National Loans Fund Account 2012-13

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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General, (C&AG), Amyas Morse is an Officer of the House of Commons and leads the NAO, which employs some 860 staff.

The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.

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Foreword

Background to the National Loans Fund

The National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending, which were until then accounted for as part of the Consolidated Fund (CF). The CF was first set up in 1787 as 'one fund into which shall flow every stream of public revenue and from which shall come the supply for every service'. The NLF was set up in order to separate government revenue and expenditure on the one hand and government borrowing and lending on the other. The accounts for the CF and NLF are now published separately.

Both the CF and NLF are administered by the Treasury, with the bank accounts maintained at the Bank of England. The CF can therefore be regarded as central government's current account, whereas the NLF can be regarded as central government's main borrowing and lending account. Most of the NLF's borrowing needs are now met indirectly through borrowing on its behalf by the Debt Management Office (DMO) and National Savings and Investments (NS&I).

The DMO was established as an executive agency of the Treasury on 1 April 1998. Its remit is 'to carry out the Government's debt management policy of minimising financing costs over the long term, taking account of risk, and to minimise the cost of offsetting the Government's net cash flows over time, while operating in a risk appetite approved by Ministers in both cases'. Its operations are managed through the Debt Management Account (DMA), which is a bank account at the Bank of England, linked closely with the NLF as described below. As the Government's debt manager, the DMO has a key role in the issue of gilt-edged securities on behalf of the Treasury. Gilt-edged securities, or gilts, are UK Government sterling-denominated listed bonds. There are two main types: conventional (i.e. fixed rate) gilts and index-linked gilts, on which the return is linked to movements in the Retail Prices Index. They are issued from the NLF, sold initially to the DMA and then sold from the DMA by the DMO to the market. In addition, the DMO issues Treasury Bills from the DMA and undertakes other money market operations to meet the Government's daily cash requirements. Further details on these operations can be found in the Debt and Reserves Management Report 2013-14 published by the Treasury in March 2013 (ISBN 978-1-909096-69-1).

The Exchange Equalisation Account (EEA) was established in 1932 to provide a fund that could be used, when necessary, to regulate the exchange value of sterling. It holds the UK's reserves of gold, foreign currency assets and International Monetary Fund (IMF) Special Drawing Rights. Combined with the UK's Reserve Tranche Position (RTP) with the IMF, these assets comprise the UK's official holdings of international reserves. The RTP is an asset of the NLF. The Bank of England acts as the Treasury's agent in the day-to-day management of the EEA.

National Loans Fund Activities

The NLF's main role is to meet the finance needs of the CF to the extent that taxation and other receipts are insufficient to meet the CF's outgoings. To this end the NLF undertakes borrowing and uses the proceeds to meet any deficits on the CF; conversely, any net surpluses on the CF are passed to the NLF to reduce the latter's need to borrow or to increase the amount that it can lend. The NLF finishes every day with a nil balance on its bank account because any cash surpluses or deficits are offset by transfers to or from the DMA.

The NLF's borrowing operations include the temporary borrowing of balances in various government bank accounts that are surplus to immediate requirements. Such borrowing minimises the amount that the NLF needs to borrow from other sources. Where the money borrowed in this way already counts as Exchequer money, interest is not paid. For the rest of its borrowing, however, the NLF normally has to pay interest and finance repayments when required. If the NLF's interest income is less than the interest it pays on its borrowings, which it generally is, the shortfall is met by a transfer from the CF.

The NLF provides finance for both the DMA and the EEA as required. It also makes loans to various statutory public sector bodies and provides the finance needed by the Public Works Loan Board (PWLB) for its loans to prescribed bodies, mainly Local Authorities. As a result, the NLF is not exposed to significant credit risk. Further detail on how credit risk is managed is included in note 16 to the accounts. The profits of the Issue Department of the Bank of England are also paid to the NLF under section 9(1) of the National Loans Act 1968. NS&I's savings products are liabilities of the NLF. In year surpluses and deficits of the DMA and the EEA are income and expenditure of the NLF respectively, and the net assets of the DMA and the EEA are assets of the NLF.

By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF.

International Support

The UK has continued to support the IMF through the NLF in 2012-13, in line with our commitments as a member of the IMF. The UK has provided such support through both our quota shareholding and our lending to the Fund. In addition, the UK's £3.2 billion bilateral loan facility to Ireland is being funded by HM Treasury's Vote which receives its funding from the CF through the normal Supply procedures. Details can be found in HM Treasury's Annual Report and Accounts 2012-13. The UK is also a member of the European Financial Stabilisation Mechanism (EFSM), which provides support to all EU Member States. The CF is responsible for the United Kingdom's contribution to the EFSM. Details can be found in the Consolidated Fund Account 2012-13. The NLF is not party to either the bilateral loan to Ireland or the EFSM.

Special Liquidity Scheme (SLS)

The SLS was the Bank of England's scheme which allowed banks to swap, for up to three years, their high quality mortgage-backed and other securities for Treasury Bills. Treasury Bills were issued by the NLF and sold to the DMA which made them available to be borrowed by the Bank of England. The scheme closed on 30 January 2012 but is referred to in these accounts for the purpose of comparison with 2011-12.

Asset Purchase Facility

The Asset Purchase Facility was set up in 2008-09 at the Bank of England and is authorised to purchase assets financed by the issuance of central bank reserves (a process known as 'quantitative easing'). As at 31 March 2013, on an amortised cost basis, £341 billion (2011-12: £277 billion) of gilts from the NLF were held by the Bank of England for quantitative easing. More information on the scheme can be found on the Bank of England's website. On 9 November 2012 the Government and Bank of England agreed to transfer to the Exchequer the excess cash held in the facility arising largely from coupons on these gilts. The transferred cash will be paid to HM Treasury from where it will be paid to the Consolidated Fund as Extra Receipts.

Funding for Lending Scheme (FLS)

The FLS was launched in July 2012 with the aim of incentivising banks and building societies to increase lending to UK households and non-financial companies. The NLF issues Treasury Bills for sale to the DMA which makes them available to be borrowed by the Bank of England. Banks and building societies participating in the FLS can then borrow Treasury Bills from the Bank of England in exchange for eligible collateral. As at 31 March 2013, on an amortised cost basis, £35 billion of Treasury Bills issued to the DMA by the NLF for the FLS are outstanding. More information can be found on the Bank of England's website.

Cancellation of Royal Mail gilts

The Government's Budget 2012 set out an intention to secure the future of the universal postal service and facilitate private sector investment into Royal Mail by addressing the significant deficit in the company's pension scheme. On 1 April 2012 an estimated £31 billion of liabilities were transferred from the Royal Mail Pension Plan (RMPP), a private sector pension scheme, to a newly established unfunded public pension scheme – the Royal Mail Statutory Pension Scheme. These score as contingent liabilities in the National Accounts, leaving public sector net debt unaffected, but will score alongside other unfunded pension liabilities in the Whole of Government Accounts.

Alongside these liabilities, assets valued at £29 billion, including gilts, transferred to a group comprising BIS (Postal Services Act 2011) Company Limited and a wholly-owned subsidiary BIS (Postal Services Act 2011) B Company Limited, established by the Secretary of State for Business, Innovation and Skills for the purpose of receipt of these assets. In November 2012, these gilts were transferred to the DMA at nil cost and sold to the NLF (for cancellation) at market value as required by the National Loans Act 1968. On cancellation, the difference between the market value of £10,975 million plus accrued coupon of £35 million (a total of £11,010 million) and the NLF carrying value of £8,170 million resulted in an operating loss to the NLF of £2,840 million. However the profit of £11,010 million made by the DMA was returned to the NLF as a transfer of surplus. The net impact of this transaction was therefore a gain of £8,170 million for the NLF.

In a separate transaction, gilts held by Royal Mail Holdings (RMH), a public sector entity, were sold to the DMA at market value (£988 million), thence to the NLF at the same price and cancelled. This transaction was the result of a change in the investment strategy set by the Treasury following the RMPP transfer which required RMH to place funds on deposit with the Exchequer rather than in marketable government debt. The difference between the price paid to DMA and the NLF carrying value of £746 million resulted in an operating loss of £242 million to the NLF.

The total operating loss from both transactions of £3,082 million is reported in note 2 and the related DMA surplus of £11,010 million, which was returned to the NLF, is reported in note 5. The outturn on these transactions is therefore a net gain of £7,928 million and a reduction in the overall gilts liability of £8,916 million (£8,170 million plus £746 million).

Net proceeds from liquidation of other (non-gilts) assets, as agreed with HM Treasury, are being paid across as Consolidated Fund Extra Receipts via the Department for Business, Innovation and Skills.

Summary of Outturn for 2012-13

The total comprehensive net expenditure of the Fund increased by £3.4 billion from £26.6 billion in 2011-12 to £30.0 billion in 2012-13. Income from PWLB loans financed by the NLF (primarily to local authorities) was £1.6 billion lower, largely due to a decrease in early redemption premia compared with the previous year when a large quantum of lending was repaid early as a result of changes to the financing arrangements for local authority housing. Finance costs of borrowing included the £3.1 billion one-off cost associated with cancellation of Royal Mail gilts. This was partly offset by a £1.7 billion decrease in overall gilt finance costs primarily due to the impact of reduced movement of the Retail Prices Index on the capital indexation of index-linked gilts. The EEA's total comprehensive income of £0.7 billion was £1.3 billion lower than in 2011-12 with the gold price moving much less and reducing the EEA fair value gain on gold from £1.4 billion in 2011-12 to £0.1 billion. Total comprehensive income from the DMA at £19 billion was £0.8 billion higher than in 2011-12; the £11 billion gain from sale of Royal Mail gilts to the NLF was largely balanced by reductions of £9.9 billion in net unrealised gains on investment securities and £0.3 billion in net interest income. Excluding the profits and total comprehensive income of other entities and the Royal Mail transactions, the NLF's total comprehensive net expenditure was £47.1 billion compared to £47.3 billion in 2011-12:

	Note	**2012-13** **£m**	2011-12 £m
Total comprehensive net expenditure		**30,011**	26,581
EEA total comprehensive income	5	**735**	2,033
DMA total comprehensive income	5	**19,012**	18,221
Profits of the Bank of England Issue Department	5	**436**	452
Loss on cancellation of Royal Mail gilts	2	**(3,082)**	–
		47,112	47,287

Liabilities

Total gross liabilities increased by £135.8 billion from £1,370.9 billion to £1,506.7 billion. Gilt-edged stock increased by £114.3 billion from £1,201.2 billion to £1,315.5 billion (including the reduction of £8,916 million from cancellation of Royal Mail gilts), a new liability of £35.3 billion arose from Treasury Bill issuance for the Funding for Lending scheme and IMF liabilities increased by £0.4 billion. These increases were partly offset by decreases in other debt of £13.5 billion and NS&I liabilities by £0.7 billion.

Assets

The NLF's total gross assets increased by £52.1 billion from £211.9 billion to £264.0 billion. This was due to increases in advances made to the DMA (£36 billion, to fund purchases of Treasury Bills for the Funding for Lending scheme), EEA (£5.6 billion additional financing for the official reserves) and PWLB (£1.6 billion for increased lending to local authorities), increases in the net assets of the DMA (£8 billion) and EEA (£0.7 billion) and a small increase in quota and lending to the IMF (£0.5 billion). These were partly offset by a decrease in other loans of £0.6 billion.

Public Sector Net Debt

As a result of these changes, the net liabilities of the Fund increased by £83.6 billion from £1,159.1 billion to £1,242.7 billion. This is matched by a corresponding claim on the CF. The NLF lends to and borrows from other parts of the public sector. For example it makes advances to the PWLB and borrows directly from a range of public sector bodies (as described in note 12). In addition, some of the gilts it has issued are held in the public sector, including by the DMA which retains a portfolio of gilts as collateral for its money market activities and by the Bank of England under the Asset Purchase Facility. The DMA also has large advances to and from the NLF. Therefore, the NLF's net liabilities do not equate to the Public Sector Net Debt ('PSND'), which is a calculation of the net debt of the whole of the public sector after eliminating intra-public sector balances. Figures for PSND are published jointly by HM Treasury and the Office for National Statistics in the monthly *Public Sector Finances Statistical Bulletin*, which can be found on the Office for National Statistics and GOV.UK websites.

Forward Look

The Debt Management Remit for 2013-14 was published by the Treasury with the Budget in March 2013 and revised following publication of the outturn of the 2012-13 Central Government Net Cash Requirement. On the basis of a Central Government Net Cash Requirement forecast of £113.9 billion for 2013-14, the published net financing requirement was £168.5 billion. This difference relates to upwards adjustments of £51.5 billion for gilt redemptions and £6.0 billion additional sterling financing for the official reserves and a downwards adjustment of £2.9 billion for Northern Rock (Asset Management) and Bradford & Bingley plc. The DMO will meet the net financing requirement by gross gilt sales of £155.7 billion (gilts issued by the NLF) and an increase in the DMA's Treasury Bill stock of £12.8 billion. More information can be found in the Debt and Reserves Management Report 2013-14[1] and DMO press notice announcing changes to the remit[2].

The 2010 IMF Quota and Governance reforms were not implemented in the reporting period. Once these reforms are ratified by 85 percent of the collective voting share of the IMF, a number of changes to the UK's financial relationship with the IMF will occur in line with limits already approved by Parliament: the UK's quota subscription will increase; the New Arrangements to Borrow (NAB) will be reduced; and the UK's agreed 2012 bilateral loan will be activated. This is described further in note 9.

Preparation of the Account

The Account is prepared under section 21(1) of the National Loans Act 1968. The Act requires the Treasury to prepare an account for the NLF for each financial year in such form and containing such information as the Treasury considers appropriate.

1 https://www.gov.uk/government/publications/debt-and-reserves-management-report-2013-to-2014
2 http://www.dmo.gov.uk/index.aspx?page=Remit/Information

External Audit

The NLF Account is audited by the Comptroller and Auditor General under the requirements of the National Loans Act 1968.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the NLF's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the NLF's auditors are unaware.

The National Audit Office bears the cost of all external audit work performed on the NLF.

Nick Macpherson 15 July 2013
Accounting Officer
HM Treasury

Statement of Accounting Officer's responsibilities

Under section 21(1) of the National Loans Act 1968 HM Treasury is required to prepare an account relating to the National Loans Fund for each financial year in such form and containing such information as the Treasury considers appropriate.

The National Loans Fund Account is prepared on an accruals basis and must give a true and fair view of the state of affairs of the Fund and of the total comprehensive net expenditure and the cash flows for the financial year.

The Treasury has appointed its Permanent Secretary, Nick Macpherson, as Accounting Officer for the Fund, with overall responsibility for its operation, for preparing the annual account and for submitting it to the Comptroller and Auditor General for audit.

In preparing the Account the Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, apply suitable accounting policies on a consistent basis and make judgements and estimates on a reasonable basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper records, are set out in Chapter 3 of *Managing Public Money*, published by the Treasury.

Governance Statement

Governance Framework

The National Loans Fund is managed within the Treasury's governance framework as set out in the Treasury's Annual Report and Accounts 2012-13. This includes the Treasury Board's assessment of its compliance with the 'Corporate Governance Code'.

The Chancellor of the Exchequer, as Minister in charge of the Treasury, is responsible and answerable to Parliament on all the policies, decisions and actions of the Treasury, and ultimately of the National Loans Fund.

As Accounting Officer for the National Loans Fund, I am personally responsible and accountable to Parliament for the organisation and quality of management of the National Loans Fund, including its use of public money and the stewardship of its assets, in line with those responsibilities assigned to me in *Managing Public Money*.

Audit Committee

The Treasury Audit Committee is a committee of the Treasury Board (sub-committee), and is tasked with supporting me, as Principal Accounting Officer, and the Treasury's Additional and other Accounting Officers in their responsibilities for managing risk, internal control and governance related to the:

- Treasury Group's Annual Report and Accounts;
- Consolidated Fund;
- Contingencies Fund;
- National Loans Fund; and,
- Exchange Equalisation Account.

I appoint members of the Committee for periods up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee reports directly to me and is a Non-Executive Member of the Treasury Board. The membership of the Audit Committee at the close of 2012-13 was:

- Michael O'Higgins (Chair) – Chairman, the Pensions Regulator; Chairman, NHS Confederation; Chairman, Investec Structured Products Calculus VCT plc; Non-Executive Director, Network Rail;
- Mike Ashley – Head of Quality and Risk Management, KPMG Europe LLP; Board Member, KPMG Europe LLP;
- Janet Baker – Crown Commercial Lead, Better Business Models, Cabinet Office; Board Member and Audit Committee Member, Audit Commission; Non-Executive Director, Remuneration Committee Chair and Audit Committee Member, Defence Support Group, MoD; Non-Executive Board Member and Audit Committee Member, Rural Payments Agency;
- Mary Hardy (from 1 December 2012) – Audit Committee Member, Institute of Chartered Accountants in England and Wales; Member of the Audit and Risk Committee for Glasgow 2014, working for the London Legacy Development Corporation (LLDC). Until March 2013, Head of Risk Assurance at the London Organising Committee of the Olympic and Paralympic Games (LOCOG); and
- Abhai Rajguru (from 1 March 2013) – Non-Executive Director, Leeds Building Society; Chairman at Alexander Rosse; Managing Partner at Pravara Capital LLP; Non-Executive Director, Tollers LLP; Governor, Northampton College.

During 2012-13, Bradley Fried stepped down from the Audit Committee.

The Treasury Audit Committee has a robust Conflicts of Interest Policy, which requires members to excuse themselves from discussions where potential conflicts may occur. Members are required to inform me about any potential conflicts and highlight these at the start of each meeting as appropriate.

In addition to the independent members, the appropriate Accounting Officers, HM Treasury's Group Director of Finance, the Chief Executives of the Debt Management Office and the Asset Protection Agency (until it was disbanded in October 2012), and the Treasury Accountant also attend Committee meetings as required. Members have the opportunity for a pre-committee discussion with the National Audit Office, Group Head of Internal Audit for HM Treasury and Head of Internal Audit for the Exchequer Funds.

The Treasury Audit Committee met five times during 2012-13.

The external auditor is the Comptroller and Auditor General and the National Audit Office (NAO) attend all Audit Committee meetings on his behalf.

The Treasury Audit Committee receives all NAO and Exchequer Funds Internal Audit reports relating to the National Loans Fund.

Exchequer Funds Internal Audit

Internal Audit for the National Loans Fund is provided by Exchequer Funds Internal Audit (EFIA). EFIA reports directly to the Accounting Officer and the Audit Committee on audit reporting matters.

For the National Loans Fund, an annual risk-based internal audit programme is agreed with the Treasury Accountant in advance of the Audit Committee's approval. The work programme always includes a review of the receipts and payments process, due to the very high value of payments made by the Fund. The Audit Committee reviews the work programme and is kept informed of progress and amendments.

Management of the National Loans Fund

The National Loans Fund is managed by the Treasury Accountant and her managers within the Exchequer Funds and Accounts (EFA) Team of HM Treasury. The EFA team reports any matters concerning the National Loans Fund directly to me.

Reporting to the Treasury's Boards

The Economic, Fiscal and Operational Risk Groups, each chaired by a member of the Executive Management Board (EMB), meet every six weeks. The Risk Groups give evidence to the Ministerial Board and its sub-committee. EFA's risks are regularly reported to the Operational Risk Group.

As mentioned previously, the Chair of the Audit Committee is invited to report concerns or issues to the Treasury Board (sub-committee), and is a member of the Ministerial Board.

Risk management

EFA is managed within the Treasury's risk management framework which is set out in the Treasury's Annual Report and Accounts. The Treasury Accountant has overall responsibility on a day-to-day basis for risk management of those Funds managed by EFA, and for ensuring that my financial, regularity and propriety responsibilities as Accounting Officer of the National Loans Fund are discharged appropriately. She is supported by EFA management who are responsible for ensuring that the tasks in their areas are compliant with operational policies and procedures, and legislation. EFA management provide me with a quarterly update report on changes to the control environment and changes in risk exposure.

Risk management is key to all processes within EFA, including business continuity resilience planning for those public funds for which EFA is responsible. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes. The risk management strategy includes periodic horizon scanning to identify any changes in risk exposure, to evaluate the change and to identify appropriate mitigating actions. Significant risk issues are recorded in a risk register and are assessed by likelihood and impact. A risk owner, who is responsible for managing the risk, is assigned to each risk. The risk register is regularly reviewed by EFA management, and is circulated to me alongside the quarterly risks and controls report.

EFA management ensure that staff working on the National Loans Fund are trained and equipped to manage risk in a way appropriate to their authority and duties. Training on risk awareness and management is provided as required, either by management or by attending appropriate courses. Training is also provided to staff to build the team's capability and to increase its resilience. EFA team members are encouraged to obtain professional qualifications in areas that are relevant to their roles.

During the year, there were no significant changes to the control environment.

The system of internal control

As Accounting Officer, I am responsible for maintaining a sound system of internal control that supports the achievement of the Fund's policies, aims and objectives, whilst safeguarding the public funds and assets, for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the National Loans Fund's policies, aims, and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

The system of internal control has been in place throughout the year ended 31 March 2013 and up to the date of approval of the financial statements, and accords with Treasury guidance.

Risk profile

The National Loans Fund is managed generally within the framework of the Treasury's system of internal control. This framework includes resourcing the administration of the National Loans Fund, security and the management of risks across the Treasury's business.

The key risks in managing the National Loans Fund and their associated controls are:

- **Irregularity of transactions, including fraudulent or erroneous payments:** Clear separation of duties is enforced by appropriate user permissions within the accounting system and payment approval panels. Up-to-date policy and procedures manuals including job instructions are readily accessible to all operational staff. Payment instructions are computer-generated and are derived from underlying transaction records. This minimises the risk of keying errors. Separately, the Comptroller and Auditor General, through the National Audit Office Exchequer Section approves National Loans Fund payments in advance and reconciles Fund transactions on a daily basis. There is also a clear and comprehensive audit trail in the IT system, to which the National Audit Office Exchequer Section has real-time access.

- **Incorrect accounting:** Application controls exist within the IT system used to manage financial transactions and account for receipts and payments on the Fund. Interest and amortisation are generated automatically by the accounting system at month end using pre-defined rules. New general ledger accounts are authorised by the Deputy Treasury Accountant or the Head of the Exchequer Funds team before being set up. Gilts issuances are reported to senior management and key operational staff. EFA reconciles the dividend claims received from the gilts registrar with its own records prior to each interest payment. The Debt Management Office reconciles principal amounts twice a year. Monthly management accounts for the Fund are also produced and reviewed by the Treasury Accountant or her deputy, and are provided to me and the accounting for any unusual transactions is considered and discussed with me.

- **Failure of IT systems:** The Fujitsu data centre offers the highest level of resilience available as prescribed by Telecommunications Industry Standard TIA-942 with availability set to 99.995 per cent. A disaster recovery site is also provided by our outsourced information technology provider. EFA also has its own contingency plans in place.

- **Failure to provide an effective service in adverse circumstances, including disaster situations:** To ensure operational resilience in key areas in the event of a threat to business continuity, staff within EFA are trained to provide cover for times when other staff members are absent. Measures are in place to facilitate the National Audit Office Exchequer Section's normal payments approval process in the event of disruption to enable the essential payments business to continue. The risks that impact upon EFA's key stakeholders are managed by their involvement in business continuity planning and testing. Business continuity arrangements are regularly reviewed and tested within the framework of the Treasury's corporate Business Continuity Plan facilities.

- **Failure of principal counterparties to provide agreed services:** Well-developed Service Level Agreements (SLAs) for the provision of services from all principal counterparties are in place. They cover details of the monitoring and control arrangements that both parties are expected to observe. Quarterly meetings are held with managers at the Bank of England where service levels are discussed. A monthly report of any failure to meet the service requirements is also sent to the Bank of England by EFA. A monthly meeting is held with Government Banking Service management where service levels are discussed.

- **Information risk:** Data and information risk are managed in accordance with the Treasury's policies, which involve a range of controls to prevent unauthorised disclosures. These include encryption and physical and IT security. The Treasury adheres to Cabinet Office guidelines available at https://www.gov.uk/government/publications/security-policy-framework. Further guidance on information security and assurance is available to all Treasury staff on the intranet. EFA's own Data Handling Policy identifies risks specific to EFA. This policy is reviewed on a six-monthly basis or as required.

- **Financial risk:** Adverse results of the Debt Management Account and the Exchange Equalisation Account will affect the NLF's results; therefore all financial risks inherent in these accounts are also inherent in the NLF. Responsibility for risk management and the system of internal control is clearly delegated to the Accounting Officers of those accounts, which have their own control frameworks in place.

Review of effectiveness

In line with HM Government guidance, set out within the Corporate Governance Code of Good Practice for central government departments, I have reviewed the effectiveness of the system of internal control. My review is informed by the work of Exchequer Funds Internal Audit who provided positive assurance as to the management and control of the National Loans Fund in 2012-13, and the executive managers within EFA who have responsibility for the development and maintenance of the internal control framework, as well as comments made by external auditors in their management letter and other reports. I have been supported by the Treasury Audit Committee, and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Treasury Audit Committee considered the 2012-13 accounts in draft and provided me with its views before I formally signed the accounts.

No significant internal control issues, including data related incidents, have been identified in 2012-13, and no significant new risks have been identified in the year. No ministerial directions have been given in 2012-13.

In my opinion, the system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

Nick Macpherson
Accounting Officer
HM Treasury

15 July 2013

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the National Loans Fund for the year ended 31 March 2013 under the National Loans Act 1968. The financial statements comprise: the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in the Liability of the Consolidated Fund to the National Loans Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Treasury, Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Treasury and the Accounting Officer are 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 National Loans Act 1968. 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 circumstances of the National Loans Fund 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 Foreword and the Governance Statement, 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 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 expenditure and income 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 National Loans Fund's affairs as at 31 March 2013 and of the total comprehensive net expenditure for the year ended 31 March 2013; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury.

Opinion on other matters

In my opinion:

- the information given in the Foreword 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 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 CE Morse
Comptroller and Auditor General

16 July 2013

National Audit Office
157-197 Buckingham Palace Road
Victoria
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Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

	Note	**2011-13** £m	2011-12 £m
Finance costs of borrowing	2	**53,713**	52,988
Income from lending operations	3	**(3,493)**	(5,409)
(Gains) / Losses on foreign exchange transactions	4	**(134)**	107
Other expenditure	5	**198**	7
Other income	5	**(20,273)**	(21,112)
Total comprehensive net expenditure		**30,011**	26,581

The notes on pages 18 to 35 form part of this Account.

Statement of Financial Position as at 31 March 2013

	Note	**At 31 March 2013 £m**	At 31 March 2012 £m
Assets			
Advances	6	**171,596**	128,301
Loans	7	**2,997**	3,610
Other assets	8	**76,429**	67,510
IMF Quota Subscription & Lending	9	**12,958**	12,421
Total assets		**263,980**	211,842
Liabilities			
Gilt-edged stock	10	**1,315,472**	1,201,171
National Savings and Investments products	11	**102,238**	102,903
Liabilities to the IMF	9	**7,244**	6,819
Other debt payable in sterling:			
FLS Treasury Bills	12	**35,259**	–
Other	12	**46,485**	60,007
Total liabilities		**1,506,698**	1,370,900
Net liabilities		**1,242,718**	1,159,058
Liability of the Consolidated Fund to the National Loans Fund		**1,242,718**	1,159,058

The notes on pages 18 to 35 form part of this Account.

Nick Macpherson 15 July 2013
Accounting Officer
HM Treasury

Statement of Cash Flows for the year ended 31 March 2013

	2012-13	2011-12
	£m	£m
Cash flows from operating activities		
Interest received	**3,396**	5,330
Other receipts	**324**	845
Interest paid	**(48,691)**	(44,192)
DMA surplus from cancellation of Royal Mail gilts	**11,010**	–
Other flows	**135**	113
Transfer from the Consolidated Fund for the cost of debt servicing	**33,826**	37,904
Net cash flow from operating activities	**–**	–
Cash flows from investing activities		
Net (increase)/decrease in advance to the Debt Management Account	**(36,000)**	105,000
Net increase in advance to the Public Works Loan Board	**(1,596)**	(8,791)
Net decrease/(increase) in loans	**376**	(1,187)
Net increase in advance to the Exchange Equalisation Account	**(5,600)**	(4,425)
Net cash inflow from investing activities	**(42,820)**	90,597
Cash flows from financing activities		
Net issuance of government stock	**110,774**	134,376
Net redemption of FLS Treasury Bills	**35,231**	–
Net redemption of SLS Treasury Bills	**–**	(122,541)
Net (redemption)/issuance of National Savings products	**(2,333)**	2,477
Decrease/(increase) in other net sterling borrowing	**(13,501)**	4,559
Net transfers of IMF non-interest bearing securities	**124**	(475)
Net transfers to the Consolidated Fund	**(87,475)**	(108,993)
Net cash outflow from financing activities	**42,820**	(90,597)
Net change in cash and cash equivalents	–	–
Cash and cash equivalents at beginning and end of year	–	–

The notes on pages 18 to 35 form part of this Account.

Statement of Changes in the Liability of the Consolidated Fund to the National Loans Fund for the year ended 31 March 2013

	2012-13 **£m**	2011-12 £m
Liability of the Consolidated Fund to the National Loans Fund at 1 April	**1,159,058**	1,061,388
Net cash paid to the Consolidated Fund	**87,475**	108,993
Payment from the Consolidated Fund to the National Loans Fund for the cost of debt servicing during the year	**(33,826)**	(37,904)
Total comprehensive net expenditure	**30,011**	26,581
Liability of the Consolidated Fund to the National Loans Fund at 31 March	**1,242,718**	1,159,058

The notes on pages 18 to 35 form part of this Account.

Notes to the Account

1 Accounting Policies

i Accounting convention

The National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending, which were until then accounted for as part of the Consolidated Fund (CF). The National Loans Fund Account has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context in so far as they are relevant to transactions and balances within the National Loans Fund. These include IFRS 7 'Financial Instruments: Disclosures' and IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 9 'Financial Instruments', was issued in November 2009 and is set to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This standard has not been applied for 2012-13 since the effective date is set for 1 January 2015. It is expected that the application of IFRS 9 should have no significant impact upon the financial statements of the NLF. IFRS 9 is subject to EU endorsement, the timing of which is uncertain, therefore its adoption date for the NLF is currently unknown.

The IASB's annual improvements exercise resulted in clarificatory changes to IAS1 'Presentation of financial statements' in relation to comparative information. The clarifications are effective for periods starting on or after 1 January 2013. They are not expected to impact significantly on the financial statements of the NLF.

ii Basis of presentation

The National Loans Fund Account is stated in millions of pounds sterling (£m). This Account presents the results and transactions of the NLF. The Statement of Financial Position is presented by order of increasing liquidity. The NLF is the government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the CF. The servicing of these liabilities is mainly met by tax revenue receipts. For this reason, the Accounting Officer continues to adopt the going concern basis in preparing the Account.

iii Recognition of finance income and costs

Premium Bond prizes are recognised in the period to which they relate. Other interest income and costs of financing are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. The calculation takes into account premiums or discounts on acquisition or issue of financial assets and liabilities and all the contractual terms of the financial instrument.

The majority of the NLF's financial assets and liabilities have a fixed return. For those products that have a variable return, the current rate applicable to that product is used in the calculation of the finance income or cost. Gilts with the same maturity and coupon rate are sometimes issued in separate tranches. Because of market conditions each tranche may be issued with a different premium or discount and therefore a different effective interest rate. However, once issued, gilts with the same maturity and coupon rate are indistinguishable from each other and so are accounted for as one issue using a weighted average effective interest rate.

iv Recognition of finance income – Special Drawing Rights (SDR)

The IMF remunerates the UK in SDRs on its Reserve Tranche Position (RTP) for balances in excess of SDR 700 million and on its bilateral loans. Under section 3(2) of the Exchange Equalisation Act 1979 any SDRs received by the Government must be treated as assets of the EEA, therefore all SDR income is accounted for in that Account and not the NLF.

v Financial assets and liabilities

The assets and liabilities of the NLF are all accounted for as financial assets and liabilities except for those arising from the net assets of the EEA and the DMA, which are accounted for as explained in accounting policy (viii). The NLF's financial assets are all designated as loans and receivables. In accordance with IAS 39, financial assets and liabilities are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method. If gilts are issued by a syndication process, the syndication fees are borne by the NLF and are netted off from gross issuance proceeds as part of the calculation of amortised cost. Other directly related issue costs for assets and liabilities are negligible and are written off as incurred.

The distinction between loans and advances derives from the legislation that governs the operation of the NLF. On loans interest must be charged at a rate that at least covers the cost that the Fund would have to bear if it were to borrow the same sum for the period of the loan, plus the Treasury's own administration costs. There is no such requirement for advances, although interest is charged at base rate on advances to the DMA. No interest is charged on advances to the EEA. The NLF does not charge interest on its advances to PWLB, but interest on loans by the PWLB to local authorities financed by NLF advances is paid to the NLF under section 3(3) of the National Loans Act 1968.

The fair values of the financial assets and liabilities are disclosed in note 14. They are calculated by reference to market prices where instruments are traded on an active quoted market, or, where this is not the case, as the net present value of future cash flows.

Impairment of financial assets

EFA assesses at the end of each reporting period whether there is any objective evidence that a financial asset measured at amortised cost is impaired. An asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence used in assessing whether a financial asset is impaired includes financial difficulties experienced by the borrower and breach of loan conditions, such as a default or delinquency in interest or principal payments. No impairment losses have been recognised during the year.

vi Foreign currencies

The financial statements of the NLF are presented in sterling, which is the Fund's functional currency, being the currency of the primary economic environment in which it operates. Transactions denominated in foreign currencies are recorded at the rate of exchange applicable to the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are reported at the rates of exchange prevailing at that date. Liabilities to the IMF are denominated in sterling, but are subject to a revaluation adjustment reflecting the SDR/£ sterling exchange rate movement.

vii Administration expenditure

These financial statements reflect the activity through, and the financial position of, the NLF. The costs of gilts registration, listing fees and foreign currency debt issuance are met by the NLF. Administration costs, such as departmental staff costs and bank charges, are borne by the appropriate body and are accounted for through their respective accounts.

viii Exchange Equalisation Account and Debt Management Account

Under section 11 of Schedule 5A to the National Loans Act 1968, any excess of the assets of the DMA over its liabilities shall be a liability of the Account to the NLF. Over time, the NLF has advanced sterling to the EEA in order to finance the UK's reserves of gold, foreign currency assets and IMF Special Drawing Rights. As a result, the EEA's net assets, having been derived from initial NLF financing, are ultimately due to the NLF. Annual financial statements are prepared for both the DMA and the EEA. Changes in the net assets are reported in Other Assets (note 8) and recognised in the Statement of Comprehensive Net Expenditure as Other Income (note 5). The NLF's assets and income are the result of the activity in the EEA and DMA during the year and the various accounting policies applied by them to that activity.

ix Critical accounting judgements and key sources of estimation uncertainty

The NLF's accounting policy for impairment losses arising on financial assets is described in (v) above. No impairment losses have been recognised in the year. There are no other areas of the financial statements which are reliant on management's judgement in the process of applying the Fund's accounting policies. Fair values are included for disclosure purposes only. Their calculation is described in note 14. As mentioned in accounting policy (iii), the majority of the NLF's financial assets have a fixed return. For those products that have a variable return, the current rate applicable to that product is used in the calculation of the finance income or cost. Note 16 applies various assumptions to demonstrate the sensitivity of NLF's assets and liabilities to changes in interest rates, inflation and the SDR to sterling exchange rate.

2 Finance costs of borrowing

	2012-13 £m	2011-12 £m
Gilt-edged stock	**48,085**	49,762
Loss on cancellation of Royal Mail gilts[1]	**3,082**	–
National Savings and Investments products	**2,228**	2,405
FLS Treasury Bills[1]	**74**	–
SLS Treasury Bills[1]	**–**	495
Other finance costs	**184**	326
Total finance costs of borrowing	**53,713**	52,988

1 Described in the Foreword.

3 Income from lending operations

	2012-13 £m	2011-12 £m
Interest on loans advanced by the National Loans Fund to:		
Public corporations	**79**	99
Central government bodies	**87**	89
	166	188
Interest on loans by the Public Works Loan Board financed by National Loans Fund advances	**2,892**	4,503
Interest on funding advanced to the Debt Management Account	**435**	718
Total income from lending operations	**3,493**	5,409

4 Losses on foreign exchange transactions

	2012-13 £m	2011-12 £m
(Gain)/Loss on Reserve Tranche Position at the IMF	**(79)**	65
(Gain)/Loss on lending to the IMF (Note 9)	**(55)**	42
Net (gain)/loss on foreign currency transactions	**(134)**	107

5 Other income and expenditure

	2012-13 £m	2011-12 £m
Other expenditure		
Debt management administration costs[1]	**4**	4
Expenditure in respect of depreciation of Issue Department Assets[2]	**194**	3
Total: Other expenditure	**198**	7
Other income		
Exchange Equalisation Account total comprehensive income[3]	**(735)**	(2,033)
Profits of the Bank of England Issue Department[2]	**(436)**	(452)
Income in respect of appreciation of Issue Department Assets[2]	**(82)**	(396)
Debt Management Account total comprehensive income[4]	**(19,012)**	(18,221)
SLS Fee income from the Debt Management Account	**–**	(5)
Miscellaneous receipts	**(8)**	(5)
Total: Other income	**(20,273)**	(21,112)
Net total	**(20,075)**	(21,105)

1 Debt management administration costs mainly comprise amounts paid to the Gilts Registrar for administering the gilt-edged stock register.

2 Under section 9 of the National Loans Act 1968, the profits of the Issue Department are paid into the NLF. In addition, the Bank of England Issue Department is required by the Currency and Bank Notes Act 1928 to hold investments equal to the value of bank notes in issue. Periodically these investments are revalued to market value. If the market value is less than the value of notes in issue, legislation requires the NLF to pay an amount equal to the deficiency to the Issue Department to finance the purchase of additional investments. Conversely, if the market value of the assets exceeds the value of the notes in issue, the Issue Department sells investments to the value of the surplus and pays the proceeds to the NLF.

3 Of the EEA's profit of £735 million (£2,033 million in 2011-12), £4 million (£13 million in 2011-12) relates to interest receivable on the Reserve Tranche Position and the bilateral loans to the IMF in line with accounting policy (iv).

4 £11,010 million of DMA's surplus in 2012-13 relates to the cancellation of Royal Mail gilt-edged stock as described in the Foreword.

6 Advances

	Public Works Loan Board £m		Debt Management Account £m		Exchange Equalisation Account £m		Total £m	
	2012-13	2011-12	**2012-13**	2011-12	**2012-13**	2011-12	**2012-13**	2011-12
Principal outstanding at 1 April	**61,956**	53,165	**52,000**	157,000	**13,585**	9,160	**127,541**	219,325
Advances	**3,159**	16,111	**80,000**	–	**7,600**	5,375	**90,759**	21,486
Advances repaid	**(1,563)**	(7,320)	**(44,000)**	(105,000)	**(2,000)**	(950)	**(47,563)**	(113,270)
Principal outstanding at 31 March	**63,552**	61,956	**88,000**	52,000	**19,185**	13,585	**170,737**	127,541
Accrued interest	**813**	718	**46**	42	**–**	–	**859**	760
Total advances outstanding	**64,365**	62,674	**88,046**	52,042	**19,185**	13,585	**171,956**	128,301

7 Loans and commitments to lend

Loans		2012-13				2011-12
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Principal outstanding at 1 April	**1,886**	**1,718**	**3,584**	1,906	1,454	3,360
Loans advanced	**1,245**	**151**	**1,396**	15,243	375	15,618
Loans repaid	**(1,881)**	**(126)**	**(2,007)**	(15,283)	(111)	(15,394)
Principal outstanding at 31 March	**1,230**	**1,743**	**2,973**	1,866	1,718	3,584
Accrued interest	**11**	**13**	**24**	12	14	26
Total loans outstanding	**1,241**	**1,756**	**2,997**	1,878	1,732	3,610

Commitments to lend		At 31 March 2013				At 31 March 2012
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Undrawn commitments to lend	**933**	**–**	**933**	356	–	356

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender. During the year a commitment of £20 million expired. The NLF has not made any loans, and does not have any commitments to lend, in respect of financial institutions classified as 'Public Financial Corporations' following the banking crisis. In addition to the above, the NLF has loans to, and has a commitment to lend to the IMF, which is explained in note 9.

8 Other assets

		At 31 March 2013		At 31 March 2012
		£m		£m
Exchange Equalisation Account net assets		**30,765**		30,030
Debt Management Account net assets		**44,936**		36,934
National Savings and Investments' cash and other holdings:				
From sale of investment products	**452**		298	
For repayment of principal	**179**		156	
For payment of interest and prizes	**69**		65	
National Savings and Investments Total		**700**		519
Commitment Fees Receivable		**1**		1
Sterling balances at Bank of England advanced to IMF		**27**		26
Total other assets		**76,429**		67,510

9 IMF Reserve Tranche Position and Lending to the IMF

The United Kingdom's relationship with the International Monetary Fund is accounted for in the National Loans Fund and the EEA. The UK's Quota Subscription to the IMF, 10,738.5 million Special Drawing Rights (SDRs) – equivalent to £10,638 million[3] at 31 March 2013 (£10,391 million at 31 March 2012) – was paid from the NLF and is recognised as an NLF asset. Part of the Subscription is deposited by the IMF in the NLF in return for sterling non-interest-bearing securities (NIBS) which totalled £6,952 million at 31 March 2013 (£6,828 million at 31 March 2012). NIBS represent a liability of the NLF to the IMF. There is a remaining small liability of £27 million (£26 million at 31 March 2012) against which an equal amount of sterling cash is made available in an account at the Bank of England as an advance to the IMF.

The difference between the gross Quota Subscription and the NLF's sterling liability to the IMF is the UK's Reserve Tranche Position (RTP). Under the arrangements for membership of the Fund, valuation adjustments are made between the IMF and NLF annually to reflect any changes in value in SDR terms of the NLF's sterling liability to the IMF. An annual settlement payment is made between the NLF and the IMF, normally in May. The cumulative valuation adjustment at 31 March 2013 was £265 million (£35 million at 31 March 2012). The table below sets out the composition of the RTP and the make-up of changes over the year.

NLF Assets and Liabilities: Composition of the Reserve Tranche Position and Lending[4] to the IMF

	Asset	Liabilities				Reserve Tranche Position
	IMF Quota Subscription	Non-interest-bearing securities	Other quota liability	Valuation adjustment	Total liabilities	
	£m	£m	£m	£m	£m	£m
Balances at 31 March 2012	10,391	(6,828)	(26)	35	(6,819)	3,572
Exchange rate gains for the year on the Quota subscription	**247**					**247**
Change in year-end valuation adjustment				**(300)**	**(300)**	**(300)**
Change in loan notes as a result of the valuation settlement		**132**			**132**	**132**
Change in cash on No 1 account			**(1)**		**(1)**	**(1)**
Net increase in loan notes		**(256)**			**(256)**	**(256)**
Balances at 31 March 2013	**10,638**	**(6,952)**	**(27)**	**(265)**	**(7,244)**	**3,394**

Lending to the IMF	**£m**
Loans outstanding as at 31 March 2012	2,030
Loans advanced in 2012-13	300
Loans repaid in 2012-13	(65)
Gain on foreign exchange	55
Lending as at 31 March 2013	**2,320**
IMF Quota Subscription and Lending	**12,958**

At 31 March 2013, the UK's total undrawn commitment under both the NAB and the bilateral loan facility was SDR 16.32 billion, or £16.17 billion (SDR 16.56 billion, or £16.02 billion at 31 March 2012).

3 The GBP/SDR exchange rate at 31 March 2013 was 1.00947 (31 March 2012: 1.03345).

4 Lending includes both loans made under the NAB and the bilateral loan facility.

The RTP represents an SDR asset that can be drawn on by the UK if needed. Because the RTP is a net asset of the NLF it is therefore also considered as part of the UK's Foreign Exchange Reserves. Sterling transactions by the IMF impact on the level of NIBS and hence on the RTP. Under current policy, changes in the RTP lead to adjustments in the composition of other Reserve Assets in order to keep the portfolio composition of the Reserves in line with plan.

Interest is payable by the IMF on the RTP balance in excess of SDR 700 million. This interest is retained in the EEA. Separately, the EEA also holds the UK's allocation of SDRs (SDR 10,134 million at 31 March 2013) as a liability to the IMF and retains an asset in the form of the UK's holdings of SDRs (SDR 9,609 million at 31 March 2013).

During 2012-13 the IMF deposited a net receipt of £256 million into the NLF in return for NIBS, representing a net repayment of amounts provided from the UK Quota Subscription in support of IMF funding programmes (a net payment to the IMF of £372 million in 2011-12).

During 2009-10 the UK agreed to provide a bilateral loan facility to the IMF for an amount up to the equivalent of SDR 9.92 billion (£9.83 billion at the 31 March 2013 exchange rate). The drawn loans represent a claim on the IMF and are therefore an asset of the NLF. The undrawn loans are a commitment of the NLF. Interest is payable by the IMF on the loan balance and is retained in the EEA in line with accounting policy (iv).

The IMF's Fourteenth General Review of Quotas, agreed in November 2010, will double the IMF's quota resource but has yet to be fully ratified. In order to implement this, the IMF requires that three fifths of member countries, with a collective voting share of at least 85 per cent, finalise their domestic legislative requirements. This increase was approved by Parliament in July 2011. Once implemented, the UK's Quota Subscription will increase from SDR 10,738.5 million to SDR 20,155.1 million, an increase of SDR 9,416.6 million (£9,328.3 million at the 31 March 2013 exchange rate).

On 1 April 2011 IMF members agreed to the activation of the expanded New Arrangements to Borrow (NAB), the IMF's main backstop for quota resources. The NAB was re-activated during 2012-13 for further six month periods on 1 April and 1 October 2012. The UK's commitment to the expanded NAB is SDR 18.66 billion (£18.49 billion at the 31 March 2013 exchange rate). The new NAB however can only be used to finance programmes agreed after its activation. Previously agreed programmes will continue to be funded from the quota and bilateral loans. The UK, along with all other major bilateral creditors, has agreed to keep open its 2009 bilateral loan facility for this purpose, on the condition that the combined drawings from the UK's share of the NAB and the UK's bilateral loan do not exceed SDR 18.66 billion. As part of the 2010 Quota reforms to double quota resources, there will be a corresponding decrease in the total NAB which will become effective when the 2010 quota increase becomes effective.

In April 2012 a G20-led agreement to temporarily increase IMF resources was reached. As part of this the UK agreed to provide a new bilateral loan facility. The loan agreement was finalised on 26 March 2013 and is worth SDR 9.17822 billion (£9.09 billion at the 31 March 2013 exchange rate). The UK's NAB will be reduced by this amount when the 2010 quota increase comes into effect. The loan will only become effective once the 2010 quota reforms have been implemented and the reduction of the NAB is complete.

All of the anticipated changes to the UK's Quota Subscription and loans to the IMF are reflected within the current limits approved by Parliament.

10 Gilt-edged stock

	At 31 March 2013	At 31 March 2012
	£m	£m
Conventional	**1,004,228**	926,602
Index-Linked	**311,244**	274,569
Total gilt-edged stock	**1,315,472**	1,201,171

On an amortised cost basis at 31 March 2013, £132,805 million (£126,474 million at 31 March 2012) of the total gilt-edged stock liability was held by the DMA, and £341,142 million was held by the Bank of England for quantitative easing (£276,923 million at 31 March 2012). The remaining £841,525 million (£797,774 million at 31 March 2012) was held by other investors.

Syndication fees are borne by the NLF and are netted off from gross issuance proceeds as part of the calculation of amortised cost. Other directly related issue costs for assets and liabilities are negligible and are written off as incurred. Total syndication fees for the year were £62.66 million (2011-12: £66.94 million).

11 National Savings and Investments products

	2012-13 £m	2011-12 £m
Principal outstanding at 1 April	**101,956**	97,824
Cash repayments from the National Loans Fund	**(12,977)**	(14,211)
Principal cash received in the National Loans Fund	**10,644**	16,688
Capitalised interest and other returns to savers	**1,510**	1,720
Change in cash and other holdings for principal	**177**	(65)
Principal outstanding at 31 March	**101,310**	101,956
Accrued interest and other returns to savers	**928**	947
Total principal and accrued interest outstanding	**102,238**	102,903

12 Other debt payable in sterling

	At 31 March 2013 £m	At 31 March 2011 £m
FLS Treasury Bills	**35,259**	–
Other:		
Debt Management Account	**17,763**	34,067
Bank of England Issue Department	**370**	370
Balances from government accounts at the Government Banking Service	**19,580**	16,827
Deposits from public sector bodies	**8,129**	8,093
Other	**643**	650
	46,485	60,007
Total other debt payable in sterling	**81,744**	60,007

Treasury Bills have been issued by the NLF to the DMA in connection with the Bank of England's Funding for Lending Scheme (FLS). Further information on the scheme is provided in the Foreword.

The next two items reflect deficit funding from the DMA and the Issue Department of the Bank of England. The fourth item reflects the transfer to the NLF of any temporary cash surpluses on other government accounts held at the Government Banking Service. Deposits from public sector bodies represents deposits by public sector bodies which are directly held with the NLF. "Other" comprises mostly certificates of tax deposit held by the NLF.

13 Contingent liabilities

The following contingent liabilities fall outside the scope of IAS 37 as the possibility of an outflow of resources is remote. However, disclosure of these liabilities is necessary under Parliamentary reporting requirements. These are as follows:

i) Under the National Loans Act 1968 section 9(3), the NLF has a contingent liability to the Bank of England Issue Department in respect of that part of the assets backing the note issue that is not represented by government securities. This liability would only crystallise if government securities were insufficient to meet demand from holders of notes to exchange them for another instrument. This contingent liability was £55,014 million at 31 March 2013 (£50,285 million at 31 March 2012). No obligations crystallised or expired in 2012-13.

ii) The NLF also has a contingent liability to the Commissioners for the Reduction of National Debt (CRND) in respect of unclaimed dividends received in previous years. This represents old uncleared amounts surrendered by the gilts registrar to CRND, and then onto the NLF, and stood at £26.4 million at 31 March 2013 (£24.9 million at 31 March 2012). This contingent liability would crystallise if holders of gilts requested amounts owed to them. No obligations crystallised or expired in 2012-13.

14 Fair Values

Carrying Value and Fair Value of NLF assets and liabilities

	Values at 31 March 2013		Values at 31 March 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Assets	**£m**	**£m**	£m	£m
Advances:				
Public Works Loan Board	**63,552**	**80,415**	61,956	76,904
Debt Management Account	**88,000**	**88,000**	52,000	52,000
Exchange Equalisation Account	**19,185**	**19,185**	13,585	13,585
Accrued interest	**859**	**859**	760	760
Loans:				
Principal	**2,973**	**3,735**	3,584	4,300
Accrued interest	**24**	**24**	26	26
Other assets	**76,429**	**76,429**	67,510	67,510
IMF quota subscription and lending	**12,958**	**12,958**	12,421	12,421
Total assets	**263,980**	**281,605**	211,842	227,506
Liabilities				
Gilts:	**1,315,472**	**1,546,542**	1,201,171	1,390,044
National Savings and Investments:				
Principal	**101,310**	**101,793**	101,956	102,367
Accrued interest	**928**	**935**	947	953
IMF liabilities	**7,244**	**7,244**	6,819	6,819
Other sterling debt:				
FLS Treasury Bills	**35,259**	**35,267**	–	–
Debt Management Account	**17,763**	**17,763**	34,067	34,067
Issue Department of Bank of England	**370**	**370**	370	370
Government balances	**19,580**	**19,580**	16,827	16,827
Deposits from public sector bodies	**8,129**	**8,129**	8,093	8,093
Other	**643**	**643**	650	650
Total liabilities	**1,506,698**	**1,738,266**	1,370,900	1,560,190

The NLF's assets are classified as financial assets except for the net assets of the EEA (£30,765 million, 2011-12: £30,030 million) and DMA (£44,936 million, 2011-12: £36,934 million), reported in Other Assets (note 8). The carrying value of financial assets (all of which are designated as loans and receivables) is £188,279 million (2011-12: £144,878 million) and their fair value is £205,904 million (2011-12: £160,542 million). All the NLF's liabilities are financial liabilities. In instances where the fair value differs from the carrying value, the fair value has been calculated by reference to market prices where instruments are traded on an active quoted market or, where this is not the case, as the net present value of future cash flows.

The fair value of advances to the PWLB is calculated as the net present value of future cash flows. Loans by the PWLB are usually at a fixed rate of interest and so their fair value increases or decreases according to changes in the difference between the fixed rate of interest earned on the loan and current market values. Differences between the fair and book value will not be realised as the PWLB loans are not traded by the NLF.

The fair value of gilts and Treasury Bills are calculated by reference to their market prices. Gilts are generally left in issue until they are very close to maturity and so the difference between their fair value and book value will normally not be realised in the NLF accounts. Treasury Bills have been issued for use in the Funding for Lending Scheme described in the Foreword.

15 Maturity of assets and liabilities

The following table shows the split between current and non-current assets and liabilities based on contract date of maturity or expected maturity if there is no contract date.

	As at 31 March 2013			As at 31 March 2012		
	Current	**Non–current**	**Total**	Current	Non–current	Total
	£m	**£m**	**£m**	£m	£m	£m
				Restated	*Restated*	
Assets						
Advances[1]	**859**	**170,737**	**171,596**	760	127,541	128,301
Loans[1]	**181**	**2,816**	**2,997**	205	3,405	3,610
Other assets	**728**	**75,701**	**76,429**	546	66,964	67,510
IMF quota subscription (SDR) and lending	**–**	**12,958**	**12,958**	–	12,421	12,421
Total assets	**1,768**	**262,212**	**263,980**	1,511	210,331	211,842
Liabilities						
Gilts						
Conventional[1]	**50,365**	**953,863**	**1,004,228**	67,460	859,142	926,602
Index-linked[1]	**21,802**	**289,442**	**311,244**	1,121	273,448	274,569
Gilt-edged stock	**72,167**	**1,243,305**	**1,315,472**	68,581	1,132,590	1,201,171
National Savings and Investments	**102,146**	**92**	**102,238**	102,710	193	102,903
IMF liabilities	**–**	**7,244**	**7,244**	–	6,819	6,819
Treasury Bills for FLS	**35,259**	**–**	**35,259**	–	–	–
Other debt payable in sterling	**46,485**	**–**	**46,485**	60,007	–	60,007
Total liabilities	**256,057**	**1,250,641**	**1,506,698**	231,298	1,139,602	1,370,900

1 2011-12 figures for Advances, Loans and Gilts have been restated to classify all accrued interest as Current; Loan principal of loans payable by instalment to be repaid within 12 months has been re-classified as Current and loans to be rolled over within 12 months to a period beyond 12 months as Non-current where the expectation is that the loan will be rolled-over and not repaid. The Total column is unchanged.

The following table shows an analysis of current and non-current assets and liabilities by type of counterparty.

	As at 31 March 2013			As at 31 March 2012		
	Current £m	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Assets				*Restated*	*Restated*	*Restated*
Balances with:						
Other central government bodies	**1,702**	**248,051**	**249,753**	1,418	196,098	197,516
Public corporations and trading funds	**39**	**1,203**	**1,242**	67	1,812	1,879
Total intra government balances	**1,741**	**249,254**	**250,995**	1,485	197,910	199,395
Balances with bodies external to government	**27**	**12,958**	**12,985**	26	12,421	12,447
Total assets	**1,768**	**262,212**	**263,980**	1,511	210,331	211,842

	As at 31 March 2013			As at 31 March 2012		
	Current £m	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Liabilities				*Restated*	*Restated*	*Restated*
Balances with:						
Other central government bodies	**87,615**	**125,304**	**212,919**	66,987	117,887	184,874
NHS Trusts	**112**	**–**	**112**	103	–	103
Public corporations and trading funds	**13,080**	**328,937**	**342,017**	9,135	268,665	277,800
Total intra government balances	**100,807**	**454,241**	**555,048**	76,225	386,552	462,777
Balances with bodies external to government	**155,250**	**796,400**	**951,650**	155,073	753,050	908,123
Total liabilities	**256,057**	**1,250,641**	**1,506,698**	231,298	1,139,602	1,370,900

2011-12 figures have been restated to reclassify the counterparty type of some assets and liabilities, the most significant being gilts held by the DMA and Bank of England (for quantitative easing) reclassified from External to Central Government and Public Corporations respectively, and liabilities to investors with National Savings and Investments from Central Government to External; also to take account of the re-classification of Advances, Loans and Gilts as Current or Non-current in the first table above.

16 Financial risks related to the NLF

The Government's debt management objective is set out in the annual Debt and Reserves Management Report:

"to minimise, over the long term, the costs of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the aims of monetary policy".

This is achieved by:

- meeting the principles of openness, transparency and predictability;
- developing a liquid and efficient gilt market;
- issuing gilts that achieve a benchmark premium;
- adjusting the maturity and nature of the Government's debt portfolio, primarily by means of the maturity and composition of debt issuance and potentially by other market operations including switch auctions, conversion offers and buy-backs; and
- offering cost-effective savings instruments to the retail sector through National Savings & Investments.

For cash management, the aggregate balance on government accounts is swept daily to the National Loans Fund, and then to the DMA. The Debt Management Office deals with the financial markets to manage the daily cash surplus or deficit on the DMA relative to its target overnight balance, lending when there is a surplus and borrowing when there is a deficit.

The NLF's liabilities include conventional and index-linked gilt-edged securities and a wide range of NS&I products. There is a wide spread of maturities. No foreign currency debt was issued in 2012-13. The NLF's liabilities also include deposits from several other public sector accounts.

NLF assets include advances to the DMA, the PWLB and the EEA; the UK's gross Quota Subscription to the IMF which is denominated in Special Drawing Rights (SDRs); and the net assets of the DMA and EEA.

Set out below are certain risk factors that could affect the NLF's operations.

Interest rate and inflation risk

The NLF is exposed to cash flow interest rate risk on its floating rate borrowing and lending due to the risk that future interest rates will fluctuate. It is not exposed to fair value interest rate risk as its financial assets and liabilities are measured at amortised cost and not fair value. Some of the NLF's assets and liabilities are zero-rated and are therefore not exposed to changes in interest rates.

Inflation risk arises because interest and redemption amounts paid on index-linked gilts vary monthly in line with changes in the UK Retail Prices Index (RPI) since the initial issue of each stock.

The table below analyses the NLF's interest rate and inflation risk. Assets and liabilities are included at carrying amount and are shown at the earlier of contractual re-pricing or maturity dates.

Interest rate and inflation risk analysis as at 31 March 2013

	Up to 1 month/ repayable on demand	1–12 months	1–5 years	Over 5 years	Undated	Zero-rated	Total carrying value	Fixed rate	Floating rate
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Advances	88,309	2,074	6,975	54,174	–	20,064	**171,596**	62,691	88,841
Loans	–	157	550	2,266	–	24	**2,997**	2,973	–
Other assets	–	–	–	–	–	76,429	**76,429**	–	–
IMF quota subscription	–	–	–	–	–	10,638	**10,638**	–	–
IMF loans	–	–	–	–	–	2,320	**2,320**	–	–
Total	**88,309**	**2,231**	**7,525**	**56,440**	**–**	**109,475**	**263,980**	**65,664**	**88,841**
Liabilities									
Gilts									
Conventional	–	43,744	292,432	658,824	2,607	6,621	**1,004,228**	997,607	–
Index-linked	311,244	–	–	–	–	–	**311,244**	–	311,244
Gilt-edged stock	311,244	43,744	292,432	658,824	2,607	6,621	**1,315,472**	997,607	311,244
National Savings and Investments	90,218	1,031	10,012	–	–	977	**102,238**	11,045	90,216
IMF liabilities	–	–	–	–	–	7,244	**7,244**	–	–
Treasury Bills for FLS	–	35,259	–	–	–	–	**35,259**	35,259	–
Other debt payable in sterling	33,256	260	–	–	–	12,969	**46,485**	8,129	25,387
Total	**434,718**	**80,294**	**302,444**	**658,824**	**2,607**	**27,811**	**1,506,698**	**1,052,040**	**426,847**
Period gap	**346,409**	**78,063**	**294,919**	**602,384**	**2,607**	**(81,664)**	**1,242,718**		
Cumulative gap	**346,409**	**424,472**	**719,391**	**1,321,775**	**1,324,382**	**1,242,718**			

Interest rate and inflation risk analysis as at 31 March 2012

	Up to 1 month/ repayable on demand	1–12 months	1–5 years	Over 5 years	Undated	Zero-rated	Total carrying value	Fixed rate	Floating rate
	£m	£m	£m	£m	£m	£m	£m	£m	£m
			Restated	*Restated*	*Restated*				
Assets									
Advances	52,397	1,892	6,843	52,785	–	14,384	128,301	60,904	53,013
Loans[1]	615	164	511	2,294	–	26	3,610	3,584	–
Other assets	–	–	–	–	–	67,510	67,510	–	–
IMF quota subscription	–	–	–	–	–	10,391	10,391	–	–
IMF loans	–	–	–	–	–	2,030	2,030	–	–
Total	**53,012**	**2,056**	**7,354**	**55,079**	**–**	**94,341**	**211,842**	**64,488**	**53,013**
Liabilities									
Gilts									
Conventional	–	60,807	251,490	604,999	2,653	6,653	926,602	919,949	–
Index-linked	274,569	–	–	–	–	–	274,569	–	274,569
Gilt-edged stock	274,569	60,807	251,490	604,999	2,653	6,653	1,201,171	919,949	274,569
National Savings and Investments	89,391	1,363	11,086	–	–	1,063	102,903	12,449	89,391
IMF liabilities	–	–	–	–	–	6,819	6,819	–	–
Other debt payable in sterling	46,693	2,151	–	–	–	11,163	60,007	8,091	40,753
Total	**410,653**	**64,321**	**262,576**	**604,999**	**2,653**	**25,698**	**1,370,900**	**940,489**	**404,713**
Period gap	**357,641**	**62,265**	**255,222**	**549,920**	**2,653**	**(68,643)**	**1,159,058**		
Cumulative gap	**357,641**	**419,906**	**675,128**	**1,225,048**	**1,227,701**	**1,159,058**			

1 2011-12 Loans figures have been restated to allocate loan principal on instalment loans to re-pricing periods in accordance with scheduled repayment dates. The total carrying value of loans is unchanged. No other figures have changed.

Foreign currency risk

The NLF's only direct exposure to foreign exchange movements is through the UK's transactions with the IMF. These are described in note 9. The quota subscription to the IMF and lending to the IMF are both SDR denominated assets and are subject to valuation adjustments by the IMF and also at the year end. Whilst being denominated in sterling, the UK's liabilities of the IMF are subject to SDR valuation adjustments by the IMF.

Sensitivity analysis

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the NLF's financial assets and liabilities to changes in UK interest rates, the UK Retail Prices Index and the SDR to sterling exchange rate. The sensitivity analysis has been calculated on the basis that the components of financial assets and liabilities, the amount of instruments held at fixed, floating and zero interest rates and the amount of instruments held in SDRs are all constant and are as at the end of the reporting period.

The following assumptions have been made in calculating sensitivity:

- All sensitivities impact the Statement of Comprehensive Net Expenditure and thereby the net liability of the CF to the NLF.
- Finance income and costs and the net liability of the CF to the NLF will be affected by changes in interest rates on floating rate instruments.
- All instruments are held at amortised cost and are therefore not subject to changes in fair value as a result of interest rate changes.
- No sensitivity is provided for interest accruals where these are based on pre-agreed interest rates and are therefore not susceptible to further rate changes.
- 100 basis points and 10 percent are management's assessment of the reasonably possible change in interest, RPI and FX rates at the end of the reporting period. This is not a forecast.

Using the above assumptions, the following table shows the illustrative impact on the Statement of Comprehensive Net Expenditure that would result from an increase in the UK interest rates and the UK Retail Prices Index and if the SDR to sterling exchange rate were to strengthen.

	2012–2013	2011–2012
	Statement of Comprehensive Net Expenditure	Statement of Comprehensive Net Expenditure
	£m	£m
UK interest rates + 100bp expense	268	771
UK Retail Prices Index + 100bp expense	3,112	2,746
SDR exchange rate + 10 per cent (income)	(571)	(560)

An equal, but opposite effect would result if there were a decrease in UK interest rates and the UK Retail Prices Index, and if the SDR to sterling exchange rate were to weaken.

Liquidity risk

NLF liabilities carry a wide range of maturities, spreading funding requirements for redemption payments across a wide time period into the future. The longest stock in existence at 31 March 2013 matures in 2062. A small number of stocks are undated and can be redeemed by the Treasury at a time of its choosing. Deposits in the NLF have a shorter maturity profile since they can change on demand. However, in practice, balances change only slowly due to re-investment. The NLF is the Government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing of these liabilities is met mainly by tax revenue receipts. For this reason, the Accounting Officer continues to adopt the going concern basis in preparing the Account.

Contractual undiscounted cash flows of financial liabilities

The following table shows the contractual undiscounted cash flows of the NLF's liabilities. The amounts shown are the cash flows arising from the NLF's financial liabilities during the period up to and including maturity. This is in contrast to the basis on which the Statement of Financial Position amounts are calculated. As described in note 1, items on the Statement of Financial Position are valued at fair value upon initial recognition and subsequently held at amortised cost. Therefore totals in the following table will not agree to the Statement of Financial Position.

The treatment of coupon payments is of particular significance. The table includes contractual coupon payments for the period to maturity based on interest rates or, in the case of index-linked gilts, the Retail Prices Index at 31 March 2013. Because of the many coupon payments to be made for longer dated gilts the table below reports coupon cash flows of £618,650 million (£598,237 million at 31 March 2012) whereas the gilts liability in the Statement of Financial Position contains coupon accruals to the end of the reporting period of £7,745 million (£7,774 million at 31 March 2012). Undated gilts do not have a contractual maturity date and so coupon payments on them (currently £88 million per annum) are not included in the table below.

The cash flows reported in the table will be funded by replacement debt issues, the proceeds of assets or by finance from the Consolidated Fund.

At 31 March 2013

	0–12 months	1–2 years	2–5 years	Over 5 years	Undated	Total
	£m	£m	£m	£m	£m	£m
Liabilities						
Conventional Gilts:						
Principal	**43,798**	**69,392**	**216,732**	**635,035**	**2,607**	**967,564**
Coupons	**39,469**	**37,316**	**96,114**	**384,775**	**–**	**557,674**
Index-Linked Gilts:						
Principal	**20,681**	**–**	**38,462**	**242,345**	**–**	**301,488**
Coupons	**4,135**	**3,877**	**10,751**	**42,213**	**–**	**60,976**
Total Gilts	**108,083**	**110,585**	**362,059**	**1,304,368**	**2,607**	**1,887,702**
National Savings and Investments	**102,098**	**94**	**–**	**–**	**49**	**102,241**
IMF	**7,244**	**–**	**–**	**–**	**–**	**7,244**
Treasury Bills for FLS	**35,345**	**–**	**–**	**–**	**–**	**35,345**
Temporary Deposits	**8,132**	**–**	**–**	**–**	**–**	**8,132**
Other debt payable in sterling	**38,356**	**–**	**–**	**–**	**–**	**38,356**
	299,258	**110,679**	**362,059**	**1,304,368**	**2,656**	**2,079,020**

The cash flow analysis after five years is:

	5–10 years	10–20 years	20–30 years	30–40 years	Over 40 years	Total
	£m	£m	£m	£m	£m	£m
Conventional Gilts:						
Principal	**241,895**	**141,910**	**140,866**	**68,185**	**42,179**	**635,035**
Coupons	**113,877**	**147,133**	**81,471**	**34,056**	**8,238**	**384,775**
Index-Linked Gilts:						
Principal	**38,016**	**72,150**	**64,736**	**41,948**	**25,495**	**242,345**
Coupons	**14,315**	**16,996**	**6,779**	**3,214**	**909**	**42,213**
	408,103	**378,189**	**293,852**	**147,403**	**76,821**	**1,304,368**

At 31 March 2012

	0–12 months	1–2 years	2–5 years	Over 5 years	Undated	Total
	£m	£m	£m	£m	£m	£m
Liabilities						
Conventional Gilts:						
Principal	60,324	43,438	204,078	587,795	2,653	898,288
Coupons	38,286	35,709	92,891	368,671	–	535,557
Index-Linked Gilts:						
Principal	–	20,049	22,953	222,806	–	265,808
Coupons	4,281	4,030	11,051	43,318	–	62,680
Total Gilts	102,891	103,226	330,973	1,222,590	2,653	1,762,333
National Savings and Investments	102,595	112	89	–	116	102,912
IMF	6,819	–	–	–	–	6,819
Temporary Deposits	8,095	–	–	–	–	8,095
Other debt payable in sterling	51,194					51,914
	272,314	**103,338**	**331,062**	**1,222,590**	**2,769**	**1,932,073**

The cash flow analysis after five years is:

	5–10 years	10–20 years	20–30 years	30–40 years	Over 40 years	Total
	£m	£m	£m	£m	£m	£m
Conventional Gilts:						
Principal	236,529	100,682	139,892	61,374	49,318	587,795
Coupons	112,487	137,864	76,921	31,900	9,499	368,671
Index-Linked Gilts:						
Principal	33,354	67,641	64,932	35,604	21,275	222,806
Coupons	14,593	17,858	6,919	2,988	960	43,318
	396,963	**324,045**	**288,664**	**131,866**	**81,052**	**1,222,590**

Credit risk

The NLF makes loans to UK public corporations and central government entities, advances to other UK central Exchequer Funds and subscribes to the IMF. The NLF also lends to the IMF. As a result the NLF is not exposed to significant credit risk. Details of this can be found in notes 6, 7 and 9. Total loans and advances stand at £174,593 million (2011-12: £131,911 million) and gross IMF exposure stands at £12,958 million (2011-12: £12,421 million).

In respect of loans financed by the NLF, the financial relationship with the borrower is managed by the department responsible for the relevant public corporation. The sponsoring department performs due diligence on the borrower and proposes the loan. The Treasury reviews the proposal and, if the proposal is approved, the NLF will make the loan. The NLF is not allowed to accept losses on its loans. Any such losses can only be written off by primary legislation; however, in 1990 the Treasury gave an undertaking to the Public Accounts Committee that it would not seek Parliament's approval to such a course except as part of a reconstruction of the borrower's finances prior to privatisation. In other cases the Treasury would look to the borrower's sponsor department to cover any losses from its resource account.

In the case of advances to the PWLB for loans to Local Authorities, the PWLB manages the financial relationship with the borrower, though the credit risk is borne by the NLF.

In the context of NLF loans issued to trading organisations at market rates, under the Treasury's Commercial Lending policy the terms and interest rates are designed to reflect the terms on which a private sector lender, such as a commercial bank, would lend to the borrower if the borrower were a wholly private sector body rather than a government body.

Ceilings on total lending from the NLF to specific bodies are prescribed in the statutes governing each loan. The PWLB is allowed to lend up to an aggregate amount of £70 billion (2011-12: £70 billion). For short-term lending to public bodies, the maximum exposure of the NLF is determined by prescribed credit ceilings appropriate for the circumstances of the body.

The IMF maintains a level of resources as prudential cover in order to ensure the continued security and liquidity of its members' claims. Other factors that help safeguard the Fund's resources include the conditions associated with Fund lending and the Fund's status as a creditor who has the preferential right to receive payment. This covers the bilateral loan agreement with the IMF as per note 9.

None of the NLF's financial assets are past due or impaired.

Derivatives and hedging

The NLF itself does not use derivatives or undertake hedging. However, as explained in more detail below, some of the risks on the NLF are offset by hedging and other activities of the DMA and the EEA.

NS&I have issued a number of Guaranteed Equity Bonds that expose the NLF to equity index risk. The Debt Management Office have hedged this exposure through derivatives that are held on the DMA. For the Government overall (and the NLF) this ensures that the equity index risk is replaced with a LIBOR exposure.

The Exchange Equalisation Account Act 1979 constrains how the EEA may borrow from outside government. Where the EEA's foreign currency reserves are financed by foreign currency borrowing, the debt is issued by and is an obligation of the NLF. The foreign currency raised is sold to the EEA for sterling. While the NLF remains exposed to the interest rate and exchange rate risks from the foreign currency loan it has issued, in practice these risks are offset through the EEA's programme of asset management and swaps. No foreign currency debt has been issued or is outstanding at 31 March 2013.

17 Related Parties

The Treasury is the ultimate controlling party of the NLF. There have been no direct transactions between the Treasury and the NLF in 2012-13.

The main related parties of the NLF are the CF, DMA, EEA, PWLB, Bank of England and NS&I. The relationship between the NLF and CF is explained in the Foreword. The NLF has provided finance in the year to the DMA, the EEA, the PWLB and to various statutory public sector bodies. The NLF has also transacted with the Bank of England and NS&I. Transactions with these bodies are all disclosed in these accounts. The NLF has also had a significant number of transactions with other government bodies via its temporary borrowing of balances in various Government Banking Service bank accounts.

During the year there have been no transactions between key management personnel at the Treasury and the NLF.

18 Events After the Reporting Period

The IMF NAB (see note 9) was re-activated again, for a six month period, on 1 April 2013.

Since 31 March 2013 the market value of gold has fallen. Gold is held in the Exchange Equalisation Account, the net assets of which are an asset of the NLF. Although fluctuations in the price of gold make an exact calculation impossible, the estimated impact as at 2 July 2013 is a reduction of £2.3 billion in Total assets in the Statement of Financial Position resulting from an equivalent reduction in the net assets of the Exchange Equalisation Account (note 8).

19 Date of Authorisation for Issue of Account

The Account was authorised for issue on 16 July 2013.

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