain and to expand its product range. Formerly ECGD principally supported the export of capital and semi-capital equipment and related services; it now supports the export of all goods and services.

UK Export Finance introduced new products to assist UK exporters, particularly small and medium-sized enterprises, who are unable to obtain the credit insurance or trade finance they need from the private market. These changes mean it is now providing support to exporters who have not previously used its services. The new operating name better conveys its purpose. To promote better knowledge of its new products among UK businesses, UK Export Finance will be intensifying its market awareness activity in 2012-13.

In 2011-12 UK Export Finance supported business of over £2.3 billion through its traditional guarantee and insurance products. Although its customer base for these products is relatively small, many companies, including SMEs, indirectly benefit from this support through the supply chains of the prime exporters, including companies in the commercial aerospace, oil and gas, construction, steel, transportation and process engineering sectors. In particular I highlight the support provided for exports to Brazil, a market where the Government aims to improve the UK's export performance and where UK Export Finance supported a steel project for US$270 million and agreed a US$1 billion line of credit to finance future supplies to Petrobras, the state-owned oil company.

The Prime Minister launched the Government's 'Exporting for Growth' challenge in November 2011 and the Government has now set an ambitious goal to increase exports to £1 trillion per annum by 2020. UK Export Finance has a part to play in helping to achieve that goal. It is now working more closely with UKTI, including on the latter's High Value Opportunities initiative, which seeks to identify large projects overseas and to encourage and help UK companies to compete for them. UK Export Finance complements this initiative through supporting the provision of export finance to enable buyers and project sponsors to procure supplies from the UK.

I look to the Department to continue its good work to support exports and thereby help achieve the Government's ambition to improve the UK's export performance and I am grateful for the commitment of UK Export Finance staff over this past year.

Stephen Green

Lord Green of Hurstpierpoint
Minister of State for Trade and Investment

Chief Executive's Foreword

In 2011-12 UK Export Finance supported £2.32 billion of business by way of issuing guarantees and insurance policies to banks and exporters. Premium income was £85 million. Claims paid were £6 million and recoveries were £128 million.

The mainstay of UK Export Finance's business is related to supporting the export of capital and semi-capital goods and related services financed by way of medium/long-term loans, provided by commercial banks to overseas buyers, the repayment of which are guaranteed by UK Export Finance. In my foreword last year I reported the introduction of new products designed to support a wider range of exports involving risk periods of less than two years for exporters, particularly SMEs, who cannot obtain credit insurance and/or trade finance from the private market. In 2011-12 eighteen exporters obtained support under these new products in respect of export contracts with an aggregate value of over £90 million.

Support for civil aerospace exports remained strong during the year, with new business of £1.83 billion. Support was also provided for a number of non-aerospace civil projects amounting to £486 million across a wide range of markets. There is a pipeline of large projects which are expected to come to fruition in the coming year. Despite constraints in the availability of medium/long-term funding in the commercial bank market, no exports failed to obtain finance where UK Export Finance had agreed to provide a guarantee. Discussions are taking place with banks to identify whether arrangements can be put in place to secure greater certainty in the supply of funding, including from the capital markets.

UK Export Finance has continued to develop stronger working links with UKTI. Both organisations are now working more closely to help deliver the Government's trade strategy. I attend UKTI's Management Board and a UKTI representative is a member of UK Export Finance's Management Board. Export Finance Advisers are being appointed in each of the UKTI regional offices across England and within the trade promotion bodies of Northern Ireland, Scotland and Wales to promote UK Export Finance's products.

During the year UK Export Finance implemented a new OECD agreement that for the first time seeks to establish a level playing field in the premiums charged by export credit agencies for business with corporate private-sector buyers. UK Export Finance also participated in multilateral negotiations to make revisions to the OECD Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits; this regulates the way in which export credit agencies take account of environmental, social and human rights impacts on the business it supports. A new agreement was concluded within the OECD in April 2012.

It was another busy year for UK Export Finance. I am grateful to staff for their contributions to serving exporters. I am also grateful to the Management Board chaired by Guy Beringer and the Export Guarantees Advisory Council chaired by Andrew Wiseman for their respective contributions to the Department's work over the past year.

Finally, David Harrison and Peter Haslehurst retired from the Management Board in March 2011 and September 2011 respectively. I would like to thank them for their valuable contributions and wise counsel.

J.P.S. Crawford

Patrick Crawford
ECGD Chief Executive

Mission and Principles

Who ECGD is

The Export Credits Guarantee Department is the export credit agency of the United Kingdom and is a Government Department that operates under an Act of Parliament.

What ECGD does

ECGD complements the private market by providing assistance to exporters and investors, principally in the form of insurance and guarantees to banks.

How ECGD operates

ECGD is governed by its statute pursuant to which certain financial objectives are set by HM Treasury. It is ECGD's policy to comply with all International Agreements which apply to the operations of Export Credit Agencies.

The principles ECGD applies

On individual cases, ECGD aims to:

- provide a quality of service that is proactive, flexible and efficient, with a focus on solution and innovation;
- take account of factors beyond the purely financial and of relevant government policies in respect of environmental, social and human rights impacts; debt sustainability; and bribery and corruption; and
- publish, for the benefit of applicants, guidance on processes and factors taken into account by it in considering applications.

Generally, ECGD aims to:

- disseminate information about its products and services;
- achieve fairer competition by seeking to establish a level playing field internationally, through obtaining multilateral improvements in export credit policies and practices;
- recover the maximum amount of debt in respect of claims paid, taking account of the Government's policy on debt forgiveness;
- abide by such codes of practice and guidelines on consultation as may be published by the Government from time to time; and
- employ good management practice to recruit, develop and retain the people needed to achieve ECGD's business goals and objectives.

Financial Overview

Figure 1: Financial overview – five year summary

	2011-12	2010-11	2009-10	2008-09	2007-08
	£m	£m	£m	£m	£m
Guarantees issued[1]	**2,318**	2,924	2,206	1,460	1,830
Premium income	**85**	96	58	38	60
Claims paid	**6**	30	48	44	59
Net operating income	**147**	204	272	266	597

Note 1 Net of amounts reinsured by another official export credit agency

Guarantees and Insurance Policies Issued

Figure 2: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact Category[1]	ECGD Max Liability, £s or equivalent
Abu Dhabi				
Airbus S.A.S.	Etihad	Airbus aircraft	–	97,336,465
See note 2	See note 2	Training services	–	26,024
Australia				
Airbus S.A.S.	Qantas Airways Ltd	Airbus aircraft	–	140,960,423
Azerbaijan				
Johnson Matthey Plc	Azerbaijan Methanol Company	Catalysts for Methanol Plant	–	5,951,324
Bahrain				
See note 2	See note 2	Water treatment plant	–	4,898,588
Bermuda				
Airbus S.A.S.	Aircastle Ltd	Airbus aircraft	–	61,560,576
Brazil				
Airbus S.A.S.	Tam Linhas Aereas S.A.	Airbus aircraft	–	38,225,717
To be determined	Petrobras	Petrobras oil and gas exploration and production facilities in the South Atlantic	A	920,720,894[3]
Siemens VAI Metals Technologies Ltd	Gerdau Açominas S.A.	New combined plate and Steckel mill	B	216,184,768
Tetronics Ltd	TSL Engenharia Ambiental Ltda	Thermal plasma furnace	C	2,559,712
Cayman Islands				
Airbus S.A.S.	Jackson Square Aviation	Airbus aircraft	–	40,395,407
Chile				
Airbus S.A.S.	LAN Airlines S.A.	Airbus aircraft	–	50,327,015
China				
Airbus S.A.S.	Air China Ltd	Airbus aircraft	–	86,785,523
Airbus S.A.S.	China Eastern Airlines	Airbus aircraft	–	211,564,152
Clyde Union Holdings Ltd	Chinese Nuclear Energy Industry Corp	Pumps and spares	–	5,834,632
Clyde Union Holdings Ltd	Jiangsu Jintung Surfactant Corp	Pumps and spares	–	73,200

Figure 2: List of Guarantees and Insurance Policies Issued

Colombia				
Airbus S.A.S	Aerovias Del Continente S.A. (Avianca)	Airbus aircraft	–	15,229,747
Dubai				
Airbus S.A.S.	Emirates	Airbus aircraft	–	59,662,985
Carillion Plc	Emaar Properties	Residential buildings	B	52,591,754
See note 2	See note 2	Air traffic control equipment	–	1,537,137
Egypt				
Airbus S.A.S.	Egyptair Holding Company	Airbus aircraft	–	110,254,510
France				
Airbus S.A.S.	Air France	Airbus aircraft	–	83,709,518
Germany				
See note 2	See note 2	Tooling workstation	–	166,599
Hong Kong				
Airbus S.A.S.	Cathay Pacific Aircraft Services Ltd	Airbus aircraft	–	46,990,122
Ireland				
Airbus S.A.S.	Avolon Aerospace Leasing Ltd	Airbus aircraft	–	17,365,242
Airbus S.A.S.	Aer Lingus	Airbus aircraft	–	10,467,334
Airbus S.A.S.	Awas Aviation Capital Ltd	Airbus aircraft	–	44,540,366
Airbus S.A.S.	CIT Aerospace International	Airbus aircraft	–	77,320,447
Italy				
Clyde Union Holdings Ltd	Saipem Energy Services SpA	Spare parts for pumps	–	54,519
Korea, Republic of				
Airbus S.A.S	Korean Airlines Co Ltd	Airbus aircraft	–	152,452,095
Caley Ocean Systems Ltd	Hyundai Heavy Industries Co Ltd	Research vessel equipment	–	591,623
See note 2	See note 2	Telecommunications hardware and software	–	579,423
Libya				
See note 2	See note 2	Wallpaper	–	282,889

Figure 2: List of Guarantees and Insurance Policies Issued				
Malaysia				
Contained Air Solutions Ltd	Mutiara Gemilang Eng'g Sdn	Clean air containment units	–	141,608
Mexico				
Airbus S.A.S.	ABC Aerolineas S.A. de C.V. (Interjet)	Airbus aircraft	–	22,519,078
Apollo Sheeters Ltd	Plega Envases de Occidente SA de CV	Paper cutting equipment	–	342,784
Netherlands				
Airbus S.A.S.	AerCap Holdings N.V.	Airbus aircraft	–	55,925,516
New Zealand				
Alexander Dennis Ltd	Swift Transport Ltd	Buses	C	48,596,859
Nigeria				
Gentec Energy Ltd	Green Fuels Ltd	Compressed natural gas delivery system	–	6,002,010
Oman				
Airbus S.A.S.	Oman Air	Airbus aircraft	–	26,891,418
Panama				
Airbus S.A.S.	Aviancataca Holdings S.A.	Airbus aircraft	–	25,100,726
Philippines				
ABN Amro Bank	N/A	Loan to Gas Power Project[4]	–	21,377,671
Airbus S.A.S.	Cebu Air Inc	Airbus aircraft	–	16,539,816
Qatar				
WRG Creative Communication Ltd	Qatar Olympic Committee	Overlay structures for the Asia Games	–	732,426
WRG Creative Communication Ltd	Qatar Petroleum	Social events ceremony	–	791,005
Russian Federation				
Airbus S.A.S.	Aeroflot Russian Airlines JSC	Airbus aircraft	–	75,342,182
Airbus S.A.S.	VEB Leasing	Airbus aircraft	–	12,648,697
See note 2	See note 2	Wallpaper	–	875,964
See note 2	See note 2	Wallpaper	–	1,313,945
Joy Mining Ltd	Siberian Coal Energy Co	Mining equipment	–	4,808,863
Joy Mining Ltd	Southern Kuzbass Coal Co OAO	Mining equipment	–	8,742,166

Figure 2: List of Guarantees and Insurance Policies Issued

Thales Training & Simulation Ltd	Sukhoi Civil Aircraft	Flight simulators	C[5]	3,871,367
See note 2	See note 2	Ignition cables and components	–	313,220
See note 2	See note 2	Packaging for vodka	–	504,689
Saudi Arabia				
Fluor Ltd[6]	Saudi Kayan Petrochemical Co	Kayan petrochemical complex	A[5]	65,674,438
Stage Technologies Ltd	First Gulf Company for Suppliers and Contracting Ltd	Stage engineering for major cultural centre	–	624,958
See note 2	See note 2	Automotive spare parts	–	43,208
Singapore				
Airbus S.A.S.	BOC Aviation Pte Ltd	Airbus aircraft	–	5,089,497
Airbus S.A.S.	Tiger Airways	Airbus aircraft		14,156,374
Divex Ltd	DOF Subsea Pte Ltd	Saturation diving system	B	17,519,580
Perry Slingsby Systems Ltd	DOF Subsea Pte Ltd	Remotely operated vehicles	B	4,537,511
South Africa				
Deutsche Bank AG	N/A	Loan to Mozal Aluminium Smelter[4]	–	4,791,957
Spain				
Clyde Union Holdings Ltd	Moncofa	Water pumps	–	37,451
Taiwan				
See note 2	See note 2	Telecommunications hardware and software	–	1,653,086
Tunisia				
Airbus S.A.S.	Tunisair	Airbus aircraft	–	6,207,919
Turkey				
Airbus S.A.S.	Turkish Airlines Inc	Airbus aircraft	–	104,736,778
Clyde Union Holdings Ltd	Enpro	Water pumps	–	128,862
See note 2	See note 2	Military vehicles	–	680,000
United Arab Emirates				
Airbus S.A.S.	Air Arabia	Airbus aircraft	–	20,215,242

Figure 2: List of Guarantees and Insurance Policies Issued

United States of America				
Asmag UK Ltd	Wieland Copper Products LLC	Copper pipe manufacturing facility	–	965,295
Vietnam				
Airbus S.A.S.	Vietnam Airlines Corporation	Airbus aircraft	–	101,189,597
Zambia				
See note 2	See note 2	Weather stations	–	49,498
	Total			**2,318,163,098**

1 Indicates the level of environmental, social and/or human rights impacts that could potentially occur without the deployment of arrangements to mitigate such impacts. For a description of the categories please see the *Revised Council Recommendation On Common Approaches On The Environment And Officially Supported Export Credits*, available from www.oecd.org.

2 Details not disclosed e.g. for reasons of commercial confidentiality.

3 The amount of this guarantee is not included in the total amount of business supported as no drawings were made in 2011-12.

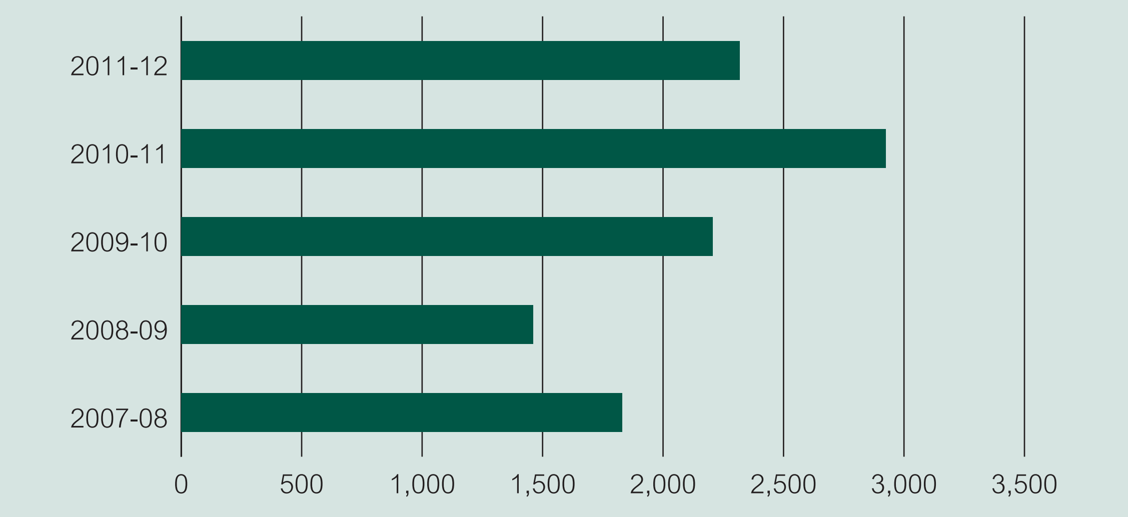
4 Overseas Investment Insurance policy renewals. The policies were issued prior to the introduction of the previous Case Impact Analysis Process.

5 Screened under ECGD Case Impact Analysis Process.

6 Guarantee issued in 2008-09, further tranche drawn in 2011-12.

Business Commentary

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

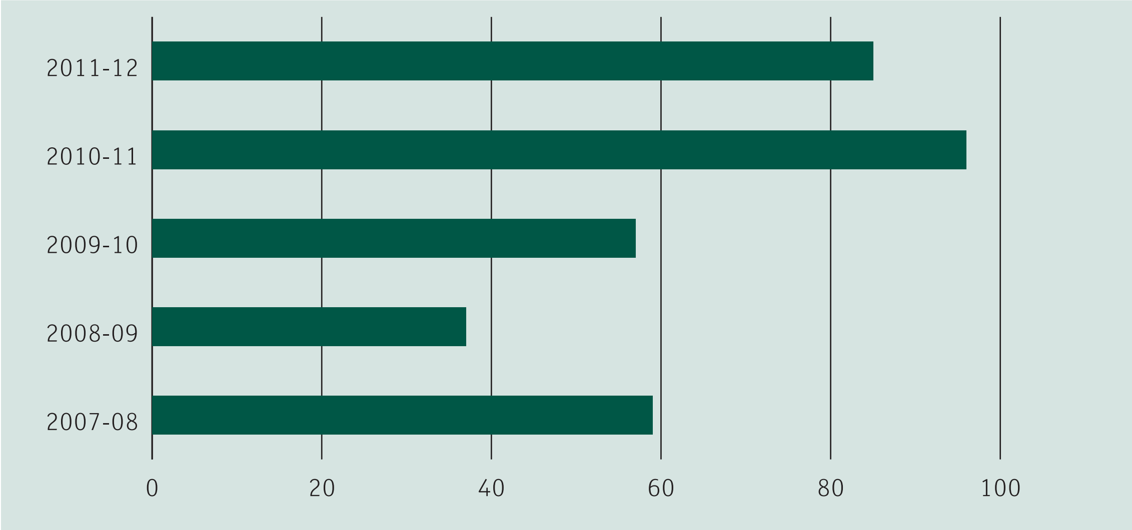


In 2011-12 ECGD supported exports and investments overseas through the issue or renewal of guarantees and insurance policies with an aggregate value of £2,318 million. Buyer Credit and Supplier Credit financing accounted for £2,270 million of support, Supplier Credit Insurance for £13 million, Overseas Investment Insurance (OII) business for £26 million and Short-Term Finance products for £9 million. The exports supported related to 38 countries. The total number of guarantees and insurance policies was 204 (including two OII renewals). Net premium income was £85 million. There were no claims in respect of new defaults; claims payments of £6 million were made in respect of cases already distressed. Recoveries from past paid claims including interest were £128 million.

Figure 4: Business supported by product type

	Cases	Value (£ million)
Buyer Credit	47	2,192
of which asset based	31	1,831
of which project line of credit	2	65
Supplier Credit Financing	8	77
Supplier Credit Insurance and OII	17	39
Short-Term Finance	9	9

Figure 5: Premium earned (£m) – five year summary



Civil Aerospace Business

Civil aerospace is an important industrial sector in the UK economy and ECGD provides support for the export of civil aircraft and of aero-engines. This support is principally provided to Airbus and Rolls-Royce and, through this support, to numerous other companies in their supply chains, including many SMEs, which indirectly benefit from ECGD support.

In 2011-12 ECGD issued guarantees for civil aerospace business amounting to £1,832 million, generating premium of £65.6 million and supporting the delivery of 132 aircraft in total. The aircraft were delivered to 32 airlines and operating lessors. Where the aircraft were fitted with aero-engines supplied by Rolls-Royce, ECGD support exceeded 30 per cent of the financing cost of the aircraft.

ECGD support for the export of Airbus commercial aircraft is provided alongside that of the French and German export credit agencies (ECAs), each in broad proportion to their respective work-shares. This is usually arranged on a reinsurance basis, whereby one of the three ECAs leads a transaction while the other two provide support to the lead ECA. This approach provides Airbus customers with a single portal through which they can benefit from ECA support.

The ECAs supported 26 per cent of the total aircraft delivered by Airbus. This was down from 34 per cent last year, although it remains high in comparison with the levels supported before the 2008-09 economic downturn. This continuing high level of support by the ECAs reflected the lack of sufficient medium/long-term funding capacity in the commercial bank market alongside political uncertainty in some countries. This higher level of demand for ECA support is expected to continue as the banks strengthen their balance sheets and adjust to new regulatory requirements, including new capital requirements with the prospective introduction of the Basel III regulations.

An alternative source of financing that can help meet a shortfall in the availability of commercial bank funding can be provided through the capital markets. In 2010-11 ECGD guaranteed a transaction for the supply of aircraft to AerCap, a US operating lessor, which was funded from the international capital markets by way of a bond issue at the time the aircraft were delivered. During 2011-12 ECGD announced its willingness to consider support for aircraft transactions where the financing is raised through a bond issue made in advance of expected future deliveries (pre-funded bonds), to ensure financing will be available and in place before an aircraft delivery takes place, and so avoiding a refinancing risk for the arranging bank.

Through co-operation arrangements with the US Export-Import Bank, ECGD provides reinsurance when Rolls-Royce engines are fitted to aircraft manufactured by Boeing or Hawker Beechcraft. In 2011-12 ECGD entered into discussions with the Canadian ECA, Export Development Canada, to establish similar co-operation arrangements to support jointly the future sale of Bombardier's C-Series aircraft, which will include content to be exported from Northern Ireland.

Civil Non-Aerospace Business

In 2011-12 demand for ECGD's services for non-aircraft business continued to grow, consolidating the trend seen since the 2008-09 economic downturn.

The number and value of enquiries and business in negotiation rose significantly, as did the number of policies and guarantees that were issued, although the value of business that became effective during the year fell by 56 per cent, from £1.1 billion to £486 million. This is explained by the rise in the number of lower-value export contracts supported and the long lead times for the growing pipeline of large potential export contracts under consideration. Given the size of this pipeline, the underlying growth trend is expected to translate into higher levels of business being supported in 2012-13 and beyond.

The most important markets were Azerbaijan, Bahrain, Brazil, Dubai, New Zealand, Norway, Russia and Saudi Arabia. The export contracts supported were for a diverse range of sectors including mining, flight simulators, packaging, wall coverings, petrochemical engineering, logistics, automotive supplies, clean air equipment, cardboard packaging plant, buses, natural gas delivery systems, remote operating vehicles, plasma furnaces, air traffic control equipment, construction, automated tolling, telecommunications, defence vehicles, training services, industrial catalysts, water treatment plant, steel manufacture and processing and pipe manufacturing.

The largest single project guarantee to become effective in 2011-12 was in respect of a US$270 million buyer credit loan to Gerdau Açominas SA in Brazil to finance the supply by Siemens VAI of a combined plate and Steckel mill. The importance of Brazil as a priority market for UK exports was further underlined in 2011-12 by the issue of a guarantee of US$1 billion for a line of credit to the Brazilian energy company Petrobras for the purpose of financing UK exports of goods and services for drilling and exploration activities off the east coast of Brazil. The loan is expected to become fully effective in the early part of 2012-13 when the first loan drawings for UK supply contracts nominated for financing by Petrobras are likely to begin.

Support of £66 million was provided for the Saudi Kayan petrochemical project, for which a guarantee for a line of credit was issued in 2008-09. ECGD also issued buyer credit guarantees to help finance a £53 million contract awarded to Carillion Plc by Emaar Properties for the construction of two properties at the Burj Khalifa complex in Dubai.

ECGD supported a range of export contracts to Russia. The largest of these was a US$12.8 million contract awarded to Joy Mining by Mechel for the supply of longwall mining equipment and a similar contract, valued at US$6.8 million, was awarded to Joy Mining by SUEK, the largest coal producing company in Russia. Further export opportunities for Russia are in the pipeline which should come to fruition in 2012-13. ECGD also provided support to help finance a €6.4 million export contract awarded to Johnson Matthey Plc for the supply of catalysts for a methanol plant in Azerbaijan.

As well as supporting exports to developing countries, ECGD also supported exports to OECD-member countries. These included support for contracts with a total value of £48.6 million awarded to Alexander Dennis Ltd for the sale of single-decker bus kits to Swift Transport in New Zealand. Through the provision of reinsurance to GIEK, Norway's ECA, ECGD supported a US$25 million buyer credit loan to DOF Subsea Pte Ltd for the supply by Divex Ltd and Perry Slingsby Systems Ltd of an integrated saturation diving system, including two remotely operated vehicles for incorporation into a large dive support vessel, involving a contract value of US$32 million.

Figure 6: Value of business supported by sector (%) 2011-12

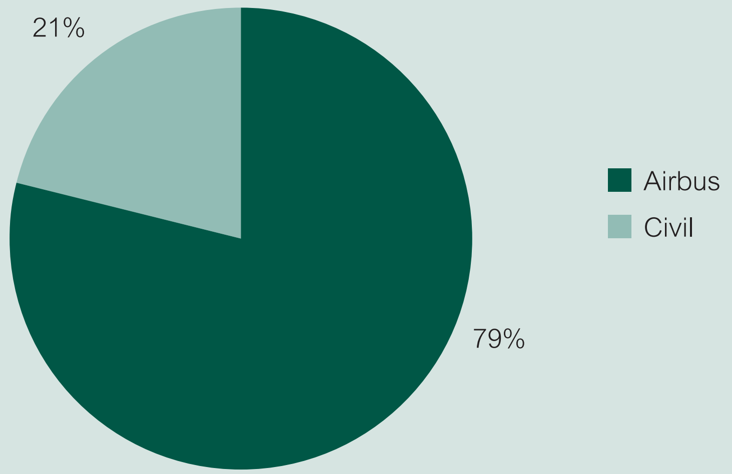


Figure 7: Percentage of business supported by sector – five year summary

	2011-12	2010-11	2009-10	2008-09	2007-08
Airbus (including Rolls-Royce engines on its aircraft)	**79**	61	89	72	29
Other civil aerospace	**0**	1	1	1	1
Civil	**21**	34	9	26	13
Defence	**<1**	4	1	1	57
Total	**100**	100	100	100	100

New Products

In 2010-11 ECGD broadened its business domain, previously confined to supporting the export of capital and semi-capital goods and related services, in order to support all types of exports, and launched three new finance products to meet gaps in the provision of support to exporters, especially SMEs, from private sector providers. The new products are: a Bond Support Scheme, to increase the capacity of banks to offer contract bond facilities; an Export Working Capital Scheme, which gives additional capacity to banks who are providing working capital finance to exporters to help them fulfil particular export orders; and a Foreign Exchange Credit Support Scheme, which is supplemental to the Export Working Capital Scheme and can help exporters gain access to foreign exchange hedging facilities. In addition ECGD revamped and simplified its Export Insurance Policy (EXIP). ECGD provides support only where there is evidence that cover is not available from a private insurer. ECGD has agreed that qualified credit insurance brokers can introduce export transactions to ECGD seeking cover under the EXIP. A fee is paid by ECGD to such brokers at a lower rate than that normally paid by private sector insurers, in order to avoid competing with the private market. The new products will be subject to review during 2012-13.

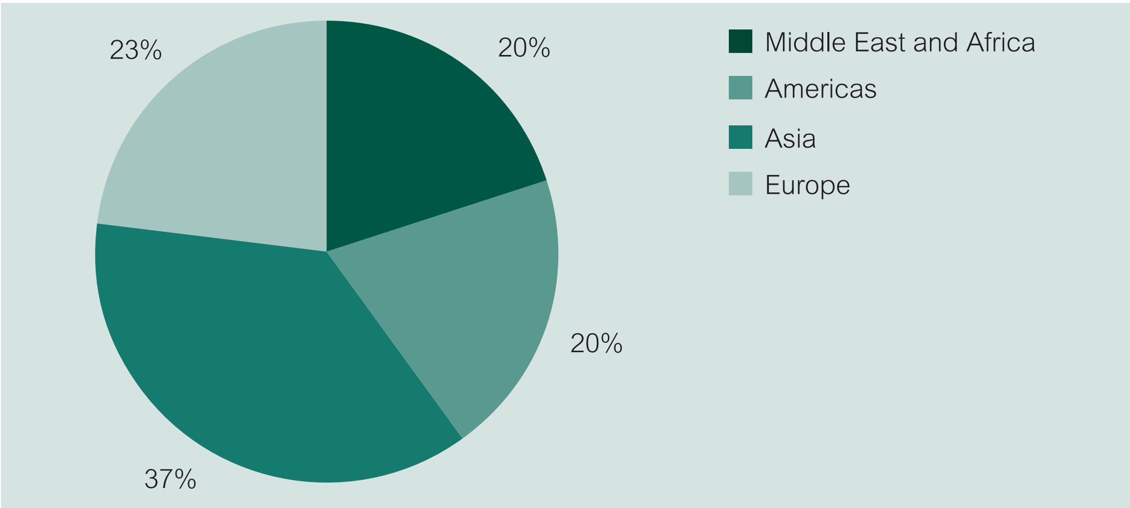
In 2011-12 ECGD guaranteed 26 bonds and one working capital facility for five exporters with a combined value of £9 million, supporting £68 million of exports to eight countries. ECGD issued 17 EXIP policies to 13 exporters, with a value of £13 million, supporting exports to twelve countries.

Letter of Credit Guarantee Scheme

The Letter of Credit Guarantee Scheme assists UK exporters in securing the confirmation by a UK bank of letters of credit issued by an overseas bank. Under the scheme ECGD may share up to 90 per cent of the risk on an eligible letter of credit with the confirming bank.

The scheme was launched in October 2009 in response to the economic downturn. While originally scheduled to expire on 31 March 2011, the scheme has now been made a permanent addition to ECGD's product range. No new guarantees were issued during the year.

Figure 8: Business supported by region (%) 2011-12



Overseas Investment Insurance

Under its Overseas Investment Insurance scheme ECGD provides political risk insurance in respect of UK investments made overseas. No new policies were issued during the year.

Market Engagement

ECGD undertook a range of activities in the UK and overseas aimed at raising awareness of its products and services and encouraging overseas buyers and project sponsors to procure goods and services from the UK with the benefit of ECGD support.

In 2011-12 ECGD visited a number of key overseas markets to promote ECGD's facilities and its ability to support the provision of medium/long-term funding to overseas buyers and project sponsors looking to procure goods and services for capital projects. In order to promote awareness of its new products, ECGD presented at more than 165 events across the UK and, in doing so, reached audiences totalling over 11,500 people, including exporters, business representatives, project sponsors and bankers. Information about ECGD's services was provided to chambers of commerce, trade bodies, professional associations and firms providing services to companies. In 2012-13 ECGD will appoint a senior official to spearhead its activity in raising awareness of the new products.

An important part of ECGD's marketing activity has been to work more closely with UKTI. This has allowed ECGD to take advantage of UKTI's extensive network of resources in the UK and abroad. Many of the exporter events in which ECGD has participated were arranged by UKTI and ECGD officials attended meetings of UKTI Sector Advisory Groups, which bring together leading British exporting companies from different fields and relevant government trade officials.

UKTI High Value Opportunities Programme

ECGD has supported the development and implementation of UKTI's High Value Opportunities (HVO) programme. This programme sets out to identify major projects overseas that can offer potentially valuable supply opportunities for companies in the UK. UKTI seeks to raise awareness of these opportunities to maximise the chances for interested companies of securing related business. The ability of companies to offer attractive financing terms can be an important factor for project sponsors who need to make procurement choices against the background of international competition; in this context the potential availability of ECGD support can be significant for project sponsors considering sourcing from UK exporters.

An example in 2011-12 was in relation to the US$21 billion Sadara integrated petrochemical project in Saudi Arabia, co-sponsored by Saudi Aramco and Dow Chemicals. After several years of preparatory work, ECGD (together with ECAs from a number of other countries) began negotiations on potential financing terms for the project with the project sponsors and their advisors. In parallel ECGD also worked alongside procurement officials of the sponsors, UKTI and the Energies Industry Council to bring information about the project to the attention of potentially interested UK exporters. As a result, UKTI organised a large "ShareFair" for British exporters, attended by representatives of the sponsors, the project company, the engineering, procurement and construction contractors and ECGD. Around 60 UK companies registered their interest to qualify for the sponsors' procurement lists, both in relation to the Sadara project and more generally.

Funding against ECGD's Guarantee

Over the past year many international banks have experienced difficulties in accessing long-term funding, particularly in US dollars. This has implications for their ability to provide loans in support of UK capital goods exports that benefit from ECGD's guarantee.

ECGD, together with HM Treasury, has been working with bank and exporter representative bodies with the aim of ensuring that secure sources of funding are available to support long-term loans guaranteed by ECGD. This work is continuing and includes steps to facilitate access to funding from the international capital markets.

Claims and Recoveries

ECGD seeks to recover amounts paid in claims either through the Paris Club or directly on a case-by-case basis (non-Paris Club recoveries).

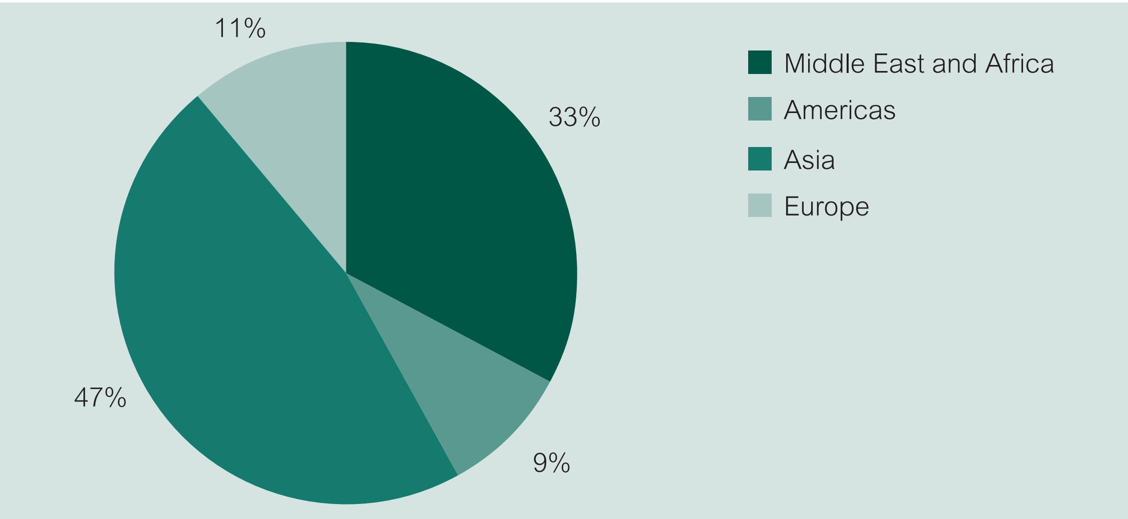
Claims

The reduction in the level of claims paid has continued. Payments authorised on capital goods and project business in 2011-12 totalled £6 million, as against £30 million in the previous year.

Recoveries

Recoveries of principal and interest made in relation to previously paid claims were £128 million during 2011-12, as against £189 million in the previous year.

Figure 9: Recoveries by region (%) 2011-12



Paris Club Activity

The Paris Club is the informal group of official creditors that seeks to establish co-ordinated and sustainable solutions for debtor nations' debt service 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 Government's commitment to addressing debt sustainability.

ECGD received £100 million in rescheduled debt and interest payments in 2011-12, compared to £147 million in 2010-11. It participated in negotiations through the Paris Club on debt owed by Côte d'Ivoire. Bilateral agreements, reflecting the terms of earlier Paris Club agreements, were concluded with Antigua and Barbuda, Côte d'Ivoire, the Democratic Republic of Congo, Liberia, the Seychelles and Togo.

As a result of further debt reduction, the amount owed to ECGD under Paris Club arrangements was £1.9 billion at 31 March 2012, compared to £2 billion at 31 March 2011.

Non-Paris Club Recoveries

Recoveries of £28 million were made during the year, compared to £42 million in 2010-11.

ECGD's distressed airline portfolio, where aircraft have been repossessed or where the lease repayments have been restructured, has not changed in terms of the number of aircraft since the previous financial year: 33 aircraft involving four airlines. Of these, 32 aircraft remain in operation with their original airlines on restructured leases.

Credit Risk Management

ECGD's primary activity involves supporting exports and overseas investments by issuing insurance contracts and guarantees and thereby accepting credit risks. Through the operation of risk management policies and procedures, ECGD identifies, assesses and, as far as possible, minimises these risks.

Financial Objectives

Financial objectives for the credit risk portfolio are set by HM Treasury and compliance is subject to regular review. ECGD's performance against its financial objectives for the year is reported on pages 52-53.

There are no specific financial objectives in respect of outstanding exposures on business supported before 1991 other than to recover amounts due in respect of claims paid in a manner that takes account of the Government's policy on debt forgiveness.

Organisational Structure

ECGD's organisational structure is functionally-based and separates customer relationship management from the risk and control functions; the customer relationship function undertaken by the Business Group is separated, so far as is practicably possible, from the financial risk assessment and pricing process carried out by the Credit Risk Group.

The operation of ECGD's credit risk policy is overseen by the Risk Committee, a sub-committee of the Executive Committee. It is responsible for advising the Accounting Officer on the effective management of ECGD's credit risk exposures at the transaction and portfolio level and compliance with policies that have been endorsed by the Management Board.

Management of Credit Risk

The main objective of ECGD's risk management framework is to identify, assess, price and manage defined risks in accordance with agreed policies and procedures. The Risk Committee regularly reviews credit risk management reports, including country risk reviews. In addition to sovereign risk reviews, assessments of corporate risks are carried out and adjustments made to internal risk ratings as and when appropriate. These are used to inform ECGD's risk appetite and pricing for new business and as a guide to setting Expected Loss and provisions.

Default statistics used for the purpose of modelling and pricing are updated every six months. Similarly, regular adjustments are made to assumptions on aircraft residual asset values based on advice from an independent professional valuation firm, which is cross-checked with advice from other appraisers. The portfolio is subjected to extensive scenario analysis and stress-testing in order to measure ECGD's risk exposure against its financial objectives and to inform its decision-making.

Changes to risk management and evaluation processes

During the year ECGD made a number of changes in its risk management and evaluation processes. First, a successful transition was made to using rating agency ratings as a base for sovereign risk (subject to judgemental adjustments where this is considered to be appropriate) and rating agency data for quantifying and modelling such risks. In this way ECGD has brought its approach to classifying and scoring sovereign risk into line with that which it has already adopted for corporate credit risk. This resulted in some non-material reductions to individual sovereign Expected Loss calculations on existing exposure, and brought ECGD's stance into line with OECD pricing benchmarks for all countries where ECGD has risk appetite for new business. Second, work was conducted to re-develop ECGD's risk modelling software and to improve the quality of portfolio risk parameters and correlation assumptions.

New Products

Last year ECGD widened its eligibility criteria to allow support, typically through an Export Insurance Policy, for export contracts, often by SMEs, of finished manufactures, intermediate goods, commodities and consumable products usually sold on short terms of payment, being horizons of risk of up to two years. At the same time ECGD also introduced new short term products that involve it taking credit and performance risks on UK exporters to a much greater extent than has been the case for many years. The Credit Risk Group was heavily involved in the design of these products and in the establishment of risk parameters for them that are in line with ECGD's overall risk control framework.

During 2011-12 further development of risk information, assessment and pricing systems was undertaken. These had hitherto been geared to project-type business involving medium and long-term horizons of risk. Those applicable to short-term products were accordingly changed in order to handle the higher volume of low value applications for support involving shorter horizons of risk which are a feature of the new products where fast turnaround times are demanded.

New Pricing System

In 2011-12 ECGD implemented a new pricing regime in line with the new arrangements under the OECD Arrangement which were introduced in September 2011 and which reduced minimum premium rates for sovereign risk and established for the first time minimum rates for corporate credit risk. As a result of its new regime ECGD has been able to charge these minima for all sovereign risks and, except for higher risks, all corporate credit risks.

Risk Environment

After some optimism in 2011, global economic growth forecasts were reduced against a backdrop of fiscal challenges within Eurozone members and some developed countries. Notwithstanding the difficult global economic and political climate, the emerging markets in which ECGD conducts most of its business remained relatively stable. Demand for credit insurance increased in the light of greater risk aversion in the private credit insurance market, especially for countries in the Middle East and North Africa undergoing political change. This demand tended to be at the lower end of the risk quality, especially for overseas SME risk; but exposures to individual buyers were relatively modest in size.

No new material prospective claims manifested themselves on sovereign or corporate risk exposures, including in the aerospace sector despite it being subject to significant stress as a result of high fuel prices and over-capacity in some regions. As there may be a lagging effect as markets and sectors come out of the downturn, it is too early to judge the resulting impact of these stresses on credit quality in this sector. A close watch was maintained on a number of obligors considered to be exposed to heightened risk.

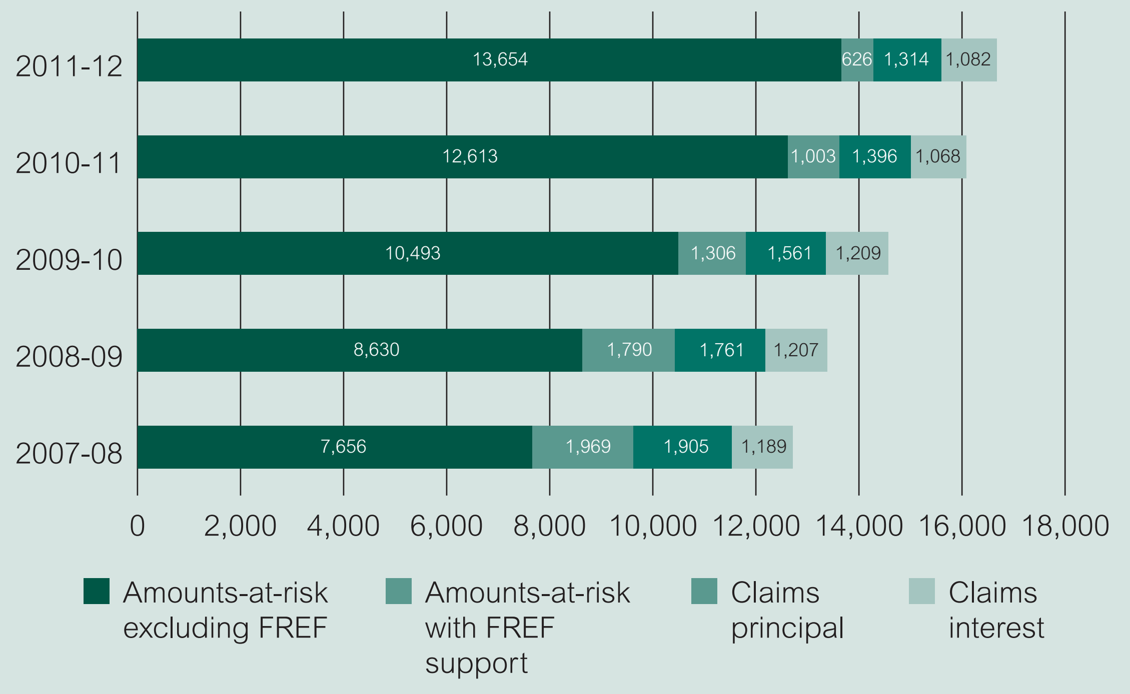
Credit Risk Portfolio

Although new business supported fell from £2.9 billion in 2010-11 to £2.3 billion in 2011-12, total nominal credit exposure increased in 2011-12 to £19.1 billion from £17.4 billion. This was primarily as a result of the rising volume of exposure under reinsurance provided to ECGD by the Airbus partner ECAs.

The overall risk quality of the credit risk portfolio has been maintained at an acceptable level, within the financial objectives, and a significant element of the risk in the aerospace sector has the benefit of asset security thereby reducing potential risks of loss. The portfolio risk measure at the 99.1 percentile of the loss distribution remained materially below the specified risk appetite limit.

Going forward, ECGD does not expect to face any portfolio risk capacity constraint on its ability to support new business although there may be an increasing concentration of risk on particular countries and obligors.

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



International Developments

Officially supported export credits are regulated by a number of international agreements reached within the OECD. ECGD represents the UK at meetings of the OECD Export Credits Group and of the EU Council Working Group on Export Credits, where EU Member States and the European Commission meet to arrive at a common position prior to meetings of the participants to the OECD Arrangement on Officially Supported Export Credits. The Commission represents EU Member States at meetings of the participants to the OECD Arrangement.

The main international developments of 2011-12 are set out below.

Common Approaches on the Environment

In April 2012 members of the OECD Export Credit Group agreed upon the text of a revised form of the *OECD Council Recommendation on Common Approaches on Officially Supported Export Credits and Environmental and Social Due Diligence*. The revised Common Approaches agreement builds upon the experience gained through the implementation of the 2007 Common Approaches and wider developments in the field of environmental and social sustainability. It includes benchmarking projects to the revised performance standards of the International Finance Corporation, a member of the World Bank Group. The re-naming of the agreement reflects greater emphasis on including consideration of the social impacts of projects that ECAs support.

Export Credits and Climate Change Mitigation

In parallel to the discussions on the Common Approaches, the participants to the OECD Arrangement had been reviewing the 2009 *Sector Understanding on Renewable Energy and Water Projects*. In April 2012 it was agreed to broaden the scope of the earlier agreement to include the export of technologies which help to combat climate change; these are now covered in Appendix 2 of the renamed *Sector Understanding on Renewable Energy, Climate Change Mitigation and Water Projects.*

As a result, the maximum credit terms that government-backed ECAs may support for carbon capture and storage projects is eighteen years, while up to fifteen years credit is available for the export of certain fossil fuel substitution, and energy efficiency projects. Previously these sectors were eligible for a maximum of ten years credit. ECAs are required to justify the approval of these more generous terms before providing support. The Participants agreed to keep the revised form of the Sector Understanding under review and consider the inclusion of further climate change mitigation technologies.

OECD Minimum Premium Rates

On 1 September 2011 new minimum premium benchmarks for both sovereign and corporate risks came into force under the OECD Arrangement on Officially Supported Export Credits. As set out in last year's Annual Report, the new rates apply to all export credit business with a repayment period of two years or more, except defence exports (which are outside the scope of the OECD Arrangement) and civil aircraft (which are subject to a different premium regime under the OECD Aircraft Sector Understanding).

European Union

The European Commission is reviewing the scope of the EU ban on the provision of short-term (i.e. business with a maximum horizon of risk of two years) credit insurance by EU ECAs for exports within the EU and most OECD countries. The prohibition, first introduced by the Commission in 1997, has been repeatedly extended; it is due to expire at the end of 2012. The UK and other EU Member States have held a series of meetings with the Commission to discuss possible amendments and the Commission is expected to bring forward its proposals in early-summer, with a view to implementation on 1 January 2013.

People and Infrastructure

During 2011-12, despite a continued reduction in staff levels, mainly in back-office functions, ECGD staff responded to the challenges of meeting increasing demand for support and of launching new products. ECGD increased staff resources in its frontline operations in its Business and Credit Risk Groups to ensure that ECGD dealt efficiently with enquiries and applications for support. It will continue to keep its resources in these and other key areas under review so that it can meet the needs of the exporting community.

ECGD holds Investors in People status, which is due for re-accreditation in 2012. ECGD continued to invest in learning and development, in line with its goal of being an efficient, flexible and high performing organisation with a responsive and adaptable workforce. The focus during the financial year was on functional training in connection with meeting growing business demand.

During the year ECGD staff participated in the annual Civil Service People Survey. The response rate was better than in 2010 with 89 per cent of staff taking part. Although overall the results were fairly static, there were some areas where improvements were indicated.

New Public Sector Equality duties came into force during the financial year and ECGD complied with the requirement to publish diversity information on its website and to establish diversity objectives for the coming years.

ECGD continued to make improvements in operational efficiency and effectiveness as it implemented a programme of work to re-configure and simplify corporate processes, systems and management reporting functions. Allocation of process and data ownership responsibilities, supported by clearly documented and understood processes, overlaid by appropriate controls, has provided ECGD with a sound basis for identifying areas where further efficiencies might be gained and for the introduction of continuous improvement techniques.

ECGD implemented changes to its IT systems in 2011-12. IT support was transferred from an onsite to an offsite basis. This reduced costs and mitigated risks relating to specific site knowledge and key individuals. ECGD now has IT support based on an industry standard model, which is more cost effective and permits a more competitive process for any future re-tendering. During the year the corporate data warehouse was replaced, with the new system allowing more efficient handling of ECGD's operational data.

Looking ahead ECGD will continue to invest in its staff. With the end of its lease on its current premises in London Docklands approaching ECGD is considering re-locating to Westminster. A decision will be based on value for money criteria and operational effectiveness.

Sustainable Development

Sustainable Lending

Exports or investments that required further assessment in accordance with the application of *OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries.*	
Market/Exporter	**Overseas Project**
Nigeria/Gentec Energy Ltd	Gas Compressor Plant[1]

Note:

1 The OECD Principles and Guidelines only apply to transactions involving public bodies. The buyer is a private sector entity but ECGD assessed the project to be satisfied that there would not be a risk of debt migration to the public sector.

Environmental, Social and Human Rights Impacts

Information related to the application of the *OECD Revised Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*	
Guarantees issued that were screened for environmental, social and human rights (ESHR) impacts	15
Guarantees issued for which an ESHR impact assessment was provided	5
Guarantees issued that were categorised as Category B (having medium potential ESHR impacts), for which the project was expected to comply fully with the relevant international standards at the time of the guarantee being issued	4
Guarantees issued categorised as Category A (having high potential ESHR impacts), for which the project was expected to comply fully with the relevant international standards at the time of the guarantee being issued	1
Projects reported by ECGD to the OECD under the terms of the Common Approaches for non-compliance with the relevant international standards	0
Guarantees issued which were categorised as Category B to which environmental conditions were attached	2
Guarantees which were categorised as Category A to which environmental conditions were attached	1
Transactions that ECGD declined to support on ESHR impact grounds	0

Environmental, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2011-12

Market	Overseas project	Exported goods/ services	Potential impact category[1]	Explanation of category	Compliance with relevant international standards	Estimated GHG emissions
Azerbaijan	Methanol plant	Catalysts	N/A	Contract value under £10 million and not close to any sensitive areas	N/A	N/A
Brazil	Steel plate and Steckel mill	New combined plate and Steckel mill	B	Site specific, irreversible impacts anticipated, mitigation measures available	IFC Performance Standards (1,2,3,4,5,6,7,8)	To be provided by Gerdau Açominas
Brazil	Oil refinery waste processing	Plasma furnace, plasma electrode, DC plasma power supply and integrated control system	C	Minimal/no adverse environmental impacts anticipated	N/A	N/A
Brazil	Petrobras oil and gas exploration and production facilities in the South Atlantic	Yet to be determined	A	Significant potential adverse environmental impacts anticipated, including beyond site boundary	IFC Performance Standards (1-7), IFC Guidance Notes: Performance Standards on Social and Environmental Sustainability; the IFC Environmental, Health, and Safety (EHS) General Guidelines, IFC EHS Guidelines for Offshore Oil and Gas Development; the IFC EHS Guidelines for Onshore Oil and Gas Development. Relevant IMO, IPIECA and MARPOL guidelines and Brazilian regulations.	To be provided for each supply contract supported if emissions exceed 100,000 CO_2e/ annum reporting threshold
Dubai	Air traffic control simulator	Air traffic control simulator equipment	N/A	Contract value under £10 million and not close to any sensitive areas	N/A	N/A

Environmental, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2011-12

Market	Overseas project	Exported goods/ services	Potential impact category[1]	Explanation of category	Compliance with relevant international standards	Estimated GHG emissions
Dubai	Residential towers and retail podium at Burj Khalifa complex	Buildings at plot 58 & 59	B	Site specific, irreversible impacts anticipated, mitigation measures available	IFC Performance Standards (1,2,3,4)	N/A as <100,00 tonnes CO_2e/ annum
Mexico	Paper mill equipment	Paper sheeter and associated equipment	N/A	Contract value under £10 million, replacement equipment and not close to any sensitive areas	N/A	N/A
New Zealand	Bus transportation	Supply 'Enviro 200' buses	C	Minimal/no adverse environmental impacts anticipated	N/A	N/A
Nigeria	Gas compressor plant	Compressed natural gas delivery system	N/A	Contract value under £10 million and not close to any sensitive areas	N/A	N/A
Russia	Kirov Mine	Mining equipment	N/A	Contract value under £10 million and not close to any sensitive areas	N/A	N/A
Russia	Kuzbass Mines	Replacement mining equipment	N/A	Contract value under £10 million replacement equipment to an existing facility	N/A	N/A
Russia	Flight simulation	Full flight simulators	C[2]	Minimal/no adverse environmental impacts anticipated no further assessment required	N/A	N/A
Saudi Arabia	Kayan petrochemical plant	Refinery and petrochemical plant	A[2]	Significant adverse environmental impacts anticipated, including beyond site boundary	IFC Performance Standards (1-8), World Bank Safeguard Policies (4.01, 4.04, 4.11, 4.12), IFC General EHS Guideline, the PPA handbook	Emissions estimated at 5.9 million tonnes CO_2e/ annum
Singapore	Diving and remotely operated vehicle support vessel	Diving support vessel	B	Site specific, irreversible impacts anticipated, mitigation measures available	IFC Performance Standards 2, IFC General EHS Guideline, IFC EHS Sector Guideline on Shipping.	N/A as <100,000 tonnes CO_2e/ annum

Environmental, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2011-12

Market	Overseas project	Exported goods/ services	Potential impact category[1]	Explanation of category	Compliance with relevant international standards	Estimated GHG emissions
United States	Production of copper tubing	In-line annealing and bunch coiling system for production and handling of copper tube	N/A	Contract value under £10 million, to an existing facility not close to any sensitive areas	N/A	N/A

Notes:

All new civil aircraft and aero engines supported by ECGD must meet EU and International Civil Aviation Organisation environmental and noise standards. Defence exports are subject to the export licensing procedure operated by the Export Control Organisation of the Department for Business, Innovation and Skills, which takes advice from the Foreign and Commonwealth Office, the Ministry of Defence and, where relevant, the Department for International Development.

All Overseas Investment Insurance cases supported during the year were in respect of renewals of policies that were issued before environmental, social and human rights impact screening or review was undertaken.

1 Indicates the level of environmental, social and/or human rights impacts that could potentially occur without the intervention of the impact mitigation systems. For a description of the categories please see the *Revised Council Recommendation On Common Approaches On The Environment And Officially Supported Export Credits*, available from www.oecd.org.

2 Screened under ECGD Case Impact Analysis Process.

Issued cases were ECGD has contingent liabilities designated as having high potential environmental, social and human rights impacts

Year of issue/ Market/Exporter	Overseas project	Exported goods/ services	Compliance with relevant international standards	Comments
2003-04/Azerbaijan/ BP Exploration (Caspian Sea) Ltd, CB&I John Brown Ltd	Baku-Tbilisi-Ceyhan (BTC) Pipeline	Range of goods and services	Compliant	Operation phase
2004-05/Iran/ MAN Ltd	South Pars gas field: Projects 9 & 10	Piping, electrical and mechanical equipment, and other steel-related products	Action plan agreed with project sponsors to address air quality compliance.	Construction phase
2005-06/Brazil/ Rolls-Royce Power Engineering, InvSat Ltd (now Nessco Ltd), ETA Process, VWS Westgarth Ltd	P-52 Floating Oil Production Unit	Turbines, power generation modules, associated plant and oil production equipment	Compliant	Operation phase
2006-07/Saudi Arabia/Foster Wheeler Energy, Fluor Ltd	Yanbu National Petrochemical Company (Yansab)	Project management, contract, engineering design and procurement services.	Compliant	Operation phase
2008-09/Saudi Arabia/Fluor Ltd and other UK exporters	Saudi Kayan Petrochemical Co.	Refinery and petrochemical plant	Compliant	Construction phase
2010-11/Russia/ Rolls-Royce Plc	Portovaya Gas Compressor Station	Steam compressor station and associated gas pipeline	Compliant at date of issue of support. Construction phase not fully compliant in relation to health and safety. The ECAs currently require the project sponsor to address weaknesses to bring the project into compliance.	Construction phase

Note: ECGD started classifying the potential environmental, social and human rights impacts of projects in 2003-04.

Coalition Government's Programme for Government

The Coalition's *Programme for Government* stated: "we will ensure that UK Trade and Investment and the Export Credits Guarantee Department become champions for British companies that develop and export innovative green technologies around the world, instead of supporting investment in dirty fossil-fuel energy production." The Government is expected to announce in 2012-13 how this commitment will be implemented.

Anti-Bribery and Corruption

Annually ECGD reviews the applications which it receives for support in accordance with its obligations under the OECD *Council Recommendation on Bribery and Officially Supported Export Credits*, and publishes on its website statistical information about the operation of its anti-bribery policies for the year in question.

Requests for 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.

In 2011-12 ECGD received 103 requests for information under the Freedom of Information Act or the related Environmental Information Regulations, against 66 requests received in the previous year.

Figure 11: Requests for information 2011-12 and 2010-11

Issue	2011-12	2010-11
Anti-bribery and corruption procedures	**0**	0
Defence business	**1**	3
Environmental information	**6**	1
Project information and general business matters	**27**	29
International debt	**26**	7
Organisation/procurement	**43**	26
Total	**103**	66

ECGD responded to 88 per cent of cases within the statutory time limit.

One request was referred by the applicant to the Information Commissioner, who upheld ECGD's decisions in full. No requests were referred by an applicant to the Information Tribunal.

Sustainability Reporting

Since the introduction of the Framework for Sustainable Development on the Government Estate and the subsequent Sustainable Operations on the Government Estate (SOGE) framework in 2006, ECGD has reported annually on sustainable development activities on its estate, with the goal of operating the estate efficiently and reducing the environmental impact of its operations and their associated costs.

This is the first year that ECGD has provided a report on financial and non-financial indicators of its sustainability performance in the Annual Report prepared in accordance with the HM Treasury Public Sector Guidance for Sustainability Reporting (www.financial–reporting.gov.uk).

The SOGE targets expired on 31 March 2011 and have been replaced by the new Greening Government Commitments (GGC) (http://sd.defra.gov.uk/gov/green-government/commitments/). The new baseline year, being the year with which performance is to be compared, is 2009-10 and the GGC reporting period runs from 2011-12 to 2014-15.

The Government has agreed a number of key outcomes which will deliver the vision of being the greenest government ever. These outcomes aim to significantly reduce the Government's environmental impact: reducing emissions of greenhouse gases, reducing waste, reducing water usage and making procurement more sustainable.

Summary of Performance

At 2010-11 ECGD achieved four of the five targets set down against the 5-year SOGE framework:

Area	Target (from 2004-05 baseline)	Actual (2010-11)	Outcome
Reduce Carbon Emissions from Offices	13% decrease	56% decrease	Achieved Target
Reduce Carbon Emissions from Vehicles	15% decrease	93% decrease	Achieved Target
Reduce Water Consumption	25% decrease	76% decrease	Achieved Target
Reduce Waste	5% decrease	17% increase	Target Not Achieved
Increase Recycling	40% increase	87% increase	Achieved Target

With the exception of waste, ECGD's performance against the GGC targets has continued to improve against the final year SOGE performance and is on track to achieve the reductions required. Focus is required on reducing waste production and a number of initiatives are being considered to achieve the target of 25 per cent reduction by 2014-15.

Area		2009-10 Baseline	2011-12 Performance	% Change
Estate Energy	Consumption (kWh)	1,090,137	796,660	-27%
	Expenditure (£)	£135,067	£65,360	-52%
Estate Waste	Amount (Tonnes)	78	82	+6%
Estate Water	Consumption (m^3)	2,762	1,855	-33%

The reporting scope for the GGC has changed from the SOGE reporting. The scope of the key outcomes for 2014-15 includes office and non-office estate and other operational activities in government departments, their Executive Agencies, executive Non-Departmental Public Bodies (NDPBs) and Non-Ministerial Departments.

ECGD reports performance on two sites: its main office in London and its file repository based in Cardiff. It has a single NDPB, the Export Guarantees Advisory Council, which operates from ECGD's main office. As such, the change in reporting scope has not had a significant impact on the results for ECGD when compared to previous years.

Governance

ECGD's sustainable operations and reporting is delivered through its Resources Division. Its performance against government targets is reported to and signed-off by the Chief Executive.

Detailed annual results and commentary for each target area are below.

Emissions

Figure 12: Gross emissions – three-year summary

		2009-10	2010-11	2011-12
Non-Financial Indicators (tCO_2e)	Total gross emissions	653.39	653.88	544.36
	Gross emissions Scope 1 & 2 (direct)	482.78	416.02	351.47
	Gross emissions attributable to Scope 3 – domestic business travel	4.26	6.33	8.74
	Gross emissions Scope 3 – international business travel	166.35	231.53	184.15
Related Energy Consumption (kWh)	Electricity: Non-Renewable	0	0	0
	Electricity: Renewable	820,476	712,844	601,768
	Gas	285,080	229,027	194,892
Financial Indicators	Expenditure on Energy	£135,067	£79,318	£65,360
	CRC Licence Expenditure (2010 onwards)	£0	£950	£1,290
	Expenditure on GCOF II	£0	£2,439	£1,139
	Expenditure on official business travel	£157,994	£232,647	£212,477

Definition of terms:

Scope 1 – Direct Greenhouse Gas Emissions: these occur from sources owned or controlled by the reporting department. For ECGD, this refers to fugitive emissions from air conditioning units.

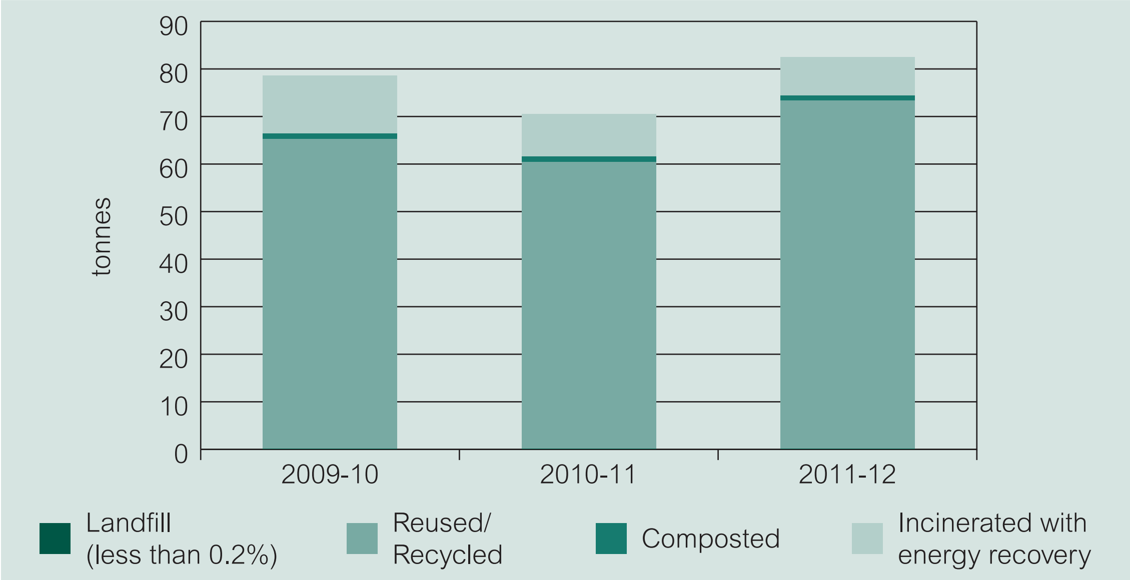
Scope 2 – Indirect Energy Emissions: electricity that ECGD consumes, which is supplied by another party, for example electricity supply in buildings.

Scope 3 – Other Indirect Emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting department, out-sourced activities, waste disposal, etc.

Performance Commentary (inc Measures)
ECGD has a target to reduce its greenhouse gas emissions from the whole of its estate and business-related transport by 25 per cent from a 2009-10 baseline. ECGD is making progress with a view to meeting this target. There is also a target to cut domestic business travel flights by 20 per cent by 2015 from a 2009-10 baseline. Overall greenhouse gas emissions reduced by 16.7 per cent against the 2009-10 baseline year, mainly driven by the significant reduction (27.9 per cent) in energy consumption over this period, in both the London office and the file repository in Cardiff. The increase in domestic business travel over the period was due to an increase in staff travel for market engagement purposes as detailed on page 21. ECGD's travel figures are based on air, rail and private car use only. As a central government department, ECGD participates in the Carbon Reduction Commitment Energy Efficiency Scheme and also purchases carbon offsets for its air and rail travel.
Controllable Impacts Commentary
A number of energy saving initiatives were implemented over this period, including voltage optimisation, a replacement of the boiler in Cardiff, introduction of Night Watchman for daily automatic shut down of IT, and the review and modification of BMS trend settings to ensure energy efficient performance. ECGD works closely with the building management company, Cushman & Wakefield (C&W), at its London office to achieve carbon savings. ECGD's staff restaurant was closed in June 2011; this will have had a material impact on the reduction of energy consumption.
Overview of Influenced Impacts
ECGD's London office is part of a multi-tenanted office complex. C&W manage the energy contracts for the building. ECGD is currently in a three year contract under flexible purchasing arrangements. The contract is selected according to C&W's risk management strategy. Purchase of new IT and other energy equipment is through existing framework agreements negotiated by Government Procurement Services and meets their energy efficiency requirements.

Waste

Figure 13: Waste disposal – three-year summary



			2009-10	2010-11	2011-12
Non-Financial Indicators (tonnes)	Total Waste		78.62	70.55	82.49
	Hazardous Waste	Total	N/A	N/A	N/A
	Non-Hazardous Waste	Landfill	0.1	0.1	0.1
		Reused/Recycled	65.23	60.41	73.33
		Composted	1.06	1.08	1.01
		Incinerated with energy recovery	12.23	8.96	8.05
Financial Indicators	Total Disposal Cost		£22,130	£19,790	£21,928

Performance Commentary (inc Measures)

ECGD has a target to reduce the amount of waste it generates by 25 per cent from a 2009-10 baseline and, in the London office, a zero landfill target. The latter has been achieved by C&W through high levels of recycling rates and incineration with energy recovery. Additionally, food waste recycling and composting has been introduced. Despite this, ECGD's waste arisings has increased by 4.9 per cent against the 2009-10 baseline.

All ICT waste is either recycled or reused through ECGD's contract with the Disposal Services Agency.

Controllable Impacts Commentary

The measurement of waste is difficult to accurately assess at ECGD's London office due to its accommodation being part of a multi-tenanted office complex. ECGD's waste is not measured separately from other tenants and ECGD reports waste as being its '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 each tenant makes of that space and staff volumes.

ECGD's main direct impact for waste is office waste in the form of paper. ECGD has a waste management contract for the collection and recycling of its paper waste at both sites. ECGD's recycling figure increased from 83 per cent to 88 per cent of total waste over the reported period.

Overview of Influenced Impacts
Staff are strongly encouraged to use the recycling facilities and new staff are made aware of these facilities during their induction. A review of the waste management within ECGD will be carried out during 2012-13, which will include trialling the removal of desk bins and a staff awareness campaign on the segregation of food and packaging waste.

Water Consumption

Figure 14: Water consumption – three-year summary

			2009-10	2010-11	2011-12
Non-Financial Indicators (m^3)	Water Consumption (Office Estate)	Supplied	2,488	1,901	1,654
		Abstract	N/A	N/A	N/A
		Per FTE	281	262	231
	Water Consumption (Non-Office Estate)	Supplied	273.98	231.63	201.12
		Abstract	N/A	N/A	N/A
Financial Indicators	Water Supply Costs (Office Estate)		£2,848	£5,155	£3,041
	Water Supply Costs (Non-Office Estate)		£824	£697	£710

Performance Commentary (including Measures)

Under the Sustainable Development in Government targets, ECGD reduced its water consumption by 76.2 per cent, against a target of 25 per cent on the office and non-office estate from a 2004-05 baseline.

The new Greening Government Commitment target is to reduce water consumption from a 2009-10 baseline, and report on office water use against best practice benchmarks:

a. ≥6 m^3 water consumption per FTE poor practice

b. 4m^3 to 6m^3 per FTE good practice

c. ≤4m^3 per FTE best practice

As with waste measurement, ECGD's water is not measured separately from other tenants in the London office and ECGD reports water consumption as being its 'share' for the whole office complex.

ECGD's primary water consumption is from tea points and toilets. C&W has made great efforts in reducing the water consumption at the London office with the introduction of reduced water flow in the taps and toilet facilities. An area of our London office which used a significant amount of water was the staff restaurant. Its closure in June 2011 has made a contribution to the overall reduction of 13 per cent for the building.

In the Cardiff office, changes were made to the toilet facilities and there was a 26.6 per cent reduction since 2009-10.

Controllable Impacts Commentary

For the purposes of sustainability reporting, the full-time employee equivalent (FTE) includes contractors and visitors over the year. Despite the significant reduction is water consumption, ECGD did not meet the best practice benchmark; consumption is >6m^3 per FTE in the London office. The main reason for this is the way in which usage is reported. Other floors in the building have more dense occupation than those of ECGD and this can lead to higher than normal usage on these floors, which makes it difficult to calculate an accurate consumption figure for ECGD.

Overview of Influenced Impacts

At the Cardiff location the water meter is monitored on a monthly basis. Work will continue to identify areas in which water consumption can be reduced.

This sustainability reporting has not been subject to audit and does not form part of the auditors' opinion on the accounts.

Notes:

1. ECGD pays for water and waste services through an annual service charge at its London office. The figures used above have been provided as whole building costs and apportioned to departmental costs based on a floor occupancy of 18.64 per cent.
2. A resale contract is in place for IT disposal. While the volumes are classed and treated as waste arising and recycling within this report, the income generated from the re-sale of IT items has been subtracted from the total disposal costs for each financial period.
3. Business travel cost figures exclude travel not purchased through ECGD's travel contract.
4. Business travel gross emissions do not include journeys made by bus or taxi.

The Management Board

Back Row L-R: David Havelock, David Godfrey, Sue Johnson, Eric Peacock, Patrick Crawford (Chief Executive), Nicholas Ridley, Nigel Addison Smith

Front Row L-R: Steve Dodgson, Katherine Letsinger, Guy Beringer (Chairman), Susan Haird

Chairman's Statement

ECGD's Management Board is responsible for advising and supporting the Accounting Officer in respect of the governance of ECGD. It is led by a non-executive Chairman and consists of five independent non-executive directors, one of whom is a senior official of UKTI, and members of ECGD's Executive Committee.

In September 2011 Peter Haslehurst's appointment as a non-executive member of the Management Board ended and the Board welcomed Sir Eric Peacock as a new non-executive member. In the same month Susan Haird, UKTI Deputy Chief Executive, took over from Robin Barnett as the non-executive member representing UKTI.

The Board supports the Accounting Officer in the discharge of his responsibilities and has accountability to the Secretary of State for Business, Innovation and Skills and the Minister for Trade and Investment for:

- exercising oversight of the Chief Executive and the Executive Committee;
- monitoring the application of the principles of good governance;
- examining and testing the strategic goals of ECGD;
- advising on policies and strategies; providing advice on achieving policies set by Ministers;

- monitoring performance; assessing and monitoring enterprise-wide risks;
- approving accounting policies and the Annual Report and Accounts; and
- approving the remuneration of the Chief Executive and all other members of ECGD staff in the Senior Civil Service.

The Board has a regular schedule of meetings throughout the year. The Board is supported by two sub-committees, the Audit Committee and the Remuneration Committee. Both are composed entirely of non-executive directors.

More information on ECGD's governance arrangements is provided in the Governance Statement on page 73, which was reviewed by the Management Board through its Audit Committee.

Export Guarantees Advisory Council Annual Report 2011-12

The Export Guarantees Advisory Council is a Non-Departmental Public Body. The remit of the Council is defined by the Export and Investment Guarantees Act 1991. Its Terms of Reference, the minutes of meetings and a register of members' interests are available on ECGD's website.

The Council's broad remit is to provide advice to Ministers on the policies that ECGD applies when doing business, particularly its ethical policies related to:

- environmental, social and human rights impacts;
- anti-bribery and corruption;
- sustainable lending; and
- obligations under information legislation.

Ministers have a statutory duty to consult the Council on matters related to the provision of reinsurance by ECGD to the private credit insurance market.

The Council does not provide advice on decisions ECGD makes to support individual export transactions and projects, although it does carry out retrospective reviews of business it has supported to understand how ECGD's principles and policies are applied in practice and, as appropriate, gives advice on how these might be further developed.

Chair

Andrew Wiseman (Partner, Head of Environmental Law, Stephenson Harwood LLP)

Members

Gillian Arthur (Head of Philanthropy Services, Sanne Group)

Alistair Clark (Corporate Director, Environment and Sustainability Department, European Bank for Reconstruction and Development)

Alexandra Elson (Policy Manager, Shell Plc), from July 2011

Chris Fitzpatrick (Director, Elements of Sherwood Ltd; Non-Executive Director, UKTI), from July 2011

Neil Holt (Director, Ethics and Business Conduct, CH2M HILL Group), from July 2011

John Newgas (Consultant, Sagwen Computer Consultancy)

Anna Soulsby (Associate Professor of Organisation Behaviour, Nottingham University Business School)

In May 2011, Martin Roberts and Paul Talbot stepped down from the Council having served for periods of nine and seven years respectively. I would like to record my thanks to them for their contribution to the work of the Council. In July 2011, I was pleased to welcome three new members: Alexandra Elson, Chris Fitzpatrick and Neil Holt.

The Council met four times during 2011-12. It also met the Minister for Trade and Investment. At each of its meetings ECGD's Chief Executive reported issues, new initiatives and business supported that was relevant to the work of the Council. This included policy matters, for example, the review of the international agreement, the *OECD Recommendation on Common Approaches on the Environment and Officially Support Export Credits* (the OECD Common Approaches), which regulates the way in which official export credit agencies take account of environmental, social and human rights (ESHR) impacts of projects they support.

It is the practice of the Council to meet with interested parties privately to help shape its agenda and inform its work. During the year the Council met the World Wildlife Fund UK (WWF-UK) and the British Exporters' Association (BExA). Its meeting with WWF-UK focused on a report produced by WWF-UK titled 'Green Exports: Is the UK Getting Left Behind' which led the Council to examine ECGD's engagement with exporters of green technology. In this regard, the Council also received a briefing from UK Trade and Investment, the Government's trade promotion body, to understand how ECGD and UKTI were working more closely, particularly in reaching out to exporters in the green technology sector. The Council found that ECGD had undertaken a significant amount of activity to make its products and services known to exporters and trade bodies in this sector.

The Council examined a project (the supply by Rolls-Royce of power compressors to Gazprom in Russia in connection with the Nordstream gas supply project) that ECGD had supported in 2010-11. It was classified 'Category A' by ECGD, i.e. as a project having potentially high ESHR impacts as defined by the OECD Common Approaches. The Council reviewed the process by which the project had been screened, classified and assessed by ECGD's Environmental Advisory Unit (EAU) to determine that it met international ESHR standards and the arrangements put in place at ECGD's instigation to monitor performance during the project's construction and operational phases. The Council was satisfied that ECGD had properly categorised the project and benchmarked it against the Performance Standards of the International Finance Corporation of the World Bank Group. The Council will follow up its review of the monitoring arrangements on the project in due course in order to understand how they have been operated in practice during the construction phase.

The Council considered matters related to the review of the OECD Common Approaches being undertaken by member export credit agencies, including the scope of the agreement, the arrangements to classify any new projects and the applicable international standards. The Council was briefed on the concurrent review of the

Performance Standards of the International Finance Corporation, which are cited as relevant international standards in the OECD Common Approaches.

The Council had a remit from the Government to consider the outcome of the change to ECGD's policy, adopted in April 2010 following a Public Consultation, to follow international agreements related to ethical policies which apply to the operation of export credit agencies and not additionally create, and separately operate, its own policies which go beyond those agreements. The change of policy meant that certain export transactions, normally supported under ECGD's Export Insurance Policy, and projects under £10 million, for which ECGD support was sought, were no longer normally reviewed by ECGD for their ESHR impacts. The Council considered a paper produced by ECGD which documented the outturn of the change of policy to help inform its advice, which was published on ECGD's website. In the light of experience following the policy change, the Council advised that it did not consider a review of the change of policy was warranted. However, it requested to be consulted again in 2012-13 so that it could assess the impact further in view of the potential increase in export transactions that might be supported by ECGD under the new short-term products that it introduced in 2011.

The Council also reviewed the activities of the EAU during 2011. The Council noted that the workload of the EAU had increased as a result of higher demand for ECGD support and the increase in the number of projects that are subject to monitoring after the provision of support. The Council noted that ECGD had increased the staff resources of EAU and that arrangements had been made by it to obtain advice where specialist knowledge was required or to assist managing peaks in workload. The Council was impressed by the quality of the analysis and investigation carried out by EAU staff to benchmark projects against international standards and in their co-operation with other export credit agencies in undertaking that work.

The Council carried out an annual review of the application of ECGD's anti-bribery and corruption policies taking account of its obligations under the *OECD Recommendation on Bribery and Officially Supported Export Credits*. As part of that review, the Council received a briefing from Neill Stansbury of the Global Infrastructure Anti-Corruption Centre on recent changes to UK anti-bribery legislation and the development by the British Standards Institute of a new British Standard (BS10500) for anti-bribery management systems. The Council was briefed on how ECGD would take account of these developments in its anti-bribery practices, including through staff awareness training.

The Council reviewed ECGD's handling of information requests made under the Freedom of Information Act and the Environmental Information Regulations. The Council noted that ECGD had received a significant number of information requests during the year about sovereign debts owed to the UK by overseas countries, largely related to the recovery of claims paid on exports it supported in the 1970s and 1980s. The Council noted that some requests had required ECGD to seek the views of related parties to help inform the decisions it took on whether the requested information could be released. This could have an adverse impact upon its ability to respond within statutory and recommended time periods.

In the light of the concerns raised by the Jubilee Debt Campaign into past debts owed by governments to ECGD, the Council reviewed ECGD's stance on the recovery of old debts and its approach to supporting new business with indebted poor countries. The Council noted that the recovery of sovereign debts was dealt with on a multilateral basis and examined the arrangements to deal with these through the auspices of the Paris Club of official creditors. The Council reviewed the implementation by ECGD of the *OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries* to applications for support that it received for exports to countries subject to sustainable lending guidelines. The Council noted that ECGD does not have delegated authority to support new business to countries that fall within the remit of the sustainable lending principles, as these are subject to approval by HM Treasury with advice from the Department for International Development.

I thank ECGD for the support it provides to the work of the Council and its willingness to supply the Council with all the information it requires to assist its deliberations. The Council is also grateful for the information provided to it from time to time by interested parties.

Andrew Wiseman
Chair

Performance against Financial Objectives

ECGD derives its statutory authority from the Export and Investment Guarantees Act, 1991, as amended by the Industry and Exports (Financial Support) Act, 2009 (the Act).

ECGD exercises its powers under the Act with the consent of HM Treasury. In accordance with this consent, ECGD has agreed with HM Treasury a range of financial objectives and controls that are adopted by ECGD in administering its operations. ECGD reports its performance in respect of these objectives and controls to HM Treasury on a monthly basis.

Financial Objectives
Overall Summary: All targets were achieved throughout the year.

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 highest recorded maximum exposure in the year was £19.1 billion, against a notional maximum commitment of £25 billion (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 did not exceed £1.2 billion, against a notional Risk Appetite Limit of £2.5 billion (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 3.80 in the year, against a target of 1.00.
Pricing Adequacy Index This index tests whether over time ECGD earns sufficent premium income 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 2011-12 was 1.60, against a target of 1.00.
(ii) Previous, Present and Next Year:	**Met** This index did not fall below 1.65, against a monthly target of 1.00.

Financial Objectives on guarantee and insurance business issued since 1991	
(iii) Present Year and Next Two Years:	**Met** This index did not fall below 1.63, 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 2.30, against a target of 1.35

Financial Objectives on the provision of Fixed Rate Export Financing (FREF)	
Objective and Description	**Results**
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.

Export Credits Guarantee Department

Accounts 2011-12

At 31 March 2012

The Accounting Officer authorised these financial statements for issue on 19 June 2012

LONDON: The Stationery Office

HC37

Contents

Annual Report

Accounts: Export Credits Guarantee Department

Overall Results

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) (which closed for new business on 31 March 2011). ECGD achieved an operating surplus in 2011-12 of £147 million, as compared to £204 million in 2010-11. The reduction in operating income was largely caused by:

- a reduction in the release from the underwriting funds closed in the current year to £50 million in 2011-12, compared to £72 million in 2010-11;
- lower gains to provisions for Recoverable Claims with a gain of £53 million in 2011-12, compared to a gain of £55 million in 2010-11;
- a decrease in net investment return to £44 million in 2011-12, compared to £71 million in 2010-11 largely resulting from reduced interest income from underwriting activities of £35 million in 2011-12 compared to £56 million in 2010-11; and
- offset by the foreign exchange loss of £21 million in 2010-11 moving to a gain of £1 million in 2011-12.

A summary analysis of the results is set out in the Management Commentary below.

Statutory Powers

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, as amended by the Industry and Exports (Financial Support) Act 2009, (the Act), and its primary function is to support the 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.

Under Section 3 of the Act, ECGD is able to make any arrangements considered to be in the interests of the proper financial management of its 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 reinsurance support should be provided by ECGD to the private credit insurance market.

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

The Ministers who had responsibility for ECGD during the year ended 31 March 2012 and up to the date of these accounts were:

The Rt. Hon. Dr Vince Cable, MP, Secretary of State for Business, Innovation and Skills.

Lord Green of Hurstpierpoint, Minister of State for Trade and Investment.

Edward Davey, MP, Minister for Employment Relations, Consumer and Postal Affairs to 3 February 2012.

Norman Lamb, MP, Minister for Employment Relations, Consumer and Postal Affairs from 3 February 2012.

Accounting Officer of ECGD and the Management Board

ECGD's Accounting Officer is Mr Patrick Crawford.

The Accounting Officer confirms that so far as he is aware, there is no relevant audit information of which the Department's auditors are unaware and that 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 Department's auditors are aware of that information.

The Management Board advises the Accounting Officer in his management and direction of ECGD 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 Director
Mr David Havelock, Credit Risk Director
Ms Sue Johnson OBE, Head of Resources Division (from 21 September 2011)
Mr Nicholas Ridley, General Counsel

Non-Executive Members:

Mr Guy Beringer, Chairman
Mr David Godfrey
Mr David Harrison (retired from the Management Board on 31 March 2011 but continues to be a member of the Management Board's Audit Committee)
Mr Peter Haslehurst (up to 18 September 2011)
Ms Katherine Letsinger
Sir Eric Peacock (from 1 September 2011)
Mr Robin Barnett (up to 3 June 2011)
Miss Susan Haird (from 21 September 2011)

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

Activities of ECGD

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 issued by the former Insurance Services Group of ECGD (the main part of which was privatised on 1 December 1991). These activities are referred to in these Accounts as Underwriting Activities.

ECGD also performs other functions, which are included in these statements. They consist of the provision of support for FREF on behalf of UK exporters, together with arrangements for reducing the funding cost of such FREF loans, and for certain interest rate swap arrangements. The scheme for the provision of support for FREF on behalf of UK exporters closed for new business on 31 March 2011. These activities are referred to in these Accounts as Export Finance Activities.

There are no other entities included within the Accounting boundary. Guaranteed Export Finance Corporation PLC (GEFCO), a special purpose company 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 28).

Accounts 1, 2, 3 and 4

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.

Account 1 - relates to guarantees and insurance issued for business prior to April 1991 and also 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').

Account 2 - relates to guarantees and insurance issued for business since April 1991.

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

Account 4 - relates to the provision of support for FREF on behalf of UK exporters (now closed for new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate swap arrangements.

Foreign Content

The amount of foreign content supported by ECGD during the year was £185.4 million.

Payment Policy

ECGD's payment policy is that all invoices should be paid on the contractual due date or, where there is no contractual provision, within thirty days of receipt. This policy is in accordance with the requirements laid down in Managing Public Money and follows the Confederation of British Industry code on prompt payment of commercial debt. During 2011-12 ECGD paid 99.4 per cent of invoices within the policy requirement. In addition, ECGD follows guidance issued during the year that all government departments should plan to make payments within five working days. At 31 March 2012 the creditor days outstanding were 2.1 days.

Days Lost Due to Absence

ECGD encourages a culture where good attendance is expected and valued, it recognises however 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 2011 to 31 March 2012, the average working days lost per full time employee was 5.6 days. This is a slight increase to the previous year's figure of 5.3 days but compares favourably with the most recently published Civil Service average figure of 8.0 days.

Further Information on ECGD Activities

Further information on ECGD's activities, results and performance is included within the Annual Report.

Audit

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

Management Commentary

Five Year Summary

	2011-12	2010-11	2009-10 Restated	2008-09 Restated	2007-08
	£m	£m	£m	£m	£m
Overall Value of Guarantees and Insurance Policies:					
Issued - Net of Reinsurance	**2,318**	**2,924**	**2,206**	**1,460**	**1,830**
Amounts at Risk - Gross of Reinsurance	**14,280**	**13,616**	**11,799**	**10,420**	**9,625**
Non-FREF	13,654	12,613	10,493	8,630	7,656
FREF	626	1,003	1,306	1,790	1,969
Statement of Comprehensive Net Income:					
Premium Income Net of Reinsurance	**85**	**96**	**58**	**38**	**60**
Staff, other administration and operating costs	**20**	**22**	**26**	**23**	**26**
Net Operating Income – total	**147**	**204**	**272**	**266**	**597**
– Account 1	53	56	103	91	388
– Account 2	85	130	140	169	176
– Account 3	-	-	-	-	18
– Account 4	9	18	29	6	15
Statement of Cash Flows:					
Claims Recoveries – total	**90**	**123**	**151**	**110**	**389**
– Account 1	32	46	31	11	307
– Account 2	58	77	120	99	82
Interest Recoveries in the year – total	**38**	**66**	**54**	**146**	**362**
– Account 1	29	44	23	93	301
– Account 2	9	22	31	53	61
Claims Paid – total	**6**	**30**	**48**	**44**	**59**
– Account 1	-	-	-	-	-
– Account 2	6	30	48	44	59
Net Cash Flow from Operating Activities – total	**194**	**269**	**215**	**239**	**782**
– Account 1	56	84	44	59	599
– Account 2	126	152	140	139	138
– Account 4	12	33	31	41	45
Statement of Financial Position:					
Recoverable Claims before provisioning	**1,314**	**1,396**	**1,561**	**1,762**	**1,905**
– Account 1	716	748	853	910	1,092
– Account 2	598	648	708	852	813
Recoverable Claims after provisioning	**750**	**780**	**833**	**872**	**861**
– Account 1	321	324	344	328	315
– Account 2	429	456	489	544	546
Interest on Unrecovered Claims after provisioning	**151**	**154**	**169**	**148**	**150**
– Account 1	148	152	163	128	109
– Account 2	3	2	6	20	41
Underwriting Funds - Net of Reinsurance	**396**	**380**	**406**	**506**	**583**
– Account 1	-	1	1	3	3
– Account 2	396	379	405	503	580
Direct Funding balance	**178**	**230**	**330**	**492**	**701**

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 Statement of Comprehensive Net Income. The key results (rounded to the nearest million) are:

- In the recent past, the majority of Net Operating Income for Account 1 was generated when recoveries of claims and interest exceeded the book value net of provisions. During 2011-12 Operating Income decreased to £53 million from £56 million (2010-11).

- Recoveries of claims paid were £32 million (of which Egypt £11 million, Iraq £10 million, Indonesia £5 million and Serbia £3 million), compared to £46 million in 2010-11.

- Recoveries of interest on claims paid were £29 million (of which Iraq £12 million, Serbia £7 million and Egypt £3 million), compared to £44 million in 2010-11.

- Recoverable Claims have reduced significantly over the last few years and continued to do so during the year. The balances for gross claims decreased from £748 million (2010-11) to £716 million during the year, while those for net claims decreased from £324 million (2010-11) to £321 million during the same period.

- Interest on Unrecovered Claims has decreased from £152 million (2010-11) to £148 million. The decrease has been driven by provision increases.

Account 2

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

- The total of guarantees and insurance policies issued during the year was £2,318 million, compared to £2,924 million in 2010-11.

- Net Premium Income was £85 million, compared to £96 million in 2010-11. The decrease in premium for the year was mainly caused by a decrease in guarantees for non-aerospace business.

- Net Operating Income was £85 million, compared to £130 million in 2010-11. The reduction in net income was caused largely by a smaller release from funds closing in the current year of £50 million in 2011-12, compared to £72 million in 2010-11 in addition to reduced interest income of £9 million, compared to £19 million in 2010-11.

- Claims authorised and paid or payable during the year decreased to £6 million from £30 million in 2010-11. The fall is driven by the ending of claim payments as a result of rescheduling agreements and runoff.

- Claim Recoveries for the year were £58 million (of which Indonesia represented £46 million and Canada £6 million), compared to £77 million in 2010-11.

- Gross Claims balances were £598 million, as against £648 million in 2010-11. Net Claims balances were £429 million, compared to £456 million in the previous year.

Account 3

Account 3 represents guarantees issued on the instruction of Ministers which the ECGD Accounting Officer has advised did 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, as was the case for 2010-11 and all exposure on this Account has run off during the year.

Account 4

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

- 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 £178 million from £230 million in 2010-11, as regular instalments were made.

- Net Operating Income decreased to £9 million in 2011-12 from £18 million in 2010-11.

All Accounts

Operating expenses decreased by £2 million to £20 million, due mainly to a decrease in staff related costs. ECGD's staffing level decreased from an average full time equivalent of 198 for the year ended 31 March 2011 to 187 for the year ended 31 March 2012.

For the reasons set out above (see Account 1 and 2), the major asset of ECGD, being Net Recoverable Claims, decreased from £780 million (2010-11) to £750 million during the year. Gross claims also reduced from £1.4 billion to £1.3 billion.

Future Developments

ECGD's awareness raising with UK exporters continues in 2012-13 with heightened levels of applications being progressed albeit still at what are probably low levels. ECGD is working closely with UKTI and export intermediaries to raise awareness. The Export Finance Advisers being hired in the English regions and the Devolved Administrations should enable more exporters to overcome export finance challenges. The additional cost of the resource for raising awareness and handling more enquiries is being funded through an arrangement in the HM Treasury SR10 Settlement Letter designed specifically for this purpose.

Meanwhile, ECGD is expected to deliver its underlying SR10 cost savings which are progressing to plan. One aspect is an office move to Westminster that delivers significant cost savings and locates ECGD nearer to UKTI enabling closer working.

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 27 to these Accounts entitled 'Risk Management: Financial Instruments and Insurance Contracts'.

Explanation of Variances between Estimate and Outturn Summary

Parliament sets a limit on the annual amount of resource and capital that ECGD can consume through the Supply Estimate process. This table below compares ECGD's estimate with actual outturn.

In the absence of any operating income outside the ambit of the estimate, ECGD's net resource outturn and net operating cost or income are identical.

ECGD supports export credit loans denominated in foreign currency and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Almost all of ECGD's premium income arises in currencies other than sterling (mostly US dollars) and net assets are denominated in a variety of currencies, of which the largest is US dollars. As ECGD is not authorised by HM Treasury to hedge exchange rate exposures, it faces challenges ensuring it is able to comply with Parliamentary voted control totals. From January each year, which is the last opportunity to adjust voted control totals, to 31 March there is a risk that exchange rates move and reduce net income by more than the headroom agreed with HM Treasury and voted on by Parliament.

Summary:

	Note	2011-12 Estimate £'000	2011-12 Outturn £'000	2011-12 Variance £'000
Budget spending:				
Departmental Expenditure Limit (DEL)	2(a)	24,025	21,858	2,167
Annually Managed Expenditure (AME)	2(a)	31,024	(169,276)	200,300
Net Resource Outturn & Net Operating Cost / (Income)		**55,049**	**(147,418)**	**202,467**
Budget spending:				
Departmental Expenditure Limit (DEL)	2(b)	330	327	3
Annually Managed Expenditure (AME)	2(b)	(41,387)	(51,886)	10,499
Capital Total Payments / (Receipts)		**(41,057)**	**(51,559)**	**10,502**

Significant highlights:

All ECGD income and expenditure is classified as either DEL or AME and there is no non-budget.

Resource - Note 2(a);

DEL £2.2 million – variance primarily due to lower staff costs due to a lower headcount.

AME £200.3 million - This variance is largely due to provision movements, interest, and underwriting fund movements which are difficult to forecast. In terms of provision movements, volatile economic conditions during the year especially around uncertainties in the Middle East presented significant challenges in forecasting likely year end provision rates.

Capital - Note 2(b);

AME £10.5 million – Direct funded loans - this variance represents a timing difference.

J.P.S. Crawford

JPS Crawford

Accounting Officer
Export Credits Guarantee Department
11 June 2012

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act, 2000, HM Treasury has directed ECGD to prepare for each financial year 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, changes in Taxpayers' Equity and cash flows for the financial year.

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.

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 SCS pay system.

3 The remuneration of the SCS is set by the Prime Minister following independent advice from the Senior Salaries Review Body. In reaching its recommendations, the Review Body is to have regard to the following considerations:

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

4 The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

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

6 The SCS pay structure currently comprises three 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.

7 The applicable base pay ranges from 1 April 2011 were:

Pay Band	Minimum £	Ceiling £
1	£58,200	£117,800
2	£82,900	£162,500
3	£101,500	£208,100

8 The SCS entered a three year pay freeze on 1 April 2010.

9 The performance management system for the SCS is common across all government departments. Pay awards are made in two parts: non-consolidated variable payments which are used to reward members of staff who demonstrate exceptional performance, and base pay progression, to reward growth in competence.

Non-Executive Directors

10 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. As an Executive Director at UK Trade and Investment, Susan Haird does not receive a fee for her attendance at ECGD Management Board meetings.

11 The level of fees paid to the non-executive directors is decided by the Shareholder Executive[1], on the advice of the Chair of the Management Board. The Shareholder Executive, in consultation with the Chief Executive, decides the remuneration of the Chair 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 role being advisory; as they do not carry the same legal responsibilities as non-executive directors in the private sector.

Remuneration Committee

12 The Remuneration Committee is responsible for overseeing the performance management and pay of executive directors of the Management Board. The membership of the Remuneration Committee for 2011-12 was:

- Guy Beringer – Chair
- David Godfrey – Non-Executive Director
- Katherine Letsinger – Non-Executive Director
- Peter Haslehurst – Non-Executive Director (up to 18 September 2011)

13 The Chief Executive attends meetings, other than discussion of his own performance. The Head of Resources Division acts as Secretary.

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

- establishes and publishes an annual Pay Strategy;
- assesses the achievement of the Department's aims and objectives to inform the justification for non-consolidated awards;
- endorses and authorises decisions on base pay increases;
- 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.

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

Service Contracts

Executive Directors

15 The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

16 Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, 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 Commission can be found at www.civilservicecommission.org.uk

Non-Executive Directors

18 Non-executive directors are appointed in keeping with the Code of Practice for Ministerial Appointments to Public Bodies as set by the Office of the Commissioner for Public Appointments (OCPA). The majority of non-executive directors are appointed on three year contracts, which may be extended. There is no contractual provision for the payment of compensation in the event of termination of contracts.

Remuneration (The following table has been audited)

The following section provides details of the remuneration of the members of ECGD's Management Board:

	2011-12			2010-11		
	Salary £'000	Bonus Payments £'000	Benefits in kind (to nearest £100)	Salary £'000	Bonus Payments £'000	Benefits in kind (to nearest £100)
Executive Directors						
Patrick Crawford *Chief Executive*	205-210	10-15	-	205-210	10-15	-
Nigel Addison Smith *Finance Director*	110-115	-	-	115-120	-	-
Steve Dodgson *Director, Business Group*	105-110	-	-	105-110	5-10	-
David Havelock *Director, Credit Risk Group*	130-135	10-15	-	130-135	5-10	-
Nicholas Ridley *General Counsel*	130-135	-	-	130-135	5-10	-
Sue Johnson *Head of Resources Division (from 21/9/11)*[2]	50-55 (80-85 Full year equivalent)	5-10	-	-	-	-
Non-Executive Directors						
Guy Beringer *Chair*	45-50	-	-	45-50	-	-
David Godfrey	10-15	-	-	10-15	-	-
Peter Haslehurst *(until 18/09/11)*	5-10 (10-15 Full year equivalent)	-	-	10-15	-	-
Katherine Letsinger	10-15	-	-	15-20	-	-
Sir Eric Peacock *(From 01/09/11)*[3]	5-10 (10-15 Full year equivalent)	-	-	-	-	-
Robin Barnett *(until 3/06/11)*	-	-	-	-	-	-
Susan Haird *(From 21/09/11)*	-	-	-			

[2] Sue Johnson was appointed to ECGD's Management Board on 21/9/11. Prior to this she was a member of ECGD's Executive Committee.
[3] Sir Eric Peacock was appointed on a three year contract commencing 01/09/11.

David Harrison received fees amounting to between £5,000 and £10,000 in 2011-12 in his capacity as a non-executive director on ECGD's Audit Committee. Mr Harrison's appointment to Management Board ended on 31 March 2011.

Salary

19 'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance or emolument to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these 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.

Bonus Payments

21 Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2011-12 relate to performance in 2010-11 and the comparative bonuses reported for 2010-11 relate to the performance in 2009-10.

Pay Multiples

22 Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce The following section provides details of the pay multiples at ECGD:

	2011-12	**2010-11**
Band of Highest Paid Director's[4] Remuneration	220-225	220-225
Median Total[5]	35,581	34,925
Remuneration Ratio[6]	6.3	6.4

23 The banded remuneration of the highest-paid director in ECGD in the financial year 2011-12 was £220,000-£225,000 (2010-11, £220,000-£225,000). This was 6.3 times (2010-11, 6.4) the median remuneration of the workforce, which was £35,581 (2010-11, £34,925).

24 In 2011-12, nil (2010-11, nil) employees received remuneration in excess of the highest-paid director.

25 Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension.

26 There has been a slight reduction in the pay multiple ratio since 2010-11. This is due to changes in workforce composition which has affected the median remuneration figure.

[4] the banded, full time equivalent, annualised, total remuneration of the highest paid director in £'000
[5] the median, full time equivalent total remuneration of the staff, excluding the highest paid director as at 31 March 2012 in £'s
[6] the pay multiple (ratio) between the highest paid director and all other staff.

Pension Benefits (The following table has been audited)

27 The following section provides details of the pension interests of the members of ECGD's Management Board:

	Accrued pension at pension age as at 31/3/12 and related lump sum	Real increase / (decrease) in pension and related lump sum at pension age	CETV at 31/3/12	CETV at 31/3/11[7]	Real increase / (decrease) in CETV
	£'000	£'000	£'000	£'000	£'000
Executive Directors					
Patrick Crawford *Chief Executive*	15-20	0-2.5	321	259	36
Nigel Addison Smith *Finance Director*	10-15	0-2.5	175	141	19
Steve Dodgson *Director, Business Group*	50-55 Plus lump sum of 150-155	(0)-(2.5) Plus lump sum of (2.5)–(5)	1,011	955	(26)
David Havelock *Director, Credit Risk Group*	10-15	0-2.5	230	193	28
Nicholas Ridley *General Counsel*	20-25 Plus lump sum of 60-65	0-2.5 Plus lump sum of 2.5 - 5	452	386	32
Sue Johnson *Head of Resources Division (from 21/9/11)*[8]	40-45 Plus lump sum of 120-125	(0)-(2.5) Plus lump sum of (2.5)–(5)	934	926	(25)
Non-Executive Directors	Nil	Nil	Nil	Nil	Nil

Civil Service Pensions

28 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 Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

29 Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012.

[7] The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

[8] Sue Johnson was appointed to ECGD's Management Board on 21/9/11. Prior to this she was a member of ECGD's Executive Committee.

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 initial 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 for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is up-rated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

30 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).

31 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.

32 Further details about the Civil Service pension arrangements can be found at the website http://www.civilservice.gov.uk/pensions.

Cash Equivalent Transfer Values

33 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.

34 The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

35 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.

Reporting of Civil Service and other compensation schemes – exit packages (the following information has been audited).

36 The following section provides details of the exit packages at ECGD:

Exit package cost band	2011-12			2010-11		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Less than £10,000	-	-	-	-	1	1
£10,000 - £25,000	-	1	1	-	1	1
£25,000 - £50,000	-	-	-	-	-	-
£50,000 - £100,000	-	-	-	-	-	-
£100,000 - £150,000	-	1	1	-	1	1
£150,000 - £200,000	-	-	-	-	1	1
Greater than £200,000	-	-	-	-	2	2
Total number of exit packages	-	2	2	-	6	6
Total resource cost £'000	-	136	136	-	856	856

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972, or HM Treasury have agreed to the payment of special severance payments. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

J.P.S. Crawford

JPS Crawford

Accounting Officer
Export Credits Guarantee Department
11 June 2012

Governance Statement

Introduction

1.1 As Accounting Officer of the Export Credits Guarantee Department (ECGD) I am responsible to Ministers and Parliament for the management of the Department's operations including the stewardship of its financial resources and assets. This Governance Statement sets out how I have fulfilled this responsibility in 2011-12. It has two main components:

- the organisational arrangements for managing ECGD's operations, constituting corporate governance; and
- the nature of ECGD's business and its vulnerabilities and resilience to challenges, requiring risk management and controls.

2. Scope of responsibility

2.1 ECGD is a Department of the Secretary of State for Business, Innovation and Skills. In fulfilling its statutory obligations under the Export and Investment Guarantees Act 1991 as amended by the Industry and Exports (Financial Support) Act 2009 ("the Act"), the connected Consent of HM Treasury ("the Consent") and the duties assigned to me in 'Managing Public Money', I have responsibility for:

- leadership – to ensure that the Department fulfils its statutory purposes, implements the policies set for it by Ministers, and adheres to international agreements that relate to the operations of export credit agencies; and applies regulation that pertains to being a Department of State and to do so efficiently, effectively and economically; and
- internal control – to maintain a sound system of risk management and internal control that supports ECGD's operations while safeguarding public funds and departmental assets.

Corporate Governance

3. Governance Framework

Ministers

3.1 I report to the Secretary of State for Business, Innovation and Skills and the Minister for Trade and Investment. Throughout the year, I both provided written advice to, and met, the Minister for Trade and Investment on a range of issues concerning the operations of ECGD. All instructions given to me by Ministers were in accordance with ECGD's statute, the Consent and applicable international agreements. It was not necessary to seek a written direction from the Minister because of a concern about irregularity or impropriety.

HM Treasury

3.2 The Consent delegates authority to ECGD to carry out its functions under the Act. It includes a Financial Framework Agreement that requires ECGD to comply with specified financial objectives. As necessary, it also requires ECGD to obtain authority from HM Treasury to support export contracts for which it does not have delegated authority. A process, operated by the Chief Executive's Office, exists to manage the Department's compliance with the Consent.

3.3 Throughout the year, ECGD supplied HM Treasury with reports so that it could monitor the Department's financial performance. Throughout the year ECGD met all its financial objectives. Authority was sought and obtained to provide support for export contracts for which the Department did not have delegated authority. I met officials from HM Treasury regularly to advise them on matters related to the Consent and the operations and performance of the Department.

Shareholder Executive

3.4 The Shareholder Executive is responsible for providing independent advice to the Secretary of State in the exercise of his responsibilities for ECGD. I met Shareholder Executive officials each quarter and held discussions on other occasions as necessary to brief them about issues related to ECGD, so that they were in a position to provide informed advice to Ministers if and when required.

Management Board

3.5 In discharging my responsibilities, I am advised by ECGD's Management Board of which I am a member. The membership also includes Executive Directors (see paragraphs 3.13 - 3.17 below), all of whom are members of the Senior Civil Service, and Non-Executive Directors. It is led by a Non-Executive Chairman.

3.6 The Non-Executive Directors are appointed through open competition on the basis of relevant expertise and merit. The Non-Executive Directors provide me with an independent source of advice, scrutiny and challenge on strategic and operational issues, the Department's financial performance, and the arrangements for enterprise risk management and control.

3.7 Subjects considered during 2011-12 included:

- business volume forecasts;
- the introduction and performance of new products for exports involving less than two years horizon of risk;
- market awareness of ECGD;
- the Credit Risk Group's change programme;
- the credit risk portfolio, including a review of risks in the airline sector;
- the volume of indications of support being provided to prospective customers;
- quarterly reviews of financial performance;
- international objectives and strategy;
- benchmarking against other international export credit agencies;
- human resources, including staff engagement;
- significant IT projects;
- off-siting of IT support services;
- a review of legal risk;

- enterprise-wide risks;
- implementation of anti-bribery and corruption policy;
- availability of bank funding;
- Parliamentary supply estimates; and
- ECGD's operating plan for 2012-13.

3.8 The Management Board has two sub-Committees whose membership comprises only Non-Executive Directors:

- Audit Committee, which examines and reviews the adequacy of the arrangements for accounting, enterprise risk management and control. I attend its meetings, as do the Finance Director, the Head of Internal Audit and Assurance and an official from the National Audit Office. The Chair formally reports the outcome of each meeting to the Management Board; and

- Remuneration Committee, which deals with the remuneration of members of the Senior Civil Service in ECGD.

3.9 The Management Board met eight times in the year. The minutes of its meetings are published on ECGD's website. The Audit Committee met five times and the Remuneration Committee met once. The attendance by members was as follows: Management Board - 91 per cent; Audit Committee - 100 per cent; and Remuneration Committee - 100 per cent. Through the maintenance of a register of interests, potential conflicts of interest are identified and, as necessary, addressed.

3.10 A self-assessment of the Management Board's performance was facilitated by the Chief Executive's Office during the year and independently audited by the Internal Audit and Assurance Division. The assessment concluded that the Board had fulfilled its stated terms of reference. No material issues were identified. The Board was satisfied with the quality and timeliness of financial information it reviewed; no weaknesses were identified. A need to provide Non-Executive Directors with detailed briefings on particular subject matters associated with corporate governance within UK government departments was identified. Action is being planned to address this in future and as changes are made.

Executive Committee

3.11 I am also advised on the day-to-day operational management of ECGD by the Executive Committee which I chair. The membership comprises solely Executive Directors (see paragraphs 3.14 - 3.19 below).

3.12 There are three sub-committees of the Executive Committee, each of which is chaired by members of the Executive Committee and whose membership is drawn from senior staff in ECGD:

- Risk Committee, which is responsible for the effective management of ECGD's credit risk exposures at the transaction and portfolio level and for compliance with credit risk policies endorsed by the Management Board;

- Business Systems and Infrastructure Committee, which is responsible for ensuring that ECGD's investment in systems, processes and infrastructure is appropriate for meeting the requirements of the business, is effectively targeted and managed in accordance with strategies and policies, and is expected to represent value for money; and

- Information Security and Assurance Committee, which is responsible for ensuring the security of ECGD information in accordance with legal, regulatory and government requirements.

3.13 The Executive Committee met most weeks throughout 2011-12. The minutes of its meetings are published on ECGD's website.

Executive Directors

3.14 The Finance Director is responsible for finance, IT and business change.

3.15 The Director of the Credit Risk Group is responsible for financial risk and related management systems and practices.

3.16 The Director of the Business Group is responsible for delivery of products to exporters, banks and investors and for ensuring that ECGD support complies with its legal framework, international agreements, policies and practices.

3.17 The Head of Resources Division, who is also ECGD's Senior Information Risk Owner, is responsible for human resource management, health and safety, facilities management, estates, procurement and security.

3.18 Operational risk management policies and practices are the responsibility of the Chief Executive's Office.

3.19 The General Counsel is responsible for managing legal risk.

Risk management and control

4. Credit risk associated with support for exports and investment overseas

4.1 ECGD's primary statutory purpose is to support exports and investments made overseas by issuing guarantees and insurance contracts to protect exporters and banks against the risks of non-payment and to facilitate the provision of finance to overseas buyers. In doing so, ECGD accepts credit risks which create contingent liabilities for the Exchequer. Credit risk is the risk of claims being made against ECGD and of suffering ultimate loss in the form of irrecoverable claims, arising from the defaults of obligors or counterparties against which ECGD has financial exposure.

4.2 ECGD is, effectively, a guarantor/insurer of last resort; it accepts risks where the private market lacks risk capacity, and/or is unable to absorb the amount and/or tenor of risks for sovereign and corporate obligors. As a result, ECGD's credit risk portfolios are necessarily more skewed, concentrated and risky than those typically found in the private market. The financial outcome is, therefore, difficult to predict, taking into account the long run nature of the risks accepted and the constraints in ECGD's ability to diversify, transfer or swap risks.

4.3 ECGD's credit risk policy is established in line with the Consent and endorsed by the Management Board. The Risk Committee oversees the operation of credit risk policy and practice. The Credit Risk Director leads the assessment, acceptance and management of credit and treasury risk exposures (other than exchange rate risks which ECGD is not authorised by HM Treasury to hedge).

4.4 ECGD's organisational structure is functionally-based. The customer relationship function undertaken by the Business Group is separated, so far as is practicably possible, from the financial risk assessment and pricing process carried out by the Credit Risk Group.

4.5 By means of a system of delegated authority, individual staff are empowered to underwrite support for individual export contracts, thus creating contingent liabilities. Their competence to hold an authority is subject to annual review.

4.6 During 2011-12 a number of changes were made to the management of credit risk as follows:

- simplifying arrangements agreed with HM Treasury in relation to the risk control procedures for the fixed rate export financing portfolio;
- changing credit risk modelling software by the adoption of industry-standard modelling software; and
- using Standard and Poor's (S&P) or equivalent sovereign ratings and S&P sovereign default statistics for country risk assessment purposes.

5. Operational risk

5.1 Operational risks are defined as threats to ECGD's ability to fulfil its statutory purpose, achieve its financial objectives, adhere to international agreements, implement policies set by Ministers, or apply other regulation related to being a Department of State.

5.2 Risks may arise from a variety of internal and external sources and events. As an example of external conditions, risk aversion by the private market may cause an increase in demand for ECGD support for exports, thus creating additional demands on staff; as an example of an internal event, a failure to follow due process could lead to a decision that was unlawful.

6. System of Internal Control

Scope of risk management

6.1 The system of internal control in ECGD is designed to identify, rank and prioritise enterprise-wide risks; to evaluate the likelihood of those risks occurring; and to assess their impacts and to manage them accordingly. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to fulfil ECGD's statutory purpose, meet financial objectives, adhere to international agreements, or implement government policies; it can therefore provide a reasonable, but not absolute, assurance of effectiveness.

6.2 An Enterprise Risk Management Framework is managed by the Executive Committee on the basis of an enterprise risk register. Guidance is provided to senior staff on the arrangements for addressing strategic and operational risks, including risk escalation in their areas of responsibility. Senior managers across the Department are required to identify and register key risks, and to demonstrate appropriate measures to mitigate risks.

6.3 The Executive Committee reviews the risk register quarterly. The Audit Committee reviews, and provides challenge and advice on, its contents every six months.

Programmes and projects

6.4 Programmes and projects are governed under formal programme and project management disciplines which include the regular review of programme and project risks. This is overseen by the Business Systems Infrastructure Committee.

Information risks

6.5 The Senior Information Risk Officer is responsible for information risk and, acting as the Department's Security Officer, for security policy and practices. Information Asset Owners are appointed, who are responsible for the identification of information assets, their location, use and protection. Access to sensitive information is restricted. Staff are trained in information security so that they understand the risks associated with handling information within, and outside, ECGD. Procedures are in place to respond to requests for information under legislation which gives the public the right to access information that is properly disclosable.

6.6 Information security risk is regularly reviewed. Any significant information risks are reported to the Senior Information Risk Officer, including any data breaches and the remedial action taken. Independent sources of assurance are provided to the Information Security and Assurance Committee, including the results of disaster recovery testing, penetration testing and accreditation of core services.

6.7 ECGD has not identified any data losses, corruption or breaches of information during 2011-12.

7. Risk Mitigation

7.1 Specific actions were taken during 2011-12 to mitigate particular risks, including:

Information technology

- transferring ECGD's IT services support by its external provider from an on-site to an off-site location. This resulted in:

    - the removal of key person dependencies that existed with regard to the provider's on-site team;

    - the ability to move efficiently to another external provider if the incumbent were not to win a re-tender for the role; and

    - an improvement in the documentation of standardised working practices and support processes by the external provider;

- updating IT systems to maintain efficiency and to minimise risks associated with ageing technology, including replacement of the data warehouse and the pricing and case clearance system;

- improving IT Disaster Recovery capability;

Process mapping

- implementing a programme of work to document, improve and clarify key processes and controls;

Information management

- developing an IT-based system to track and control information requests made under the Freedom of Information Act, the Environmental Information Regulations and the Data Protection Act, and Ministerial and Parliamentary correspondence;

Staff

- recruiting new staff to relieve workload pressures, meet skill shortages and address succession planning; and

Training

- specialist training was undertaken in information management, legal risk, and obligations under the international agreements.

8. Review of effectiveness

8.1 The system of internal control has been in place throughout 2011-12 and up to the date of approval of the Annual Review and Accounts and its effectiveness has been reviewed in accordance with HM Treasury guidance. This review has been conducted on the basis of:

- reports on the enterprise risk management process from the Chief Executive's Office, which demonstrated that the management of risks at a strategic and operational level was being addressed effectively by the Department;

- reports on the adequacy and effectiveness of ECGD's enterprise risk management, and control and governance systems, by Internal Audit and Assurance, which included the Head of Internal Audit and Assurance's independent opinion, together with recommendations to address areas of weakness;

- reports on programmes and projects from the Business Systems and Infrastructure Committee;

- reports on information security management from the Information Security Assurance Committee;

- reports of actual or potential legal risk by the General Counsel;

- reports on security risks by the Departmental Security Officer;

- the results of a formal year-end process whereby senior staff provide assurance that, as far as is possible, the controls and safeguards are being operated by them in line with established practices, policies and standards; and

- reports from the external auditors.

8.2 A plan to address weaknesses and to promote continuous improvement is in place. Significant issues for internal control include:

Sufficiency of staff resources

- The widening of ECGD's business domain, the launch of new products, and the continuing aversion to risk on the part of banks has caused demand for ECGD support for exports to increase. The increase in workload has created pressure on staff resources, particularly in respect of certain key skills. To date ECGD has been able to recruit skilled personnel on short-term appointments. Plans are being considered to establish call-off contracts to facilitate the ability to engage specialist staff quickly in order to assist with assessing requests for ECGD support on business involving limited recourse and structured financings.

- The small size of the Department and the technical nature of its activities give rise to key person dependencies. Attention is accordingly being given to succession planning. A programme of recruitment is underway to bring in new talent at junior management level to help to address this issue.

Business Continuity

- During the period of the Olympics and Paralympics games, it is expected that there will be challenges with the transport networks servicing the London Docklands area. Plans are being put in place to minimise the expected associated disruption to business operations over the period.

IT Disaster Recovery

- A test of the IT disaster recovery capability in September 2011 proved to be inconclusive in terms of the recovery time objective for ECGD. As a consequence, a further test is scheduled to take place by 30th June 2012.

Relocation

- It is possible that ECGD will move from its present accommodation in London Docklands to Whitehall in 2013. Preparations are being made to assess the associated risks for operational effectiveness and put in place measures to mitigate these.

8.3 The success of ECGD's operations during 2011-12 provide confidence that the control environment will be maintained despite these challenges.

9. Compliance with the Principles of the Corporate Governance for Central Government Departments Code of Practice 2011

9.1 In preparing this statement, I have taken into account the Corporate Governance for Central Government Departments Code of Practice 2011. I am satisfied that ECGD is able to demonstrate compliance with the relevant principles of the Code and that no departures need to be reported.

J.P.S. Crawford

JPS Crawford
Accounting Officer
Export Credits Guarantee Department
11 June 2012

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 the Export Credits Guarantee Department for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply 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

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Management Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2012 and of its net resource outturn and net operating income for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter – Significant Uncertainty

In forming my opinion, which is not qualified, I have also considered 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 means 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 in future years.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Annual Report and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

15 June 2012

Statement of Parliamentary Supply

For the year ended 31 March 2012

Summary of Resource and Capital Outturn 2011-12

		2011-12							2010-11 (Restated)
		Estimate			Outturn				Outturn
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: savings/(excess)	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Departmental Expenditure Limit									
- Resource	2(a)	24,025	-	24,025	21,858	-	21,858	2,167	23,583
- Capital	2(b)	330	-	330	327	-	327	3	517
Annually Managed Expenditure									
- Resource	2(a)	31,024	-	31,024	(169,276)	-	(169,276)	200,300	(227,643)
- Capital	2(b)	(41,387)	-	(41,387)	(51,886)	-	(51,886)	10,499	(99,772)
Total Budget		**13,992**	**-**	**13,992**	**(198,977)**	**-**	**(198,977)**	**212,969**	**(303,315)**
Total Resource		55,049	-	55,049	(147,418)	-	(147,418)	202,467	(204,060)
Total Capital		(41,057)	-	(41,057)	(51,559)	-	(51,559)	10,502	(99,255)
Total		**13,992**	**-**	**13,992**	**(198,977)**	**-**	**(198,977)**	**212,969**	**(303,315)**

Net cash requirement 2011-12

	Note	2011-12 Estimate £'000	2011-12 Outturn £'000	2011-12 Outturn compared with Estimate: savings/(excess) £'000	2010-11 (Restated) Outturn £'000
Total	4	(173,764)	(243,163)	69,399	(364,549)

Administration Costs 2011-12

	Note	2011-12 Estimate £'000	2011-12 Outturn £'000	2010-11 (Restated) Outturn £'000
Total		24,025	21,858	23,583
Of which:				
Staff costs	*11*		*11,881*	*12,326*
Other costs	*12*		*9,977*	*11,257*

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

The notes on pages 89 to 140 form part of these accounts.

Statement of Comprehensive Net Income

For the year ended 31 March 2012

	Note	2011-12 £'000	2010-11 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		120,008	142,691
Less ceded to reinsurers		(35,216)	(46,994)
Net premium income	5	**84,792**	**95,697**
Net investment return	8	33,759	50,927
Claims credit for the year	10	52,672	55,122
Changes in insurance liabilities (net of reinsurance)	25	-	25,921
Net foreign exchange gain	13	1,088	-
Total income		**172,311**	**227,667**
Expenses			
Changes in insurance liabilities (net of reinsurance)	25	(15,679)	-
Staff costs	11	(9,901)	(10,644)
Other administration and operating costs	12	(7,817)	(9,301)
Net foreign exchange loss	13	-	(21,214)
Total expenses		**(33,397)**	**(41,159)**
Net income arising from Export Credit Guarantees and Insurance Activities		**138,914**	**186,508**
Export Finance Assistance			
Income			
Net investment return	8	10,694	20,017
Expenses			
Staff costs	11	(1,224)	(1,315)
Other administration and operating costs	12	(966)	(1,150)
Total expenses		**(2,190)**	**(2,465)**
Net Income arising from Export Finance Assistance Activities		**8,504**	**17,552**
Net operating income for the year		**147,418**	**204,060**

All income and expenditure is derived from continuing operations.

The notes on pages 89 to 140 form part of these accounts.

Statement of Financial Position

As at 31 March 2012

	Note	31 March 2012 £'000	31 March 2011 (Restated) £'000	1 April 2010 (Restated) £'000
Non-current assets:				
Plant and equipment	15(a)	855	914	1,120
Intangibles	15(b)	629	862	891
Financial assets				
Fair value through profit or loss	16(a)	23,345	20,812	39,392
Loans and receivables	16(b)	137,755	178,242	233,678
Insurance contracts				
Insurance assets	17	827,945	869,923	855,814
Reinsurers' share of insurance liabilities	18	158,996	123,038	81,145
Insurance and other receivables	19	1,588	1,816	1,812
Total non-current assets		**1,151,113**	**1,195,607**	**1,213,852**
Current assets:				
Financial assets				
Fair value through profit or loss	16(a)	11,389	14,943	25,614
Loans and receivables	16(b)	42,841	54,613	100,550
Insurance contracts				
Insurance assets	17	72,953	63,327	146,101
Insurance and other receivables	19	7,555	5,574	5,361
Cash and cash equivalents	20	233,616	296,848	345,068
Total current assets		**368,354**	**435,305**	**622,694**
Total assets		**1,519,467**	**1,630,912**	**1,836,546**
Current liabilities:				
Financial liabilities				
Fair value through profit or loss	22	(12,528)	(15,156)	(19,499)
Payable to Consolidated Fund	23	(233,616)	(296,848)	(345,068)
Provisions	24(b)	(1,610)	(2,188)	(2,195)
Insurance and other payables	24(a)	(6,690)	(10,349)	(8,108)
Total current liabilities		**(254,444)**	**(324,541)**	**(374,870)**
Non-current assets plus net current assets		**1,265,023**	**1,306,371**	**1,461,676**
Non-current liabilities				
Financial liabilities				
Fair value through profit or loss	22	(31,197)	(27,298)	(37,160)
Insurance contracts				
Insurance liabilities	25	(554,660)	(503,023)	(487,051)
Provisions	24(b)	(4,818)	(6,190)	(7,356)
Total non-current liabilities		**(590,675)**	**(536,511)**	**(531,567)**
Assets less liabilities		**674,348**	**769,860**	**930,109**
Taxpayers' equity				
Exchequer Financing		(2,340,186)	(2,108,899)	(1,777,770)
Cumulative Trading Surplus		3,019,565	2,880,651	2,694,143
General Fund		(5,031)	(1,892)	13,736
Total taxpayers' equity		**674,348**	**769,860**	**930,109**

The comparative figures have been restated following the removal of the Non-Current Consolidated Fund Liability (see Note 1 (S)) and the reclassification of some provisions to Current Liabilities.

The notes on pages 89 to 140 form part of these accounts.

J.P.S. Crawford

JPS Crawford

Accounting Officer
Export Credits Guarantee Department
11 June 2012

Statement of Cash Flows

For the year ended 31 March 2012

	Note	2011-12 £'000	2010-11 £'000
Cash flows from operating activities			
Net operating income		147,418	204,060
Less: net investment return	8	(44,453)	(70,944)
Adjustments for other non-cash transactions:			
Depreciation of fixed assets	12	277	304
Amortisation of intangible assets	12	342	108
Impairment loss on plant, property and intangible assets	12	-	340
Claims credit for the year	10	(52,672)	(55,122)
Other administration and operating expenses	12	233	240
Unrealised foreign exchange (gain) / loss	13	(1,796)	21,195
Movement in provisions	24(b)	(1,068)	(59)
Early retirement payments	24(b)	(882)	(1,114)
Interest received		50,775	84,098
Increase / (decrease) in insurance liabilities net of reinsurance	25	15,679	(25,921)
Movements in working capital other than financial assets	14	78,664	94,236
Movement in financial assets		1,077	17,806
Net cash inflow from operating activities		193,594	269,227
Cash flows from investing activities			
Purchase of plant, equipment and intangibles	15	(327)	(517)
Purchase of financial instruments		(1,990)	(3,933)
Export Finance Loans:			
Recoveries	28	51,886	99,772
Net cash inflow from investing activities		49,569	95,322
Net increase in cash and cash equivalents in the year before adjusting for receipts and payments to the Consolidated Fund not related to supply	4	243,163	364,549
Payments of amounts due to the Consolidated Fund of amounts:			
relating to the prior year		(296,848)	(345,068)
relating to current year		(9,547)	(67,701)
Net decrease in cash and cash equivalents in the year after adjusting for receipts from and payments to the Consolidated Fund not relating to supply		(63,232)	(48,220)
Cash and cash equivalents at the beginning of the year	20	296,848	345,068
Cash and cash equivalents at the end of the year	**20**	**233,616**	**296,848**

The notes on pages 89 to 140 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2012

	Note	Exchequer financing (Restated) £'000	Cumulative trading surplus £'000	General fund (Restated) £'000	Total reserves (Restated) £'000
Balance at 31 March 2010		(1,951,421)	2,694,143	10,228	752,950
Prior Year Adjustment		173,651	-	3,508	177,159
Restated Balance at 1 April 2010		(1,777,770)	2,694,143	13,736	930,109
Changes in taxpayers' equity for 2010-11					
Non-Cash Adjustments:					
Auditors' remuneration	12	240	-	-	240
Movements in Reserves:					
Transfers between reserves		33,180	-	(33,180)	-
Recognised in Statement of Comprehensive Net Income		-	186,508	17,552	204,060
Total recognised income and expense for 2010-11		33,420	186,508	(15,628)	204,300
CFER arising in year payable to the consolidated fund and transferred into current liabilities	4	(364,549)	-	-	(364,549)
Balance at 31 March 2011		(2,108,899)	2,880,651	(1,892)	769,860
Changes in taxpayers' equity for 2011-12					
Non-Cash Adjustments:					
Auditors' remuneration	12	233	-	-	233
Movements in Reserves:					
Transfers between reserves		11,643	-	(11,643)	-
Recognised in Statement of Comprehensive Net Income		-	138,914	8,504	147,418
Total recognised income and expense for 2011-12		11,876	138,914	(3,139)	147,651
CFER arising in year payable to the consolidated fund and transferred into current liabilities	4	(243,163)	-	-	(243,163)
Balance at 31 March 2012		**(2,340,186)**	**3,019,565**	**(5,031)**	**674,348**

The notes on pages 89 to 140 form part of these accounts.

Notes to the Departmental Accounts

1 Accounting policies

(A) Basis of preparation

The financial statements have been prepared in accordance with the 2011-12 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

In addition to the primary statements prepared under IFRS, the FReM also requires ECGD to prepare an additional primary statement with supporting notes. This Statement of Parliamentary Supply shows outturn against Estimate in terms of net resource, capital and cash requirement, and administration costs.

In accordance with IFRS 4 Insurance Contracts, ECGD has applied existing accounting practices for insurance contracts. Additionally, ECGD has taken advantage of the option in IAS 39 Financial Instruments: Recognition and Measurement and has elected to continue to regard existing financial guarantee contracts as insurance contracts. Further details are given in policy note (D) below.

The primary economic environment within which ECGD operates is the United Kingdom and, therefore, its functional and presentational currency is Pounds Sterling. Items included in the ECGD financial statements are measured and presented in Pounds Sterling.

Future accounting developments

The 2011-12 FReM applies financial reporting standards that are effective for the financial year.

A number of standards have either been issued or revised but have yet to come into effect. ECGD will apply the new and revised standards and consider their impact in detail once they have been adopted by the FReM.

The new standard set out below may have an impact on the financial statements when it becomes effective. ECGD cannot currently determine the detailed impact.

- IFRS 9 Financial Instruments – this standard is designed to replace IAS 39 and amends some of the requirements of IFRS 7 Financial Instruments. The original effective date of IFRS 9 was 1 January 2013; this has since been revised with the effective date now being 1 January 2015. The impact will largely be on the accounting for financial guarantee contracts.

The amendments and interpretations below are not expected to have any significant impact on ECGD's financial statements.

Amendments to IFRSs

- IFRS 13 Fair value measurement – this standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements and applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

- IFRS 10 Consolidated Financial Statements - effective for annual periods beginning on or after 1 January 2013.

- IFRS 11 Joint Arrangements - effective for annual periods beginning on or after 1 January 2013.

- IFRS 12 Disclosure of Interests in Other Entities - effective for annual periods beginning on or after 1 January 2013.

- As a consequence of IFRS 10, 11 and 12, the IASB also issued amended and re-titled IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

- IAS 1 Presentation of Financial Statements - effective for annual periods beginning on or after 1 June 2012.

- IAS 19 Post Employment Benefits: Most amendments have no impact except in the case of accounting for termination benefits where there may be an impact.

- IFRS 7 Financial Instruments: Those amendments improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after 1 July 2011, with earlier application permitted.

Major FReM changes for 2012-13

ECGD has reviewed the major FReM changes for 2012-13 and determined there are no changes that will have a significant impact on the Department's 2012-13 financial statements.

(B) Use of estimates

The preparation of these financial statements includes the use of estimates and assumptions which affect the reported amounts of assets, liabilities, income and expenses, and related disclosure of contingent assets and liabilities in the financial statements. All estimates are based on management's knowledge of current facts and circumstances, assumptions based upon that knowledge, and management's predictions of future events and actions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, possibly significantly.

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 and recoveries including 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 apply 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, 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) Summary of significant accounting policies

Where the FReM permits a choice of accounting policy, the accounting policy which is 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. The particular policies adopted by ECGD are described below. These have been applied consistently in dealing with items considered material to the accounts.

ECGD has agreed with HM Treasury that it is necessary to make disclosures in the Statement of Comprehensive Net Income and Statement of Financial Position 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.

Details of the particular accounting policies adopted by ECGD are described below.

(D) Insurance contracts

<u>Product classification</u>

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract, including financial guarantee contracts, written by ECGD. Insurance risk is transferred when ECGD agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Fund Basis of Accounting for insurance contracts

ECGD has applied existing accounting policies for its insurance contracts. 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. However, ECGD considers it to be the most appropriate method to account for its insurance contracts.

Under the Fund Basis of Accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until three years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until nine years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year).

Liability adequacy test

At the date of each Statement of Financial Position, ECGD performs liability adequacy tests to ensure that the carrying amount of insurance liabilities, net of any reinsurance, is sufficient to cover the current best estimate of future cash outflows under its insurance contracts. If, as a result of these tests, a deficiency is identified and the Fund for any underwriting year is considered insufficient to meet estimated future net claims or losses, the deficiency is charged to the Statement of Comprehensive Net Income to cover the potential shortfall. In years subsequent to a shortfall, should the deficiency in the fund reverse then any excess can be released back to the Statement of Comprehensive Income. However the release is limited to the amount of the original charge. Where the Fund for any underwriting year is in excess of the total amounts at risk, the excess is credited to the Statement of Comprehensive Net Income to reduce the Fund value to the level of the maximum exposure.

In assessing the adequacy of a Fund, account is taken of future investment income and, based on information available at the Statement of Financial Position 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; and

- **Buyer:** risks directly associated with buyers, borrowers or guarantors, e.g. insolvency.

Premium income

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

- **Project Business:** the income on all guarantees and insurance contracts, excluding Overseas Investment Insurance, that become 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.

Interest receivable – underwriting activities

ECGD determines that, based on its experience over recent years, interest on unrecovered claims is as likely to be recovered as the outstanding claims to which it relates. As a result, interest is provisioned at the same rate as the claim to which it applies.

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 Statement of Financial Position, 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 Income Statement for the year if and to the extent that existing provisions are not adequate to cover such amounts.

Reinsurance assets

In the normal course of its business, ECGD cedes reinsurance to other national export credit agencies. Reinsurance premiums ceded and movements in the reinsurers’ share of insurance liabilities are included within the relevant expense and income accounts in the Statement of Comprehensive Net Income.

Reinsurance assets include the reinsurers’ share of insurance liabilities and are recognised on the same basis as the underlying insurance liabilities recognised in the Statement of Financial Position. Reinsurance assets represent insurance premiums ceded to reinsurers, less any claims made by ECGD on reinsurance contracts.

ECGD’s reinsurance assets are reviewed for impairment. Any impairment losses identified are recognised through the Statement of Comprehensive Net Income.

(E) Net investment return

Investment return is comprised of interest income receivable for the year, movement in provisions for amortised cost on loans and receivables, GEFCO administration fees and residual margin payments to counter-party lenders, and changes in unrealised gains and losses on financial assets classified as ‘fair value through profit or loss’.

- 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 or loss’, or ‘loans and receivables’.
- For financial assets classified as ‘fair value through profit or 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 amortised cost.

- 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.

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;

- Interest from GEFCO on direct funded loans;

- Default Interest – interest on non-Paris Club balances; and

- Bank Interest – interest on balances held with commercial banks. The majority of ECGD funds are deposited with the Government Banking Service and do not earn interest for ECGD.

ECGD pays the following type of interest:

- Delay Interest – interest on claims paid up to 90 days following borrower repayment default.

(F) Operating expenses

All operating expenses are charged in the year they are incurred. Costs are allocated or apportioned on an activity basis.

(G) Foreign exchange

Transactions denominated in foreign currencies are translated into Pounds Sterling at the rates of exchange ruling at the dates of transactions. Foreign exchange gains and losses resulting from the subsequent settlement of these transactions, together with those arising from the retranslation of foreign currency denominated monetary assets and liabilities at year-end exchange rates, are recognised in the Statement of Comprehensive Net Income. Non-monetary items are translated in the Statement of Financial Position at the rates prevailing at the original transaction dates.

(H) Plant and equipment and intangible assets

i. Plant and equipment

Plant and equipment consist of leasehold improvements and computer and IT equipment, and are carried at fair value which is assessed as being equivalent to the historical cost less accumulated depreciation and any recognised impairment loss. Costs, including expenditure directly attributable to the acquisition of those assets, are capitalised. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual value over their estimated useful economic lives as follows:

Asset category	Useful economic life
Leasehold improvements	Period of lease
Computer and IT equipment	3-5 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at the Statement of Financial Position date.

ii. Intangible assets

Intangible assets comprise internally generated computer software. Internally generated software is included at the direct cost of design and development of unique identifiable software products which will benefit ECGD beyond one year. All other costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. The depreciated historical cost is used as a proxy for depreciated replacement cost which itself is a proxy for fair value.

Computer software cost recognised as an asset is amortised using the straight-line method over its useful life, not exceeding a period of three years. The amortisation commences once the software is brought into service.

iii. Impairment review

An impairment review is conducted whenever there is an indication that the assets are impaired. If this review indicates that an asset's carrying amount is greater than its recoverable amount, its carrying amount is written down to that recoverable amount.

(I) Leases

Rentals under operating leases are charged to the Statement of Comprehensive Net Income in equal annual instalments over the period of the lease.

(J) Consolidated Fund

Amounts payable

In accordance with the FReM, net cash inflow from operating activities and investing activities during the year (i.e. net cash requirement) is payable by ECGD to the Consolidated Fund.

The amount due within one year to the Consolidated Fund is the net cash requirement after deduction of amounts already paid to the Consolidated Fund.

The amount payable is equivalent to ECGD's bank balances at the Statement of Financial Position date.

(K) Exchequer financing

To reflect the long-term nature of ECGD's activities, and recognising that operating and investment cash flows 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 Statement of Financial Position. The balance moves from year to year in response to the cash flows and accrued income arising from ECGD's operating and investment activities.

(L) Pension costs

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

(M) Financial assets

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 or loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 'Fair value through profit or loss' financial assets include derivative instruments that are not designated as effective hedging instruments. Insurance 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 Statement of Comprehensive Net Income. Fair value is determined in the manner described in Note 16. '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 rate 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.

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 Statement of Comprehensive Net Income 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 impairments 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.

Derivative financial instruments

ECGD uses derivative financial instruments to manage its exposure to credit default and interest rate risk, including credit default swaps, and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 16. All derivatives are initially recognised in the Statement of Financial Position at their fair value, which usually represents their costs on the date on which 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 Statement of Comprehensive Net Income 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 market observable inputs.

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 Statement of Financial Position, as they do not represent the potential gain or loss associated with such transactions.

Interest rate swaps 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. 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; centralised auction settlement procedures are now usually used to determine the settlement amount. Exposure to gain or loss on all these derivative contracts will increase or decrease over their respective lives as a function of maturity dates, interest rates, credit rating and timing of payments.

(N) Financial liabilities

Financial liabilities at 'fair value through profit or loss' are recognised both initially and subsequently at their fair value, with any resultant gains or loss recognised in the Statement of Comprehensive Net Income. The net gain or loss recognised in the Statement of Comprehensive Net Income incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 22.

(O) Provisions

ECGD makes provisions for liabilities and charges where, at the Statement of Financial Position date, a legal or constructive liability exists (i.e. a present obligation from past events exists) where the outflow of economic benefits is probable and where a reasonable estimate can be made. The obligation is normally the amount that the entity would rationally pay to settle the obligation at the Statement of Financial Position date or to transfer it to a third party at that time. If the effect is material, expected future cash flows are discounted using the appropriate rate set by HM Treasury.

Provisions are in respect of (i) onerous leases, (ii) dilapidations on leasehold property, and (iii) early staff departures as follows:

(i) The onerous lease provisions are created when ECGD vacates a floor or part-floor and there is either no sub-lease in place or a sub-lease at less than full recovery to ECGD. The provision is equal to the discounted value of all future payments net of any sub-lease receipts to the end of the lease.

(ii) The provision for dilapidations is created when ECGD vacates a floor or part-floor and is the estimate of the cost to return the space to the condition when ECGD entered into the lease.

(iii) ECGD provides for the costs of additional benefits beyond the normal PCSPS benefits in respect of employees who exit early. The Department provides for the costs when the exit is agreed and binding on the Department, effectively charging the full cost at the time of the decision and holding this in a provision. A provision has been established for the total liability falling on the Department for all agreed exits.

(P) Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, 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 but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated as the amounts reported to Parliament.

(Q) Financial guarantee contracts

Liabilities under financial guarantee contracts not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

(R) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

(S) Non-Current Consolidated Fund Liability prior period adjustment

In line with HM Treasury changes brought about by the Alignment Project, the specific control over the amount of income that can be retained through appropriations-in-aid has been removed.

As a result of this change the amount payable by ECGD to the Consolidated Fund now only represents the cash balance at year-end, resulting in the removal of the non-current liability. This was originally required as a result of the significant timing differences between the recognition of income and the subsequent receipt of the cash.

The removal of the non-current Consolidated Fund liability has no impact upon the Statement of Parliamentary Supply, the Statement of Comprehensive Net Income or Statement of Cash flows.

The removal of the non-current Consolidated Fund liability has the following effect on the Statement of Financial Position as well as the Statement of Changes in Taxpayers Equity;

	at 31 March 2011 £'000
The application of the alignment project has resulted in removal of the non-current Consolidated Fund liability without any impact upon Net Income:	
C/f Prior Year Taxpayer's Equity previously reported	608,931
Prior Period Adjustment relating to:	
Exchequer Financing	158,879
General Fund	2,050
B/f Prior Year Taxpayers' Equity restated	**769,860**
C/f Prior Year Net assets previously reported	608,931
Prior Period Adjustment relating to non-current Consolidated Fund liability	160,929
B/f Prior Year Net Assets restated	**769,860**

2 Analysis of net outturn by section

2(a) Resource

									2011-12	2010-11 (Restated)
	Administration			Programme			Outturn Total	Estimate Total	Outturn compared with Estimate: savings/ (excess)	Outturn Total
	Gross	Income	Net	Gross	Income	Net	Net	Net		Net
	Note 6	Note 5		Note 6	Note 5					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)										
A Export Credit Guarantees and Investments	22,913	1,055	21,858	-	-	-	21,858	24,025	2,167	23,583
Total	22,913	1,055	21,858	-	-	-	21,858	24,025	2,167	23,583
Voted spending in Annually Managed Expenditure (AME)										
B Export Credits	-	-	-	17,149	173,781	(156,632)	(156,632)	34,055	190,687	(206,453)
C Fixed Rate Export Finance Assistance	-	-	-	18,032	17,877	155	155	7,138	6,983	(5,409)
D GEFCO Loans and interest equalisation	-	-	-	1,744	12,593	(10,849)	(10,849)	(10,669)	180	(14,608)
E Provisions	-	-	-	(1,950)	-	(1,950)	(1,950)	500	2,450	(1,173)
Total	-	-	-	34,975	204,251	(169,276)	(169,276)	31,024	200,300	(227,643)
Total Resource	22,913	1,055	21,858	34,975	204,251	(169,276)	(147,418)	55,049	202,467	(204,060)

Explanation of variances between estimate and outturn:

A Export Credit Guarantees and Investments £2.2 million – variance primarily due to lower staff costs due to a lower headcount.

B Export Credits £190.7 million – the variance largely relates to a change in economic outlook with regard to the recoverability of insurance assets.

C Fixed Rate Export Finance Assistance £7.0 million – this relates to changes in fair value of financial instruments.

E Provisions £2.5 million – the variance relates to releases of provisions.

2(b) Capital

	2011-12					2010-11 (Restated)
			Outturn		Estimate	Outturn
	Gross	Income	Net	Net	Net total compared with Estimate	Net
	Note 15	Note 28				
	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)						
A Export Credit Guarantees and Investments	327	-	327	330	3	517
Total	327	-	327	330	3	517
Voted spending in Annually Managed Expenditure (AME)						
D GEFCO Loans and interest equalisation	-	51,886	(51,886)	(41,387)	10,499	(99,772)
Total	-	51,886	(51,886)	(41,387)	10,499	(99,772)
Total Capital	327	51,886	(51,559)	(41,057)	10,502	(99,255)

Explanation of variances between estimate and outturn:

A Export Credit Guarantees and Investments – capital expenditure was as planned.

D GEFCO Loans and interest equalisation £10.5 million – this reflects an earlier than expected settlement.

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

3.1 Reconciliation of net resource outturn to net operating income

	Note	2011-12 Outturn £'000	2010-11 (Restated) Outturn £'000
Total resource outturn in Statement of Parliamentary Supply:			
Budget		147,418	204,060
Non-Budget		-	-
Resource outturn before PPA's	2(a)	147,418	204,060
Operating income payable to Consolidated Fund before PPA's		-	-
Net Operating Income before PPA's		147,418	204,060
Prior Period Adjustments (PPA's):			
Removal of the non-current Consolidated Fund liability		-	-
Net Operating Income in Consolidated Statement of Comprehensive Net Expenditure		147,418	204,060

3.2 Outturn against final Administration Budget and Administration net operating costs

	Note	2011-12 Outturn £'000	2010-11 (Restated) Outturn £'000
Estimate - Administration costs limit		**24,025**	**24,969**
Outturn - Gross administration costs	2(a) & 6	22,913	24,440
Outturn - Income relating to administration costs	2(a) & 5	(1,055)	(857)
Outturn - Net administration costs		**21,858**	**23,583**
Reconciliation to net operating income:			
Less provisions utilised & adjustments (transfer from Programme - AME):			
Staff Early Retirement	11	(756)	(367)
Onerous Lease & Dilapidations	12	(1,194)	(806)
Staff & Other Administration net operating costs		**19,908**	**22,410**
Of which:			
Staff costs	*11*	*11,125*	*11,959*
Other costs	*12*	*8,783*	*10,451*

4 Reconciliation of resources to net cash requirement

	2011-12 Outturn £'000	2010-11 (Restated) Outturn £'000
Net Cash Inflow from Operating Activities	193,594	269,227
Net Cash Inflow from Investing Activities	49,569	95,322
Net Cash Inflow Total	**243,163**	**364,549**
Consolidated fund cash movements:		
Payments	(9,547)	(67,701)
Net Consolidated fund cash payments	(9,547)	(67,701)
Amounts remaining payable to the Consolidated Fund	**233,616**	**296,848**

5 Income

The analysis of income summarised within the analysis of net resource outturn (Note 2a) is as follows:

	Note	2011-12 Total £'000	2010-11 (Restated) Total £'000
Rent and premium administration income	12	1,055	857
Total Departmental Expenditure Limits (DEL) Income		**1,055**	**857**
Net premium income		84,792	95,697
Interest receivable	9	35,229	55,720
Claims credit for the year	10	52,672	55,122
Changes in insurance liabilities (net of reinsurance)	25	-	25,921
Foreign exchange gain	13	1,088	-
Interest equalisation support income	8	164	368
Interest income from GEFCO loans	8	12,429	16,397
Movement in fair value of FREF derivatives	8	17,877	39,694
Total Annually Managed Expenditure (AME) Income		**204,251**	**288,919**
Total Income for the year		**205,306**	**289,776**

6 Gross costs

The analysis of gross costs summarised within the analysis of net resource outturn (Note 2a) is as follows:

	Note	2011-12 Total £'000	2010-11 (Restated) Total £'000
Staff excluding changes in provision	11	11,881	12,326
Other Costs excluding changes in provision	12	11,032	12,114
Total Departmental Expenditure Limits (DEL) Gross Costs		**22,913**	**24,440**
Changes in insurance liabilities (net of reinsurance)	25	15,679	-
Foreign exchange loss	13	-	21,214
Movement in fair value of credit default swap derivatives	8	1,470	4,793
Interest equalisation support costs	8	1,744	2,157
Movement in fair value of FREF derivatives	8	18,032	34,285
Staff early retirement provision movement	11	(756)	(367)
Other onerous lease & dilapidation provision movement	12	(1,194)	(806)
Total Annually Managed Expenditure (AME) Gross Costs		**34,975**	**61,276**
Total Gross Costs for the year		**57,888**	**85,716**

7 Segmental information

ECGD applies IFRS 8 – *Operating Segments*, as adapted for the public sector. ECGD has determined its operating segments based upon its organisational structure. Operating segments are reported in a manner consistent with the IFRS based internal reports provided to the chief operating decision maker. The chief operating decision maker is the Accounting Officer who is responsible for allocating resources and assessing performance of the operating segments.

Operationally, ECGD's operations are categorised into one of the following accounts:

- **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 reducing the funding cost of FREF loans and for certain interest rate derivative arrangements.

i. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2012

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Income					
Gross premium income	-	120,008	-	-	120,008
Less ceded to reinsurers	-	(35,216)	-	-	(35,216)
Net premium income	**-**	**84,792**	**-**	**-**	**84,792**
Net investment return income	26,289	7,470	-	10,694	44,453
Claims credit for the year	27,863	24,809	-	-	52,672
Changes in insurance liabilities net of reinsurance	531	-	5	-	536
Net foreign exchange gain	502	586	-	-	1,088
Total income	**55,185**	**117,657**	**5**	**10,694**	**183,541**
Expenses					
Changes in insurance liabilities net of reinsurance	-	(16,215)	-	-	(16,215)
Staff costs	(890)	(9,011)	-	(1,224)	(11,125)
Other administration and operating costs	(703)	(7,114)	-	(966)	(8,783)
Total expenses	**(1,593)**	**(32,340)**	**-**	**(2,190)**	**(36,123)**
Net income	**53,592**	**85,317**	**5**	**8,504**	**147,418**

ii. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2011

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Income					
Gross premium income	-	142,691	-	-	142,691
Less ceded to reinsurers	-	(46,994)	-	-	(46,994)
Net premium income	**-**	**95,697**	**-**	**-**	**95,697**
Net investment return income	36,971	13,956	-	20,017	70,944
Claims credit for the year	32,341	22,781	-	-	55,122
Changes in insurance liabilities net of reinsurance	274	25,634	13	-	25,921
Total income	**69,586**	**158,068**	**13**	**20,017**	**247,684**
Expenses					
Staff costs	(1,315)	(9,329)	-	(1,315)	(11,959)
Other administration and operating costs	(1,150)	(8,151)	-	(1,150)	(10,451)
Net foreign exchange losses	(11,060)	(10,154)	-	-	(21,214)
Total expenses	**(13,525)**	**(27,634)**	**-**	**(2,465)**	**(43,624)**
Net income	**56,061**	**130,434**	**13**	**17,552**	**204,060**

iii. Additional segmental information

For the year ended 31 March 2012, there was one customer (the party paying the premium) who accounted for more than 10% of the total premium revenue, net of amounts ceded to reinsurers. The customer accounted for net premium income of £9.0m. In 2010-11 there was one customer who accounted for more than 10% of the total premium revenue.

All premium income arose from exports by companies resident in the United Kingdom and therefore no geographical analysis of premium income is presented.

iv. Segmental Statement of Financial Position at 31 March 2012

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	855	-	-	855
Intangible assets	-	629	-	-	629
Financial assets					
Fair value through income	-	-	-	23,345	23,345
Loans and receivables	-	-	-	137,755	137,755
Insurance contracts					
Insurance assets	434,723	393,222	-	-	827,945
Reinsurers' share of insurance liabilities	-	158,996	-	-	158,996
Insurance and other receivables	-	1,588	-	-	1,588
Total non-current assets	**434,723**	**555,290**	**-**	**161,100**	**1,151,113**
Current assets:					
Financial assets					
Fair value through income	-	-	-	11,389	11,389
Loans and receivables	-	-	-	42,841	42,841
Insurance contracts					
Insurance assets	35,304	37,649	-	-	72,953
Insurance and other receivables	-	7,555	-	-	7,555
Cash and cash equivalents	56,312	123,321	-	53,983	233,616
Total current assets	**91,616**	**168,525**	**-**	**108,213**	**368,354**
Total assets	**526,339**	**723,815**	**-**	**269,313**	**1,519,467**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	(1,740)	-	(10,788)	(12,528)
Payable to Consolidated Fund	(56,312)	(123,321)	-	(53,983)	(233,616)
Provisions	-	(1,610)	-	-	(1,610)
Insurance and other payables	(153)	(6,404)	-	(133)	(6,690)
Total current liabilities	**(56,465)**	**(133,075)**	**-**	**(64,904)**	**(254,444)**
Non-current assets plus net current assets	**469,874**	**590,740**	**-**	**204,409**	**1,265,023**
Non-current liabilities					
Financial liabilities					
Financial liabilities held at fair value	-	-	-	(31,197)	(31,197)
Insurance liabilities	(110)	(554,550)	-	-	(554,660)
Provisions	-	(4,818)	-	-	(4,818)
Total non-current liabilities	**(110)**	**(559,368)**	**-**	**(31,197)**	**(590,675)**
Assets less liabilities	**469,764**	**31,372**	**-**	**173,212**	**674,348**
Taxpayers' equity					
Exchequer Financing	(912,356)	(1,504,391)	(101,682)	178,243	(2,340,186)
Cumulative Trading Surplus	1,382,120	1,535,763	101,682	-	3,019,565
General Fund	-	-	-	(5,031)	(5,031)
Total taxpayers' equity	**469,764**	**31,372**	**-**	**173,212**	**674,348**

v. Segmental Statement of Financial Position at 31 March 2011

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	914	-	-	914
Intangible assets	-	862	-	-	862
Financial assets					
Fair value through income	-	-	-	20,812	20,812
Loans and receivables	-	-	-	178,242	178,242
Insurance contracts					
Insurance assets	443,742	426,181	-	-	869,923
Reinsurers' share of insurance liabilities	-	123,038	-	-	123,038
Insurance and other receivables	-	1,816	-	-	1,816
Total non-current assets	**443,742**	**552,811**	**-**	**199,054**	**1,195,607**
Current assets:					
Financial assets					
Fair value through income	-	-	-	14,943	14,943
Loans and receivables	-	-	-	54,613	54,613
Insurance contracts					
Insurance assets	31,783	31,544	-	-	63,327
Insurance and other receivables	-	5,574	-	-	5,574
Cash and cash equivalents	30,111	147,659	-	119,078	296,848
Total current assets	**61,894**	**184,777**	**-**	**188,634**	**435,305**
Total assets	**505,636**	**737,588**	**-**	**387,688**	**1,630,912**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	(752)	-	(14,404)	(15,156)
Payable to Consolidated Fund	(30,111)	(147,659)	-	(119,078)	(296,848)
Provisions	-	(2,188)	-	-	(2,188)
Insurance and other payables	(2,399)	(7,771)	-	(179)	(10,349)
Total current liabilities	**(32,510)**	**(158,370)**	**-**	**(133,661)**	**(324,541)**
Non-current assets plus net current assets	**473,126**	**579,218**	**-**	**254,027**	**1,306,371**
Non-current liabilities					
Financial liabilities					
Financial liabilities held at fair value	-	(1,508)	-	(25,790)	(27,298)
Insurance contracts					
Insurance liabilities	(641)	(502,377)	(5)	-	(503,023)
Provisions	-	(6,190)	-	-	(6,190)
Total non-current liabilities	**(641)**	**(510,075)**	**(5)**	**(25,790)**	**(536,511)**
Assets less liabilities	**472,485**	**69,143**	**(5)**	**228,237**	**769,860**
Taxpayers' equity					
Exchequer Financing	(856,043)	(1,381,303)	(101,682)	230,129	(2,108,899)
Cumulative Trading Surplus	1,328,528	1,450,446	101,677	-	2,880,651
General Fund	-	-	-	(1,892)	(1,892)
Total taxpayers' equity	**472,485**	**69,143**	**(5)**	**228,237**	**769,860**

vi. Segmental Statement of Financial Position at 1 April 2010

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	1,120	-	-	1,120
Intangibles	-	891	-	-	891
Financial assets					
Fair value through income	-	-	-	39,392	39,392
Loans and receivables	-	-	-	233,678	233,678
Insurance contracts					
Insurance assets	426,612	429,202	-	-	855,814
Reinsurers' share of insurance liabilities	-	81,145	-	-	81,145
Insurance and other receivables	-	1,812	-	-	1,812
Total non-current assets	**426,612**	**514,170**	**-**	**273,070**	**1,213,852**
Current assets:					
Financial assets					
Fair value through income	-	-	-	25,614	25,614
Loans and receivables	-	-	-	100,550	100,550
Insurance contracts					
Insurance assets	79,653	66,448	-	-	146,101
Insurance and other receivables	-	5,361	-	-	5,361
Cash and cash equivalents	44,199	125,469	-	175,400	345,068
Total current assets	**123,852**	**197,278**	**-**	**301,564**	**622,694**
Total assets	**550,464**	**711,448**	**-**	**574,634**	**1,836,546**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	-	-	(19,499)	(19,499)
Payable to Consolidated Fund	(44,199)	(125,469)	-	(175,400)	(345,068)
Provisions	-	(2,195)	-	-	(2,195)
Insurance and other payables	(4,988)	(2,782)	-	(338)	(8,108)
Total current liabilities	**(49,187)**	**(130,446)**	**-**	**(195,237)**	**(374,870)**
Non-current assets plus net current assets	**501,277**	**581,002**	**-**	**379,397**	**1,461,676**
Non-current liabilities					
Financial liabilities					
Financial liabilities held at fair value	-	(1,400)	-	(35,760)	(37,160)
Insurance contracts					
Insurance liabilities	(915)	(486,118)	(18)	-	(487,051)
Provisions	-	(7,356)	-	-	(7,356)
Total non-current liabilities	**(915)**	**(494,874)**	**(18)**	**(35,760)**	**(531,567)**
Assets less liabilities	**500,362**	**86,128**	**(18)**	**343,637**	**930,109**
Taxpayers' equity					
Exchequer Financing	(772,105)	(1,233,884)	(101,682)	329,901	(1,777,770)
Cumulative Trading Surplus	1,272,467	1,320,012	101,664	-	2,694,143
General Fund	-	-	-	13,736	13,736
Total taxpayers' equity	**500,362**	**86,128**	**(18)**	**343,637**	**930,109**

8 Net investment return

	Note	Account 1 £'000	Account 2 £'000	2011-12 Total £'000	2010-11 (Restated) Total £'000
Export Credit Guarantees and Insurance					
Interest income	9	26,289	8,940	35,229	55,720
Total Income		**26,289**	**8,940**	**35,229**	**55,720**
Loss in fair value of Credit Default Swaps derivatives		-	(1,470)	(1,470)	(4,793)
Total Costs		**-**	**(1,470)**	**(1,470)**	**(4,793)**
Net Income		**26,289**	**7,470**	**33,759**	**50,927**

	Note	2011-12 Total £'000	2010-11 (Restated) Total £'000
Export Finance Assistance			
Interest equalisation support income		164	368
Interest income on GEFCO loans	28	12,429	16,397
GEFCO loans and interest equalisation income		12,593	16,765
Gain in fair value of derivatives		17,877	39,694
Total Income		**30,470**	**56,459**
GEFCO loans and interest equalisation costs		(1,744)	(2,157)
Loss in fair value of derivatives		(18,032)	(34,285)
Total Costs		**(19,776)**	**(36,442)**
Net Income		**10,694**	**20,017**

9 Interest receivable

	Note	Account 1 £'000	Account 2 £'000	2011-12 Total £'000	2010-11 Total £'000
Interest arising from claims					
- interest charged in the year	17(b)	36,308	17,606	53,914	78,102
- net increase in provisions for unrecovered interest	17(b)	(10,019)	(8,698)	(18,717)	(22,422)
Interest arising from claims net of provisions		26,289	8,908	35,197	55,680
Other Interest		-	32	32	40
Interest credit for the year		26,289	8,940	35,229	55,720

Other Interest includes bank interest on balances with commercial banks.

10 Claims credit for the year

	Note	Account 1 £'000	Account 2 £'000	2011-12 Total £'000	2010-11 Total £'000
Claims authorised and paid in the year	17(a)	-	(6,025)	(6,025)	(30,175)
Expected recoveries on claims authorised and paid in the year		-	5,540	5,540	28,433
Provision on claims authorised and paid in the year		-	(485)	(485)	(1,742)
Net decrease in provisions for claims authorised and paid in previous years		27,863	25,294	53,157	56,864
Claims credit for the year	17(a)	**27,863**	**24,809**	**52,672**	**55,122**

There is no reinsurance element included within the figures above.

11 Staff numbers and costs

A. Staff costs consist of:

	2011-12 £'000	2010-11 £'000
Departmental Expenditure Limit (Outturn - DEL / Administration)		
Gross Costs:		
Salaries and Wages	8,580	8,743
Social Security Costs	800	785
Early Retirement Payments	882	1,114
Other Pension Costs	1,619	1,684
Total DEL / Administration Gross Costs	11,881	12,326
Annually Managed Expenditure (Outturn - AME / Programme)		
Gross Costs:		
Early Retirement Provision utilisation & adjustment	(756)	(367)
Total AME / Programme Gross Costs	**(756)**	**(367)**
Total Staff Administrative Gross & Net Costs	**11,125**	**11,959**
Of which:		
Departmental Expenditure Limit (DEL)	11,881	12,326
Annually Managed Expenditure (AME)	(756)	(367)
Of which:		
Export Credit Guarantees and Insurance	9,901	10,644
Export Finance Assistance	1,224	1,315

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 annual accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2011-12, employers' contributions of £1,590,570 were payable to the PCSPS (2010-11: £1,637,909) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 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 £2,132 (2010-11: £3,600) 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 £2,132 (2010-11: £3,020), 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 or ill health retirement of these employees.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £130 (2010-11: £237). Contributions prepaid at that date were £Nil (2010-11: £Nil).

B. The average number of full-time equivalent persons employed (including senior management) was 187 (2010-11: 198) and the full time equivalent of temporary agency, interim, specialist contractor and consultant workers during the year was 12 (2010-11: 15).

12 Other administrative and operating costs

	2011-12	2010-11 (Restated)
	£'000	£'000
Departmental Expenditure Limit (Outturn - DEL / Administration)		
Gross Costs:		
IT	2,643	2,756
Indirect staff and personnel expenses	1,058	1,245
Business promotion	42	19
Rent, Onerous Lease and Dilapidations Payments	2,831	2,635
Other establishment costs	1,386	1,640
Underwriting expenses	99	193
Claims and recovery expenses	340	285
Other administration costs	1,424	1,984
Audit fees	233	240
Depreciation	277	304
Amortisation	342	108
Impairments	-	340
Travel, subsistence and hospitality	357	365
Total DEL / Administration Gross Costs	**11,032**	**12,114**
Income:		
Rent and premium administration income	(1,055)	(857)
Total DEL / Administration Income	**(1,055)**	**(857)**
Total DEL / Administration Net Costs	**9,977**	**11,257**
Annually Managed Expenditure (Outturn - AME / Programme)		
Gross Costs:		
Onerous Lease and Dilapidations Provisions utilisation & adjustment	(1,194)	(806)
Total AME / Programme Gross & Net Costs	**(1,194)**	**(806)**
Total Other Administrative Net Costs	**8,783**	**10,451**
Of which:		
Departmental Expenditure Limit (DEL)	9,977	11,257
Annually Managed Expenditure (AME)	(1,194)	(806)
Of which:		
Export Credit Guarantees and Insurance	7,817	9,301
Export Finance Assistance	966	1,150
Included in the above figures:		
Minimum lease payments under operating leases recognised as expense in the year	2,529	2,529

13 Foreign exchange (loss)/gain

	Account 1 £'000	Account 2 £'000	2011-12 Total £'000	2010-11 Total £'000
Unrealised foreign exchange gain/(loss) arising on:				
- recoverable claims after provisions	429	863	1,292	(16,323)
- recoverable interest on claims after provisions	347	22	369	(4,366)
- insurance premium receivables	-	135	135	(506)
Net unrealised foreign exchange gain/(loss) for year	776	1,020	1,796	(21,195)
Realised foreign exchange (loss)/gain	(274)	(434)	(708)	(19)
Net foreign exchange gain/(loss) for year	**502**	**586**	**1,088**	**(21,214)**

Day-to-day transactions are converted at the rates prevailing on the original transaction date. Assets and liabilities are re-valued at the year end rates. The table below shows the exchange rates applicable on the principal currencies.

Currency	**Currency equivalent to £ 1** **31 March 2012**	 **31 March 2011**
Euro	1.20	1.13
Japanese Yen	131.49	132.93
US Dollars	1.60	1.60

14 Movements in working capital other than financial assets

	Note	2011-12 £'000	2010-11 £'000
The movements in working capital other than cash and cash equivalents used in the Statement of Cash Flows and in the Reconciliation of resources to cash requirement comprise:			
Recoverable claims	17(a)	84,085	92,575
Receivables, other debtors and prepayments		(1,762)	(580)
Payables, insurance liabilities and accruals		(3,659)	2,241
Net decrease in working capital other than cash and cash equivalents		**78,664**	**94,236**

15 Plant and equipment, and intangible assets

(a) Plant and equipment

	IT equipment £'000	Leasehold improvements £'000	Total £'000
Cost:			
Balance at 1 April 2010	4,423	2,970	7,393
Additions	45	53	98
Balance at 31 March 2011	**4,468**	**3,023**	**7,491**
Additions	218	-	218
Balance at 31 March 2012	**4,686**	**3,023**	**7,709**
Accumulated Depreciation:			
Balance at 1 April 2010	4,096	2,177	6,273
Charge for the Year	176	128	304
Balance at 31 March 2011	**4,272**	**2,305**	**6,577**
Charge for the Year	148	129	277
Balance at 31 March 2012	**4,420**	**2,434**	**6,854**
Carrying amount:			
31 March 2012	**266**	**589**	**855**
31 March 2011	196	718	914
1 April 2010	327	793	1,120

(b) Intangible assets

	Software £'000
Cost	
Balance at 1 April 2010	891
Impairments	(340)
Additions	419
Balance at 31 March 2011	**970**
Additions	109
Balance at 31 March 2012	**1,079**
Accumulated Depreciation	
Balance at 1 April 2010	-
Charge for the Year	108
Balance at 31 March 2011	**108**
Charge for the Year	342
Balance at 31 March 2012	**450**
Carrying amount:	
31 March 2012	**629**
31 March 2011	862
1 April 2010	891

16 Financial assets

(a) Fair value through profit or loss:

	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Export Finance Assistance			
Interest rate derivatives in relation to Export Finance Loan Guarantees	34,734	35,755	49,820
Interest rate derivative contracts entered into for hedging purposes	-	-	15,186
Total	**34,734**	**35,755**	**65,006**
Falling due:			
- within one year	11,389	14,943	25,614
- after more than one year	23,345	20,812	39,392

All interest rate derivatives are categorised as level 2 instruments, with their fair values determined using valuation techniques and pricing models commonly employed by market participants, and market-observable inputs.

(b) Loans and receivables:

	Note	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Export Finance Loans due from GEFCO	28	178,243	230,129	329,901
Export Finance Interest due from GEFCO	28	1,533	2,050	3,508
Export Finance Interest on FREF loans due from DFID		717	569	688
Other Export Finance Receivables		103	107	131
Total		**180,596**	**232,855**	**334,228**
Falling due:				
- within one year		42,841	54,613	100,550
- after more than one year		137,755	178,242	233,678

Loans and receivables are calculated on the amortised cost basis (refer to accounting policy Note 1(M)) for an explanation of amortised cost basis.

The fair value of Export Finance Loans due from GEFCO is £ 204,676,000 (2010-11: £254,290,000).

The fair value of Export Finance interest and other receivables is considered to be the same as amortised cost.

17 Insurance assets

	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Recoverable claims	749,512	779,633	833,409
Interest on unrecovered claims	151,386	153,617	168,506
Total	**900,898**	**933,250**	**1,001,915**
Falling due:			
- within one year	72,953	63,327	146,101
- after more than one year	827,945	869,923	855,814

All insurance assets are shown at historical cost less, where appropriate, a provision to reduce them to their expected recoverable amount. The majority of the balances are subject to market rates of interest.

(a) Recoverable claims

	Account 1 £'000	Account 2 £'000	Total £'000
Recoverable claims - gross			
Balance at 1 April 2010	853,347	707,839	1,561,186
Reclassifications & transfers from interest on unrecovered claims	442	8,036	8,478
Claims approved in the year	-	30,175	30,175
Recoveries made in the year	(45,500)	(77,250)	(122,750)
Recoveries abandoned in the year	(50,162)	(8,817)	(58,979)
Foreign exchange movements	(10,479)	(11,597)	(22,076)
Balance at 31 March 2011	**747,648**	**648,386**	**1,396,034**
Claims approved in the year	-	6,025	6,025
Recoveries made in the year	(31,552)	(58,558)	(90,110)
Recoveries abandoned in the year	(369)	533	164
Foreign exchange movements	453	1,000	1,453
Balance at 31 March 2012	**716,180**	**597,386**	**1,313,566**
Recoverable claims - provisions			
Balance at 1 April 2010	509,692	218,085	727,777
Reclassifications & transfers from interest on unrecovered claims	442	8,036	8,478
Release of provisions in the year	(32,341)	(22,781)	(55,122)
Recoveries abandoned in the year	(50,162)	(8,817)	(58,979)
Foreign exchange movements	(4,390)	(1,363)	(5,753)
Balance at 31 March 2011	**423,241**	**193,160**	**616,401**
Release of provisions in the year	(27,863)	(24,809)	(52,672)
Recoveries abandoned in the year	(369)	533	164
Foreign exchange movements	24	137	161
Balance at 31 March 2012	**395,033**	**169,021**	**564,054**
Net recoverable claims as at:			
- 31 March 2012	**321,147**	**428,365**	**749,512**
- 31 March 2011	324,407	455,226	779,633
- 1 April 2010	343,655	489,754	833,409

There are no recoverable claims on Accounts 3 and 4.

(b) Interest on unrecovered claims

	Account 1 £'000	Account 2 £'000	Total £'000
Interest on unrecovered claims - gross			
Balance at 1 April 2010	1,138,370	70,800	1,209,170
Reclassifications & transfers to recoverable claims	(442)	(8,036)	(8,478)
Interest charged in the year	41,028	37,074	78,102
Interest received in the year	(44,431)	(21,772)	(66,203)
Recoveries abandoned in the year	(130,862)	-	(130,862)
Foreign exchange movements	(13,053)	(421)	(13,474)
Balance at 31 March 2011	990,610	77,645	1,068,255
Interest charged in the year	36,308	17,606	53,914
Interest received in the year	(28,874)	(8,923)	(37,797)
Recoveries abandoned in the year	(2,304)	(176)	(2,480)
Foreign exchange movements	82	52	134
Balance at 31 March 2012	**995,822**	**86,204**	**1,082,026**
Interest on unrecovered claims - provisions			
Balance at 1 April 2010	975,760	64,904	1,040,664
Reclassifications & transfers to recoverable claims	(442)	(8,036)	(8,478)
Increase in provisions in the year	4,057	18,365	22,422
Recoveries abandoned in the year	(130,862)	-	(130,862)
Foreign exchange movements	(9,021)	(87)	(9,108)
Balance at 31 March 2011	839,492	75,146	914,638
Increase in provisions in the year	10,019	8,698	18,717
Recoveries abandoned in the year	(2,304)	(176)	(2,480)
Foreign exchange movements	(265)	30	(235)
Balance at 31 March 2012	**846,942**	**83,698**	**930,640**
Net interest on unrecovered claims as at:			
- 31 March 2012	**148,880**	**2,506**	**151,386**
- 31 March 2011	151,118	2,499	153,617
- 1 April 2010	162,610	5,896	168,506

18 Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 2010	81,145
Movements summary:	
Addition to the underwriting funds in the year	47,706
Net decrease in open cash funds	(4,371)
Net decrease in open credit funds	(5)
Other fund movements	(709)
Net decrease in insurance liabilities on closed funds	(728)
Total Movements	*41,893*
Balance at 31 March 2011	123,038
Movements summary:	
Addition to the underwriting funds in the year	35,217
Net decrease in open cash funds	-
Net decrease in open credit funds	586
Other fund movements	1,443
Net decrease in insurance liabilities on closed funds	(1,288)
Total Movements	*35,958*
Balance at 31 March 2012	**158,996**

Movements are summarised within Note 25.

19 Insurance and other receivables

	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Insurance premium receivables	7,145	5,262	5,145
Prepayments and accrued income	1,998	2,128	2,028
	9,143	**7,390**	**7,173**
Falling due:			
- within one year	7,555	5,574	5,361
- after more than one year	1,588	1,816	1,812

Prepayments and accrued income are shown at historical cost and include pre-paid rent, maintenance contracts and subscriptions.

20 Cash and cash equivalents

	Note	£'000
Balance at 1 April 2010		345,068
Net cash inflow to ECGD	4	364,549
Payments to the Consolidated Fund:		
in respect of amounts received in the previous year		(345,068)
in respect of amounts received in the current year		(67,701)
Balance at 31 March 2011		**296,848**
Net cash inflow to ECGD	4	243,163
Payments to the Consolidated Fund:		
in respect of amounts received in the previous year		(296,848)
in respect of amounts received in the current year		(9,547)
Balance at 31 March 2012		**233,616**

Cash and cash equivalents comprise:	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Government Banking Service	218,819	277,973	326,659
Commercial banks and cash in hand	14,797	18,875	18,409
Total	**233,616**	**296,848**	**345,068**

21 Reconciliation of Net Cash Requirement to decrease in cash

	Note	2011-12 £'000	2010-11 (Restated) £'000
Net cash requirement due to the Consolidated Fund	4	243,163	364,549
Total payable to the Consolidated Fund		243,163	364,549
Payments to the Consolidated Fund - current year		(9,547)	(67,701)
Amounts due to the Consolidated Fund received and not paid over		233,616	296,848
Payments to the Consolidated Fund - prior year		(296,848)	(345,068)
Decrease in cash		**(63,232)**	**(48,220)**

22 Financial liabilities at fair value

	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Export Credit Guarantees and Insurance			
Credit default swaps	1,740	2,260	1,400
Export Finance Assistance			
Interest rate derivatives in relation to Export Finance Loan Guarantees	13,369	9,889	13,451
Interest rate derivative contracts entered into for hedging purposes	28,616	30,305	41,808
Total	**43,725**	**42,454**	**56,659**
Falling due:			
- within one year	12,528	15,156	19,499
- after more than one year	31,197	27,298	37,160

All interest rate derivatives are categorised as level 2 instruments, with their fair values determined using valuation techniques and pricing models commonly employed by market participants, and market-observable inputs.

Credit default swaps have been adjusted to the actual sale price achieved in April 2012. This was an event after the reporting period.

23 Payable to the Consolidated Fund

	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	233,616	296,848	345,068
Total	**233,616**	**296,848**	**345,068**
Falling due:			
- within one year	233,616	296,848	345,068

The balance due within one year represents ECGD's bank balance.

24 Insurance and other payables, and provisions

(a) Insurance and other payables

	31 March 2012 £'000	31 March 2011 £'000	1 April 2010 £'000
Insurance payables - amounts due to policyholders	165	160	658
Income tax and National Insurance	281	256	272
Other payables	5,924	9,421	6,380
Accruals	320	512	798
Total	**6,690**	**10,349**	**8,108**
Falling due:			
- within one year	6,690	10,349	8,108

Of which:

- other central government bodies	719
- bodies external to government	5,971

(b) Provisions

	31 March 2012 £'000	31 March 2011 (Restated) £'000	1 April 2010 (Restated) £'000
Dilapidations Provision	875	875	875
Onerous Lease Provision	3,750	4,944	5,750
Early Departure Provision	1,803	2,559	2,926
Total	**6,428**	**8,378**	**9,551**
Falling due:			
- within one year	1,610	2,188	2,195
- after more than one year	4,818	6,190	7,356

	Dilapidations Provision £'000	Onerous Lease Provision £'000	Early Departure Provision £'000	Total £'000
Balance at 1 April 2010	875	5,750	2,926	9,551
Additions	-	-	747	747
Utilisation	-	(806)	-	(806)
Cash paid	-	-	(1,114)	(1,114)
Balance at 31 March 2011	**875**	**4,944**	**2,559**	**8,378**
Additions	-	-	126	126
Utilisation	-	(1,194)	-	(1,194)
Cash paid	-	-	(882)	(882)
Balance at 31 March 2012	**875**	**3,750**	**1,803**	**6,428**

25 Insurance liabilities

Each underwriting fund for an underwriting year is set at the higher of (i) the current Expected Loss, as defined below, on amounts at risk on unexpired insurance contracts, or (ii) accumulated premiums plus interest earned, less administration costs and provisions made for the unrecoverable proportion of paid claims. 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.

The Expected Loss is management's best estimate of the mean of possible future losses on ECGD's insurance contracts.

Under the Fund Basis of Accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until three years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until nine years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year). After this period, any excess of the net Underwriting Fund over the current 'expected loss' on amounts at risk on unexpired guarantees or policies written in the relevant year is released to income. Underwriting funds for those and prior years will be equal to the 'expected loss' on unexpired guarantees or insurance policies for the relevant underwriting year.

The following movements in underwriting funds have occurred in the year:

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Total £'000
Insurance liabilities - Gross of reinsurance				
Balance at 1 April 2010	915	486,118	18	487,051
Movements:				
Addition to the underwriting funds in the year	-	125,257	-	125,257
Release of excess funds - cash	-	(20,365)	-	(20,365)
Release of excess funds - credit	-	(56,094)	-	(56,094)
Other fund movements	-	(2,834)	-	(2,834)
Change in insurance liabilities on closed funds	(274)	(29,705)	(13)	(29,992)
Total Movements	*(274)*	*16,259*	*(13)*	*15,972*
Balance at 31 March 2011	641	502,377	5	503,023
Movements:				
Addition to the underwriting funds in the year	-	103,195	-	103,195
Release of excess funds - cash	-	(4,359)	-	(4,359)
Release of excess funds - credit	-	(45,378)	-	(45,378)
Other fund movements	-	347	-	347
Change in insurance liabilities on closed funds	(531)	(1,632)	(5)	(2,168)
Total Movements	*(531)*	*52,173*	*(5)*	*51,637*
Balance at 31 March 2012	**110**	**554,550**	**-**	**554,660**
Insurance liabilities - Net of reinsurance				
Balance at 1 April 2010	915	404,973	18	405,906
Movements:				
Addition to the underwriting funds in the year	-	77,551	-	77,551
Release of excess funds - cash	-	(15,994)	-	(15,994)
Release of excess funds - credit	-	(56,089)	-	(56,089)
Other fund movements	-	(2,125)	-	(2,125)
Change in insurance liabilities on closed funds	(274)	(28,977)	(13)	(29,264)
Total Movements	*(274)*	*(25,634)*	*(13)*	*(25,921)*
Balance at 31 March 2011	641	379,339	5	379,985
Movements:				
Addition to the underwriting funds in the year	-	67,978	-	67,978
Release of excess funds - cash	-	(4,359)	-	(4,359)
Release of excess funds - credit	-	(45,964)	-	(45,964)
Other fund movements	-	(1,096)	-	(1,096)
Change in insurance liabilities on closed funds	(531)	(344)	(5)	(880)
Total Movements	*(531)*	*16,215*	*(5)*	*15,679*
Balance at 31 March 2012	**110**	**395,554**	**-**	**395,664**
Summary of movements:				
2010-11				
Gross changes in insurance liabilities	*(274)*	*16,259*	*(13)*	*15,972*
Reinsurers' share of changes in insurance liabilities	-	*(41,893)*	-	*(41,893)*
Changes in insurance liabilities (net of reinsurance)	***(274)***	***(25,634)***	***(13)***	***(25,921)***
2011-12				
Gross changes in insurance liabilities	*(531)*	*52,173*	*(5)*	*51,637*
Reinsurers' share of changes in insurance liabilities	-	*(35,958)*	-	*(35,958)*
Changes in insurance liabilities (net of reinsurance)	***(531)***	***16,215***	***(5)***	***15,679***

Movements in reinsurance are analysed within Note 18.

Claims development tables

The tables below present the development of the underwriting funds balances for fund years 2004-05 to 2011-12.

The tables show the development of the carrying value of the insurance liabilities (underwriting funds) in the Statement of Financial Position. Within prior Fund years in the tables, open years refer to the credit Funds for the two underwriting years from 2002-03 to 2003-04.

For individual Fund years, the balance shown “at end of year” shows the fund position at the end of the year it was created. Each subsequent row shows the fund position at the end of the next following year. The final row for each fund year shows the current fund position at the date of the Statement of Financial Position.

Table 1: Development of insurance liabilities, gross of reinsurance

	Prior fund years		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
	Closed years £'000	Open years £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	Grand Total £'000
Account 2											
Credit funds	12,644	51,288									
At end of year			19,512	53,095	24,845	23,265	28,485	79,484	124,015	102,375	
One year later			17,232	53,521	25,178	23,265	29,123	79,483	124,110		
Two years later			13,033	54,141	25,178	20,003	29,123	79,481			
Three years later			13,476	54,141	22,476	20,003	29,123				
Four years later			13,476	83,609	22,476	20,042					
Five years later			14,531	83,601	22,734						
Six years later			14,531	83,677							
Seven years later			14,531								
Cash funds	17,270	-									
At end of year			12,902	22,935	21,255	20,423	7,963	693	1,242	819	
One year later			13,554	23,131	21,684	16,901	7,120	693	1,175		
Two years later			14,004	23,416	21,684	20,371	4,590	694			
Three years later			280	266	73	6	232				
Four years later			120	-	53	1					
Five years later			-	230	-						
Six years later			1	9							
Seven years later			-								
Account 2 - credit fund total	12,644	51,288	14,531	83,677	22,734	20,042	29,123	79,481	124,110	102,375	540,005
Account 2 - cash fund total	17,270	-	-	9	-	1	232	694	1,175	819	20,200
Account 1 total	110	-									110
Gross fund before paid claims	**30,024**	**51,288**	**14,531**	**83,686**	**22,734**	**20,043**	**29,355**	**80,175**	**125,285**	**103,194**	**560,315**
Cumulative paid claims - Account 2		(5,655)	-	-	-	-	-	-	-	-	(5,655)
Gross fund total	**30,024**	**45,633**	**14,531**	**83,686**	**22,734**	**20,043**	**29,355**	**80,175**	**125,285**	**103,194**	**554,660**

Table 2: Development of insurance liabilities, net of reinsurance

	Prior fund years		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
	Closed years £'000	Open years £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	Grand Total £'000
Account 2											
Credit funds	8,619	51,288									
At end of year			15,937	49,916	16,468	20,086	25,798	34,653	76,308	67,158	
One year later			13,657	50,342	16,801	20,086	26,433	35,363	76,399		
Two years later			9,458	50,962	16,801	20,003	26,433	35,362			
Three years later			9,901	50,962	17,278	20,003	26,433				
Four years later			9,901	65,011	17,278	20,042					
Five years later			14,531	65,003	17,536						
Six years later			14,531	65,079							
Seven years later			14,531								
Cash funds	17,270	-									
At end of year			12,902	22,935	21,255	20,423	7,963	693	1,242	819	
One year later			13,554	23,131	21,684	16,901	7,120	693	431		
Two years later			14,004	23,416	21,684	16,001	4,590	-			
Three years later			280	266	73	6	232				
Four years later			120	-	53	-					
Five years later			-	230	-						
Six years later			1	10							
Seven years later			-								
Account 2 - credit fund total	8,619	51,288	14,531	65,079	17,536	20,042	26,433	35,362	76,399	67,158	382,447
Account 2 - cash fund total	17,270	-	-	10	-	-	232	-	431	819	18,762
Account 1 total	110	-									110
Net fund before paid claims	**25,999**	**51,288**	**14,531**	**65,089**	**17,536**	**20,042**	**26,665**	**35,362**	**76,830**	**67,977**	**401,319**
Cumulative paid claims - Account 2		(5,655)	-	-	-	-	-	-	-	-	(5,655)
Net fund total	**25,999**	**45,633**	**14,531**	**65,089**	**17,536**	**20,042**	**26,665**	**35,362**	**76,830**	**67,977**	**395,664**

Table 3: Schedule of Expected Loss

As part of its liability adequacy testing process, ECGD assesses the carrying value of its insurance liabilities against a schedule of Expected Loss. The Expected Loss does not take into account any additional margins that are required to compensate ECGD for the inherent risk that actual losses may significantly exceed the Expected Loss. The derived Expected Loss is not therefore regarded by ECGD to be a reliable estimate of the likely eventual outturn (with insufficient information available for open fund years to determine definitively and with a high degree of confidence the level of claims that will be ultimately experienced) and is presented for indicative purposes.

	Prior fund years		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
	Closed years	Open years	fund year	fund year	fund year	fund year	fund year	fund year	fund year	fund year	Grand Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Account 2											
Expected Loss - credit funds	8,619	9,173									
At end of year			15,937	30,697	9,322	12,203	14,077	29,302	34,350	32,460	
One year later			13,657	19,534	12,143	14,080	14,549	26,329	28,410		
Two years later			8,354	21,915	12,812	19,337	11,946	20,725			
Three years later			8,771	21,910	7,061	17,415	10,156				
Four years later			6,853	27,686	5,326	8,934					
Five years later			4,150	16,157	2,919						
Six years later			2,915	18,974							
Seven years later			8,022								
Expected Loss - cash funds	17,270	-									
At end of year			11,008	4,955	20,718	20,423	7,963	544	311	71	
One year later			1,089	851	1,841	21	7,120	109	1		
Two years later			516	622	173	6	4,590	-			
Three years later			280	266	73	6	232				
Four years later			120	-	53	-					
Five years later			-	230	-						
Six years later			1	10							
Seven years later			-								
Account 2 total	25,889	9,173	8,022	18,984	2,919	8,934	10,388	20,725	28,411	32,531	165,976
Account 1 total	110	-									110
Expected Loss total	**25,999**	**9,173**	**8,022**	**18,984**	**2,919**	**8,934**	**10,388**	**20,725**	**28,411**	**32,531**	**166,086**

26 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.

27 Risk management: financial instruments and insurance contracts

This note describes the nature and extent of the risks for ECGD arising from financial instruments and insurance contracts and how ECGD manages them. ECGD has established a risk management framework that seeks to identify, assess and manage the risks it faces in line with its risk appetite, minimising its exposure to unexpected financial loss and facilitating the achievement of its business objectives.

For the purpose of this note, risks are considered under the following headings:

a) Market risk (including interest rate risk, foreign currency risk, and other price risk);

b) Credit risk (in this context meaning counterparty risk in relation to interest rate derivatives and credit default swaps);

c) Insurance risk (including related foreign currency risk);

d) Liquidity risk; and

e) Risk measurement.

To ensure that its risk management is effective, ECGD has established a governance framework which includes the following elements:

- Defined terms of reference for the Management Board and Risk Committee and specified duties for the Accounting Officer.

- A clearly defined organisational structure setting out the responsibilities of the various divisions, and documented delegation authorities.

- A dedicated risk management function that is central to the business decisions of ECGD, with clearly defined roles and reporting lines.

- A Credit Risk Policy Statement that is reviewed, updated as necessary, and formally re-adopted at least annually. This framework sets out ECGD’s risk management objectives, policies and procedures for the effective recognition, assessment, monitoring and reporting of the risks that it faces.

ECGD's approach to managing operational risk is described in the Governance Statement.

(a) Market risk

Market risk is the risk of adverse financial impact due to changes in the fair value or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates and other prices. ECGD is exposed to market risk through its holdings of credit default swaps and of interest rate derivatives held in support of its Fixed Rate Export Finance (FREF) scheme. In addition ECGD has a significant exposure to foreign currency risk, primarily due to holding US dollar denominated insurance assets in the form of net unrecovered claims. ECGD is not authorised by HM Treasury to hedge its exposure to foreign currency risk (refer Note 27 (a) (ii) and (c) (iii)). In addition there is some foreign exchange market risk which is explained in Note 27 (a) (ii).

ECGD has established principles and policies to be followed in respect of management of the key market risks to which it is exposed.

(a)(i) Interest rate risk

Interest rate risk arises primarily from the operation of the FREF scheme, under which ECGD supports the provision of fixed rate finance to overseas borrowers. 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 (CIRR).

Support is provided in the form of interest make up (IMU) arrangements between ECGD and the lending bank under Export Finance Loans. These IMU arrangements are effectively interest rate swaps between ECGD and the lending bank. The lending bank provides funding for the export loan at a floating rate (usually LIBOR plus a margin). ECGD makes up the difference when the lender's floating rate, inclusive of margin, is higher than the agreed fixed rate. Conversely, where the floating rate, inclusive of margin, is lower than the fixed rate, ECGD receives the difference from the lender.

ECGD seeks to limit its exposure to interest rate risk through the use of effective hedging instruments such as interest rate swaps.

The Risk Committee is responsible for the setting of the parameters for hedging activities. Sensitivity hedging applies to all FREF interest rate exposures, with risk tolerance kept within specific bands.

The profit or loss performance of the FREF portfolio is monitored by the Treasury Division on a daily basis. Movements in excess of defined limits are reported to the Deputy Director of Treasury Division and the Risk Committee for action as appropriate. On a monthly basis, a full report on the FREF Account 4 business is circulated to the standing membership of the Risk Committee. This report is also submitted to HM Treasury within a month of the end of the reporting period.

Sensitivities to movements in interest rates were:

	1% increase in interest rates £'000	1% decrease in interest rates £'000
As at 31 March 2012		
Interest rate swap arrangements on Export Finance Loan Guarantees	(4,446)	3,371
Interest rate derivative contracts entered into for hedging purposes	7,795	(8,179)
Net impact on profit or loss	**3,349**	**(4,808)**
As at 31 March 2011		
Interest rate swap arrangements on Export Finance Loan Guarantees	(7,953)	6,848
Interest rate derivative contracts entered into for hedging purposes	11,149	(11,720)
Net impact on profit or loss	**3,196**	**(4,872)**

Sensitivities to movements in interest rate volatility were:

	5% increase in interest rate volatility £'000	5% decrease in interest rate volatility £'000
As at 31 March 2012		
Interest rate swap arrangements on Export Finance Loan Guarantees	(50)	30
Net impact on profit or loss	**(50)**	**30**
As at 31 March 2011		
Interest rate swap arrangements on Export Finance Loan Guarantees	(231)	196
Net impact on profit or loss	**(231)**	**196**

The maturity profile of ECGD's interest rate derivatives, expressed at their notional value, is as follows:

	One year or less £'000	Between one and five years £'000	After five years £'000	Total £'000
As at 31 March 2012				
Interest rate swap arrangements on Export Finance Loan Guarantees	88,273	217,020	49,833	355,126
Interest rate derivative contracts entered into for hedging purposes	114,939	211,236	40,034	366,209
As at 31 March 2011				
Interest rate swap arrangements on Export Finance Loan Guarantees	115,618	294,570	70,157	480,345
Interest rate derivative contracts entered into for hedging purposes	132,139	301,154	63,906	497,199

(a)(ii) Foreign currency risk

Foreign currency risk arises from two main areas: transaction risk and translation risk. Transaction risk is the risk of movements in the sterling value of foreign currency interest receipts on conversion into sterling. Translation risk is the risk that ECGD's Statement of Financial Position and net operating income will be adversely impacted by changes in the sterling value of foreign currency denominated assets and liabilities from movements in foreign currency exchange rates. ECGD is heavily exposed to translation risk due to the value of non-sterling assets and liabilities held. The most significant exposure relates to insurance assets (refer Note 27 (c) (iii) below).

ECGD is not authorised by HM Treasury to hedge its exposure to foreign currency risk.

The currency profile of ECGD's financial instruments is set out below.

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
As at 31 March 2012				
Financial assets:				
Fair value through profit or loss	8,522	19,417	6,795	34,734
Loans and receivables	180,596	-	-	180,596
Insurance and other receivables	2,120	4,390	2,633	9,143
Financial liabilities:				
Fair value through profit or loss	(19,135)	(19,241)	(5,349)	(43,725)
Insurance and other payables	(6,690)	-	-	(6,690)
As at 31 March 2011				
Financial assets:				
Fair value through profit or loss	8,211	19,605	7,939	35,755
Loans and receivables	232,855	-	-	232,855
Insurance and other receivables	2,145	2,928	2,317	7,390
Financial liabilities:				
Fair value through profit or loss	(15,688)	(20,702)	(6,064)	(42,454)
Insurance and other payables	(10,349)	-	-	(10,349)

Net currency exposure for financial instruments is low so any volatility would not have a significant impact.

(a)(iii) Other price risk

ECGD was exposed to another form of price risk through its holdings of Credit Default Swaps (CDS), which were purchased from time to time on selected Reference Entities to reduce its exposure to portfolio credit risk volatility.

When evaluating the case for purchasing CDS, ECGD considered the degree to which the CDS match the exposure which it wishes to hedge and the probability that it could suffer a default on the exposure without triggering a Credit Event on the CDS. ECGD makes an economic assessment of such a mismatch occurring and the consequences for its hedging strategy.

Following the sale of the entire portfolio in April 2012, and the application of a fair valuation at 31 March 2012 reflecting the actual sale price, there was no subsequent exposure to price risk through changes in the credit spreads for the entity on which protection was purchased.

The maturity profile of ECGD's CDS, expressed at their notional value, is as follows:

	One year or less £'000	Between one and five years £'000	After five years £'000	Total £'000
As at 31 March 2012	-	93,879	-	93,879
As at 31 March 2011	-	130,968	-	130,968

(b) Credit risk

Credit risk is the risk of loss in value of financial assets due to counterparties failing to meet all or part of their obligations as they fall due. ECGD has exposure to credit risk through its holdings of CDS and interest rate derivatives, which is also referred to as 'counterparty' risk. Credit risk related to ECGD's insurance contracts, including financial guarantees, is discussed within Insurance risk below.

ECGD has implemented policies and procedures that seek to minimise credit risk through: setting bank eligibility criteria that must be satisfied before banks can participate in IMU agreements; stipulations on minimum credit risk quality; specific credit risk control clauses in ISDA Master Agreements; and spreading risk amongst a number of counterparties.

Reports detailing credit exposures by counterparty, together with their limits, are reviewed by the Risk Committee on a monthly basis.

Credit concentration risk (financial counterparty)

As noted above, controls are in place to ensure that ECGD's maximum exposure to any one counterparty is maintained within pre-set limits.

(c) Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. The main insurance risk facing ECGD is credit risk accepted by it through the underwriting process. It is defined as the risk of financial loss resulting from the default of an obligor under a contingent liability or a legitimate claim under a policy of insurance or indemnity.

(c)(i) Credit risk

ECGD has a significant exposure to credit risk which is measured in terms of Expected Loss and 'Unexpected Loss' assessed at the time of underwriting the transaction, but both of which will vary over time.

Underwriting funds

Under the Fund Basis of Accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until three years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until nine years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year). Any excess of the net underwriting fund over the current Expected Loss on amounts at risk on unexpired guarantees or policies written in the relevant year is released to profit or loss. Underwriting funds for those and prior years will be equal to the Expected Loss on unexpired guarantees or policies for the relevant underwriting year.

The Expected Loss on ECGD's portfolio is calculated as the statistical mean of possible future losses, calculated based on the assessment of Probability of Default (PoD) and assumptions of the Loss Given Default (LGD). The PoD is the statistical likelihood of default by an obligor over a given time horizon and is dependent upon the credit standing of the obligor. The LGD is the value of claims not expected to be recoverable in the event of default. The percentage derived is applied to the amount at risk in order to determine the Expected Loss on an insurance contract.

The following table provides information regarding the credit exposure of amounts at risk and Expected Loss on Account 2 as at 31 March 2012:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at risk, gross of reinsurance			
Account 2			
Asset-backed	6,992,178	3,201,986	10,194,164
Other	3,312,511	744,122	4,056,633
	10,304,689	**3,946,108**	**14,250,797**
Amounts at risk, net of reinsurance			
Account 2			
Asset-backed	3,503,595	3,201,986	6,705,581
Other	2,446,840	744,122	3,190,962
	5,950,435	**3,946,108**	**9,896,543**
Expected Loss, gross of reinsurance			
Account 2			
Asset-backed	69,829	60,481	130,310
Other	45,770	65,618	111,388
	115,599	**126,099**	**241,698**
Expected Loss, net of reinsurance			
Account 2			
Asset-backed	17,975	60,481	78,456
Other	21,902	65,618	87,520
	39,877	**126,099**	**165,976**

The following table provides information regarding the credit exposure of amounts at risk and Expected Loss on Account 2 as at 31 March 2011:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at risk, gross of reinsurance			
Account 2			
Asset-backed	6,026,568	2,823,396	8,849,964
Other	2,896,582	1,824,559	4,721,141
	8,923,150	**4,647,955**	**13,571,105**
Amounts at risk, net of reinsurance			
Account 2			
Asset-backed	3,173,484	2,823,396	5,996,880
Other	1,797,628	1,824,559	3,622,187
	4,971,112	**4,647,955**	**9,619,067**
Expected Loss, gross of reinsurance			
Account 2			
Asset-backed	52,280	42,407	94,687
Other	35,870	77,785	113,655
	88,150	**120,192**	**208,342**
Expected Loss, net of reinsurance			
Account 2			
Asset-backed	15,583	42,407	57,990
Other	15,156	77,785	92,941
	30,739	**120,192**	**150,931**

Amounts at risk on Accounts 1 and 3 were £26,811,000 and £Nil respectively at 31 March 2012 (31 March 2011: £37,031,000 and £8,161,000 respectively)

Expected Loss on Accounts 1 and 3 were £110,000 and £Nil respectively at 31 March 2012 (31 March 2011: £641,000 and £5,000 respectively).

There is no reinsurance on Accounts 1 and 3.

Insurance assets – unrecovered claims

When a default event occurs, ECGD will seek to recover the amount of any claims paid under the insurance policy or guarantee. The total amount of the unrecovered claim is recorded within unrecovered claims, with a provision made for any amount estimated to be irrecoverable. Such provisions are determined on a case-by-case or, for sovereign risk, sometimes on a country by country basis and are derived from assessments of the likely recovery. Provisions are arrived at by using a variety of information including payment performance, expected Paris Club treatment, International Monetary Fund/World Bank debt sustainability analysis, and ECGD's own assessment of the economic risk.

Additionally, for certain unrecovered claims (e.g. related to guarantees for aerospace asset-backed financing), the amounts estimated as being recoverable will also be partly dependent upon the value of the underlying assets. These are determined on the basis of industry standard worst-case values provided by an independent valuer. Individual provisions on unrecovered claims within the aerospace portfolio are assessed on a case-by-case basis. For cases where the aircraft remain with the airline during and following a debt restructuring, the calculation of provisions, using a portfolio risk model, aligns the calculation of provisions and Expected Loss as closely as possible with the calculation of Expected Loss for performing cases. For cases where aircraft are remarketed and sold or placed on an operating lease following repossession from the original airline, provisions are based upon the current value of the exposure, less expected recoveries net of estimated future costs.

For claims paid under insurance contracts written in underwriting years still open, provisions are charged against the balance of the underwriting fund for the relevant underwriting year. Any excess of provisions over the available underwriting fund for the year is charged to net income. Any provisions against paid claims on insurance contracts written in years where the underwriting funds have been released are charged directly to net income.

The table below provides information regarding the credit exposure of the recoverable claims and related interest as at 31 March 2012.

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims at 31 March 2012 - gross			
Account 1	52,300	663,880	716,180
Account 2	383,476	213,910	597,386
	435,776	**877,790**	**1,313,566**
Recoverable claims at 31 March 2012 - net of provisions			
Account 1	49,162	271,985	321,147
Account 2	360,157	68,208	428,365
	409,319	**340,193**	**749,512**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Interest on unrecovered claims at 31 March 2012 - gross			
Account 1	316	995,506	995,822
Account 2	2,198	84,006	86,204
	2,514	**1,079,512**	**1,082,026**
Interest on unrecovered claims at 31 March 2012 - net of provisions			
Account 1	297	148,583	148,880
Account 2	2,050	456	2,506
	2,347	**149,039**	**151,386**

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2011:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims at 31 March 2011 - gross			
Account 1	-	747,648	747,648
Account 2	466	647,920	648,386
	466	**1,395,568**	**1,396,034**
Recoverable claims at 31 March 2011 - net of provisions			
Account 1	-	324,407	324,407
Account 2	233	454,993	455,226
	233	**779,400**	**779,633**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Interest on unrecovered claims at 31 March 2011 - gross			
Account 1	-	990,610	990,610
Account 2	21	77,624	77,645
	21	**1,068,234**	**1,068,255**
Interest on unrecovered claims at 31 March 2011 - net of provisions			
Account 1	-	151,118	151,118
Account 2	10	2,488	2,498
	10	**153,606**	**153,616**

(c)(ii) Credit concentration risk

ECGD assesses its concentration risk, and its exposure to catastrophic loss, through controls which set limits for exposure to individual countries. Additionally, the Risk Committee reviews large corporate risks on a case-by-case basis taking into account ECGD's risk appetite for new business in a given country and the rating and financial profile of the corporate concerned.

The table below provides an indication of the concentration of credit risk within the ECGD Account 2 portfolio as at 31 March 2012. The values have been presented based upon the geographical location of the ultimate obligor.

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2					
Asset-backed	5,028,608	1,730,006	1,285,202	2,150,348	10,194,164
Other	1,265,206	400,192	1,747,324	643,911	4,056,633
	6,293,814	**2,130,198**	**3,032,526**	**2,794,259**	**14,250,797**
Amounts at Risk, net of reinsurance					
Account 2					
Asset-backed	1,540,025	1,730,006	1,285,202	2,150,348	6,705,581
Other	399,535	400,192	1,747,324	643,911	3,190,962
	1,939,560	**2,130,198**	**3,032,526**	**2,794,259**	**9,896,543**
Expected Loss, gross of reinsurance					
Account 2					
Asset-backed	70,012	17,589	14,392	28,317	130,310
Other	30,777	15,883	54,338	10,390	111,388
	100,789	**33,472**	**68,730**	**38,707**	**241,698**
Expected Loss, net of reinsurance					
Account 2					
Asset-backed	18,158	17,589	14,392	28,317	78,456
Other	6,909	15,883	54,338	10,390	87,520
	25,067	**33,472**	**68,730**	**38,707**	**165,976**

The following table provides an indication of the concentration of credit risk within the ECGD Account 2 portfolio as at 31 March 2011:

	Europe	Americas	Middle East and Africa	Asia Pacific	Total
	£'000	£'000	£'000	£'000	£'000
Amounts at Risk, gross of reinsurance					
Account 2					
Asset-backed	4,150,726	1,746,505	1,158,078	1,794,655	8,849,964
Other	1,523,609	284,192	1,899,828	1,013,512	4,721,141
	5,674,335	**2,030,697**	**3,057,906**	**2,808,167**	**13,571,105**
Amounts at Risk, net of reinsurance					
Account 2					
Asset-backed	1,297,642	1,746,505	1,158,078	1,794,655	5,996,880
Other	424,655	284,192	1,899,828	1,013,512	3,622,187
	1,722,297	**2,030,697**	**3,057,906**	**2,808,167**	**9,619,067**
Expected Loss, gross of reinsurance					
Account 2					
Asset-backed	49,631	14,125	9,616	21,314	94,686
Other	28,957	13,464	42,029	29,205	113,655
	78,588	**27,589**	**51,645**	**50,519**	**208,341**
Expected Loss, net of reinsurance					
Account 2					
Asset-backed	12,935	14,125	9,616	21,314	57,990
Other	8,243	13,464	42,029	29,205	92,941
	21,178	**27,589**	**51,645**	**50,519**	**150,931**

(c)(iii) Foreign currency risk

A material proportion of ECGD's insurance guarantees and policies are written in US Dollars, exposing ECGD to significant foreign currency risk. As noted above, ECGD is not permitted to hedge its exposure to foreign currency, although it does have a degree of protection from movements in the US Dollar/Sterling exchange rate as its maximum exposure level and risk appetite limits are adjusted for movements in US Dollar/Sterling exchange rates.

The following table sets out the underlying currency of ECGD's insurance assets at 31 March 2012:

	Pounds Sterling	US Dollar	Other	Total
	£'000	£'000	£'000	£'000
Recoverable claims				
- Gross	923,617	385,900	4,049	1,313,566
- Provisions	(466,326)	(94,596)	(3,132)	(564,054)
Interest on unrecovered claims				
- Gross	855,012	214,547	12,467	1,082,026
- Provisions	(780,602)	(137,645)	(12,393)	(930,640)
Net insurance assets at 31 March 2012	**531,701**	**368,206**	**991**	**900,898**

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2012 is as follows:

- 10% movement would increase / decrease the carrying value by £33,473,000 (31 March 2011 by £33,302,000).

The sensitivity of insurance assets denominated in other currencies is not considered significant.

The following table sets out the underlying currency of ECGD's insurance assets at 31 March 2011:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	976,678	414,931	4,425	1,396,034
- Provisions	(496,901)	(116,216)	(3,284)	(616,401)
Interest on unrecovered claims				
- Gross	839,939	215,522	12,794	1,068,255
- Provisions	(754,016)	(147,912)	(12,710)	(914,638)
Net insurance assets at 31 March 2011	**565,700**	**366,325**	**1,225**	**933,250**

(d) Liquidity risk

Liquidity risk is the risk that a business, though solvent on a Statement of Financial Position basis, either does not have the financial resources to meet its obligations as they fall due, or can secure those resources only at excessive cost. As a Department of the HM Government, ECGD has access to funds required to meet its obligations as they fall due, drawing on funds from the Exchequer as required.

The scheduled maturity profile of ECGD's insurance contracts, expressed in terms of total Amounts at Risk and the dates at which those periods of risk expire, is set out in the following table:

	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Total £'000
Accounts 1 - 3					
Gross Amounts at Risk	1,775,651	6,577,967	5,357,952	566,038	14,277,608
Less: Amounts at Risk ceded to reinsurers	(442,858)	(1,818,169)	(1,924,077)	(169,150)	(4,354,254)
Net amounts at risk at 31 March 2012	**1,332,793**	**4,759,798**	**3,433,875**	**396,888**	**9,923,354**

	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Total £'000
Accounts 1 - 3					
Gross Amounts at Risk	1,857,399	6,030,831	4,975,109	752,958	13,616,297
Less: Amounts at Risk ceded to reinsurers	(411,750)	(1,562,128)	(1,710,949)	(267,211)	(3,952,038)
Net amounts at risk at 31 March 2011	**1,445,649**	**4,468,703**	**3,264,160**	**485,747**	**9,664,259**

(e) Risk measurement

ECGD maintains a credit risk portfolio modelling tool to monitor and report on its exposure for its Account 2 business. The model is a Monte Carlo simulation model based on ratings migration, generating a large number of possible outcomes from which a loss distribution is derived. The distribution derived represents the range of losses that could arise from current exposure, based on information currently available, and their likelihood. Calculations include contingent risk, and recovery risk on claims that have already been paid.

The model is used to calculate the Expected Loss and Unexpected Loss calculations at the 99.1 percentile of the loss distribution for both individual and portfolio risks.

Sensitivity testing and scenario analysis
A central part of ECGD's risk management framework is the regular stress testing of the Account 2 portfolio and scenario analysis performed by the credit risk modelling tool. Specific potential events such as financial crises by geographical region or industry sector deterioration can be simulated on the current portfolio.

Sensitivity test results
Sensitivity test analysis is conducted on ECGD's Account 2 portfolio twice a year, using criteria endorsed by the Risk Committee. The stress tests indicate the impact on the Expected Loss on ECGD's portfolio from movements in the main factors that determine the insurance risk faced by the organisation.

The table below sets out the impact of the movements indicated on: (i) total Expected Loss on Account 2 insurance contracts in issue and current as at 31 March 2012, and (ii) on the Statement of Comprehensive Net Income after taking into account utilisation of the underwriting fund.

	Across the board ratings downgrade by		Increased persistence	Reduced recovery rates
	1 notch	2 notches	+ 2 years	-20%
	£'000	£'000	£'000	£'000
As at 31 March 2012:				
- Increase in Expected Loss	59,270	135,670	2,951	27,088
- Impact on net income for the year	2,565	13,843	451	3,286

The table below sets out the impact of the movements indicated on: (i) total Expected Loss on Account 2 insurance contracts in issue and current as at 31 March 2011, and (ii) on the Statement of Comprehensive Net Income after taking into account utilisation of the underwriting fund.

	Across the board ratings downgrade by		Increased persistence	Reduced recovery rates
	1 notch	2 notches	+ 2 years	-20%
	£'000	£'000	£'000	£'000
As at 31 March 2011:				
- Increase in Expected Loss	70,173	167,539	5,823	47,436
- Impact on net income for the year	18,851	56,806	957	12,589

Sensitivity analysis is not performed for Accounts 1 and 3, as the majority of these balances are comprised of a small number of large individual customers and in the case of Account 3 there is no remaining exposure.

Provisions against these customers are assessed individually based upon the consideration of a number of criteria specific to the circumstances of each obligor.

Insurance assets - unrecovered claims
Provisions on Unrecovered Claims are assessed on a case-by-case basis taking into account specific factors relevant to each claim. Unrecovered Claims comprise a number of different asset types to which a variety of different factors will apply at different times.

28 Related party transactions

ECGD is a Department of the Secretary of State for Business, Innovation and Skills. 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 incorporated in Great Britain and registered in England and Wales and is domiciled in the United Kingdom. It is the only subsidiary of First Securitisation Company Limited. As at 31 March 2012, First Securitisation Company Limited holds 49,999 of its shares with the one remaining share being held by Capita IRG Trustees Limited. GEFCO has three Directors: two appointed by Capita IRG Trustees Limited and the other appointed by Lloyds Banking Group Plc (Lloyds).

Between the financial years 1986-87 and 2002-03, GEFCO refinanced a number of export credit loans guaranteed by ECGD. Since 2002-03, there have been no new re-financings (although drawings under loans previously refinanced have themselves been refinanced). 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 repaid its last remaining bond on 7 January 2010. 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 2011-12, transactions between ECGD and GEFCO comprised:

- repayments of principal under loans made by ECGD to GEFCO: £51,886,000 (£99,772,000 in 2010-11); and
- net interest received under those loans: £12,946,000 (£17,855,000 in 2010-11).

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

	Loan £'000	**Interest £'000**
Balance at 1 April 2010	**329,901**	**3,508**
Cash Advanced / Interest Charged in Year	-	16,397
Cash Received in Year	(99,772)	(17,855)
Balance at 31 March 2011	**230,129**	**2,050**
Cash Advanced / Interest Charged in Year	-	12,429
Cash Received in Year	(51,886)	(12,946)
Balance at 31 March 2012	**178,243**	**1,533**

Under the contracts for the refinancing of export credit loans, ECGD has agreed that, at the end of each month, ECGD will reimburse GEFCO any expenses and fees incurred by GEFCO in administering the refinanced loans. In the financial year ended 31 March 2012, GEFCO fees and expenses totalled £628,000 (2010-11: £711,000).

The expenses deducted include:

- interest payable to Lloyds under the overdraft facility; and
- fees payable by GEFCO to Lloyds for managing the refinanced loans and other costs and expenses incurred by GEFCO in its normal course of business.

The residual margin payments made by GEFCO to banks on ECGD's behalf pursuant to the Agency Agreement between ECGD and GEFCO totalled £1,116,000 (2010-11 £1,446,000).

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.

29 Contingent liabilities

The following table summaries the movement in Amounts at Risk (AAR) on issued and effective guarantees on products which are accounted for on a Funds basis under IFRS4**:**

Gross of reinsurance	**Account 1**	**Account 2**	**Account 3**	**Account 4**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2010	47,774	11,734,702	16,909	-	11,799,385
Guarantees and insurance policies issued and renewed	-	4,478,520	-	-	4,478,520
Run off	(10,387)	(2,364,863)	(8,196)	-	(2,383,446)
Foreign exchange adjustments	(356)	(377,434)	(552)	-	(378,342)
Interest rate adjustments	-	100,180	-	-	100,180
Balance at 31 March 2011	**37,031**	**13,571,105**	**8,161**	**-**	**13,616,297**
Guarantees and insurance policies issued and renewed	-	3,343,702	-	-	3,343,702
Run off	(10,253)	(2,612,594)	(8,067)	-	(2,630,914)
Foreign exchange adjustments	33	(30,524)	(94)	-	(30,585)
Interest rate adjustments	-	(20,892)	-	-	(20,892)
Balance at 31 March 2012	**26,811**	**14,250,797**	**-**	**-**	**14,277,608**

Net of reinsurance	**Account 1**	**Account 2**	**Account 3**	**Account 4**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2010	47,774	8,897,014	16,909	-	8,961,697
Guarantees and insurance policies issued and renewed	-	2,923,600	-	-	2,923,600
Run off	(10,387)	(1,934,568)	(8,196)	-	(1,953,151)
Foreign exchange adjustments	(356)	(317,724)	(552)	-	(318,632)
Interest rate adjustments	-	50,745	-	-	50,745
Balance at 31 March 2011	**37,031**	**9,619,067**	**8,161**	**-**	**9,664,259**
Guarantees and insurance policies issued and renewed	-	2,309,294	-	-	2,309,294
Run off	(10,253)	(2,010,451)	(8,067)	-	(2,028,771)
Foreign exchange adjustments	33	1,221	(94)	-	1,160
Interest rate adjustments	-	(22,588)	-	-	(22,588)
Balance at 31 March 2012	**26,811**	**9,896,543**	**-**	**-**	**9,923,354**

AAR reflects exposure to default on future loan repayments and related contractual interest settlement on issued and effective guarantees.

Prior year movements have been restated to show the impact of interest rate adjustments.

AAR on products separately provided for under IAS 39 was £ 2,768,000 at 31 March 2012 (£Nil at 31 March 2011). There were no amounts reinsured on these guarantees. During the year to 31 March 2012 guarantees issued were £ 8,869,000 and run off was £ 6,101,000.

Commitments' against statutory limits are being reported to Parliament.

30 Leasehold obligations

The total future minimum lease payments due under non-cancellable operating leases are:

	One year or less £'000	Between one and five years £'000	After five years £'000	Total £'000
at 31 March 2012				
Gross lease commitments	2,529	5,690	-	8,219
Net lease commitments	1,579	3,980	-	5,559
at 31 March 2011				
Gross lease commitments	2,529	8,219	-	10,748
Net lease commitments	1,769	5,749	-	7,518

The disclosure above is on an un-discounted basis as the impact of discounting is not considered significant. The net position takes into account rental income from sublease arrangements.

Glossary

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.

Arrangement, The

The OECD Arrangement on 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.

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 or semi-capital goods and for related services by a UK-based supplier to a buyer in an overseas market.

Commitment

A case not yet the subject of an issued guarantee, but for which ECGD has communicated its willingness, before a specified date and subject to conditions, to provide support to the country, the buyer, the borrower, the exporter or the financial institution.

Consolidated Fund

The government’s “current account”, operated by HM Treasury, through which pass most government payments and receipts.

Consolidated Fund Excess Receipts (CFER)

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.

Contract Bond

A bond, usually issued by a bank, which an exporter provides for the benefit of its customer and which can be called without the agreement of the exporter or the assessment of an independent third party.

Credit Default Swap (CDS)

A market instrument used 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.

Expected Loss

A statistical estimate of the exposure expected to turn into claims that are irrecoverable.

Export Credit Agencies (ECAs)

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

Financial Objectives

ECGD's financial aim, which is the subject of an 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 could be offered in pounds sterling and a range of standard currencies. Provision of non-standard currencies had to be cleared by HM Treasury and the Bank of England.

Letter of Credit

A letter issued by a bank to another bank (especially one in a different country) to serve as a guarantee for payments made to a specified person under specified conditions in relation to a trade-related transaction.

Overseas Investment Insurance (OII)

An ECGD scheme which provides a UK investor with insurance for up to fifteen years against political risks in respect of a new investment overseas. It may also be available to UK banks in respect of overseas lending, whether or not it is in connection with a UK investment or export.

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 in the Accounts.

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.

SMEs

Small and medium-sized enterprises.

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 (see below).

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.

Unexpected Loss

Unexpected Loss is a quantitative monetary measure of the potential 'downside' risk (in excess of the Expected Loss) on a portfolio, country or on an individual exposure.

Working Capital

The capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.

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