EXPORT
CREDITS
GUARANTEE
DEPARTMENT

Export Credits Guarantee Department

Annual Review and Resource Accounts 2009-10

The UK's Export Credit Agency

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This Annual Review, which covers the functions of the Secretary of State for Business, Innovation and Skills exercised through the Export Credits Guarantee Department, is published in accordance with the requirements of the Export and Investment Guarantees Act, 1991, as amended by the Industry and Exports (Financial Support) Act 2009.

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INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

Minister's Foreword

I am pleased to introduce ECGD's Annual Review and Resource Accounts for 2009-10, which have now been laid before Parliament.

In 2009 ECGD celebrated its 90th birthday, having been established in 1919 as the world's first Export Credit Agency. Since then it has maintained its role of supporting exporters and investors through the provision of insurance and guarantees. Throughout its history, and in response to changing circumstances, it has developed products to help exporters meet new challenges and take advantage of new opportunities. Although ECGD now serves a smaller community of exporters than it did in the past, its continuing significance to those that require its services has been highlighted during the recent global economic downturn.

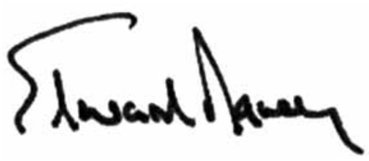
During 2009-10 ECGD supported a record level of business involving Airbus. Aerospace is an important sector of our industrial economy and many companies have indirectly benefited from the provision of ECGD support to Airbus - companies such as Rolls Royce and IAE, whose engines power nearly half the aircraft ECGD supported, as well as many smaller companies further down the supply chain. ECGD has also been working on a number of significant projects in the civil sector, expected to come to fruition in 2010-11, which will also assist many companies in UK supply chains.

In 2009 ECGD launched a new product, the Letter of Credit Guarantee Scheme, to add capacity to the provision of confirmations by banks in the UK on letters of credit opened by overseas banks in favour of UK exporters. This product now covers almost three hundred banks in thirty-six export markets and six UK-based banks are participating in the scheme.

In the past year, there were concerns about the availability of sufficient funding from bank markets for guaranteed export credits. ECGD has agreed support for funding from capital markets to supplement finance available to exporters although, in fact, it is pleasing to note that no ECGD-supported export was affected by any insufficiency of bank funding in 2009-10. In addition ECGD made a further extension of its existing Fixed Rate Export Finance scheme to 31 March 2011. This year ECGD will engage in discussions with interested parties with the view to deciding the scheme's future thereafter.

Taxpayers' money is put at risk when ECGD supports exports, and so ECGD must take on and manage its credit risks with due care. I note with satisfaction that ECGD has continued to meet its financial objectives, while at the same time increasing its support for exporters. ECGD has ample capacity to take on further new business.

I thank ECGD staff for all their hard work over the last year enabling ECGD to support British exports to markets around the world. In the future the Government plans to foster closer working between ECGD and UKTI so that they can jointly continue to provide to British business the services they need to support the export effort.



Edward Davey MP

Chairman's Foreword

Since joining ECGD in January 2010 I have been impressed by the complexity of its operating environment. ECGD has three broad objectives: of supporting British exports; of protecting the interests of taxpayers whilst doing so; and of acting in all of its operations in accordance with the Government's broader policy agenda, including compliance with international agreements relating to Export Credit Agency operations.

This operating environment creates great challenges for ECGD. The challenges exist both at the policy level, because the three broad objectives do not, obviously, always point the Department in the same direction, and at the individual case level, where propositions put to the Department fall to be considered against various tests such as those which apply to the environmental, social and human rights impacts of projects to which British exports are directed. A public consultation was held on some aspects of policy in this area during 2009-10 and the next year will see the culmination of that process.

I have also been impressed by the dedication and skill of ECGD staff in tackling these issues. I also look forward to meeting some of the organisations with an interest in ECGD's work to discuss their views and to explain my perspective on ECGD's operating environment to them.

I express my thanks and the thanks of my Management Board colleagues and everyone at ECGD for the work of my predecessor. Graham Pimlott CBE led ECGD's Board over a period of six years through a variety of challenges. The experience and commitment he brought to the role was of great value to the Department.

I also express my appreciation for the work of Andrew Wiseman and his fellow members of the Export Guarantees Advisory Council.

On behalf of my predecessor and for myself, I thank all the members of ECGD's Management Board for their valuable work over the past year.

Finally, I compliment Patrick Crawford and all ECGD staff for their hard work to support British exporters, and for the broader role they have been playing through a very busy year in supporting business.

Guy Beringer QC, ECGD Chairman

Chief Executive's Foreword

This has been a busy year for ECGD. Enquiries from exporters increased by one third. The business we supported increased by 51 per cent to £2.21bn. The total number of guarantees and policies rose to 198, compared to 136 in 2008-09. Premium income also rose to £57.6m from £38.5m in 2008-09. We introduced a new Letter of Credit Guarantee product, extended the Fixed Rate Export Finance scheme, revised our Mission and Principles, and strengthened our cooperation with UK Trade and Investment (UKTI). On 21 May 2009 the Industry and Exports (Financial Support) Act clarified ECGD's statutory powers to support exports.

Historically, the three European Export Credit Agencies that support Airbus have covered about 17 per cent of that company's total sales. In 2009-10, reflecting the increased constraints on bank liquidity across the world, that proportion rose to 33 per cent. ECGD guarantees represented by Airbus deliveries grew to 90 per cent of the value of business underwritten and 83 per cent of numbers of facilities. Nearly 50 per cent of these Airbus deliveries were powered by UK aero-engines (supplied by either Rolls-Royce or IAE).

We have continued to work with our French and German counterparts to align our working practices more closely in order to improve our service. Airbus has welcomed the benefits from these measures. We will continue to pursue this further in the coming year.

We have seen a fall in non-aerospace business, with 32 guarantees and insurance policies with a value of £229m, a 43 per cent fall on 2008-09. ECGD's underwriters are working with project sponsors and exporters on a number of prospective transactions in the oil and gas and project finance sectors and ECGD's pipeline of prospective business shows a marked increase in potential non-aerospace business. We provided support for the first time for many years for an export of raw materials involving the supply of potash to Brazil. This contract secured a significant order for Cleveland Potash and contributed to making secure more than 1,000 jobs in north-east England.

In July 2009, reflecting improvements in the economic and security situation, ECGD became the first G7 Export Credit Agency to resume cover for Iraq. ECGD had not provided medium-term cover for Iraq since the invasion of Kuwait in 1990. Given the commercial opportunities opening in this market, I hope British companies will soon have occasion to seek ECGD support for business there.

We have continued to make good progress in the recovery of past claims paid. New claims have amounted to £12m since 1 April 2003, and, despite the recent unsettled economic environment, only one new liability of modest size qualified for payment in the year. As defaults tend to lag a recovery, we may face an increase in new claims in 2010-11.

Parliament has continued its role of scrutinising ECGD over the last year. In July 2009 the Business and Enterprise (now Business, Innovation and Skills) Committee undertook a review of export controls, in which it recommended ECGD's anti-bribery procedures to the Export Control Organisation. In January this year, in its report *Exporting out of recession*, the Committee broadly welcomed ECGD's response to the current downturn. In March 2010 the Committee published *Full speed ahead: maintaining UK excellence in motorsport and aerospace*. This report welcomed ECGD's review of its Business Principles and commended its close working relationship with its French and German counterparts in support of Airbus.

In November 2009 the Joint Committee on Human Rights published *Any of our business? Human rights and the UK private sector*. In response to the report the Government has reaffirmed its commitment for ECGD to continue to work to raise standards through internationally agreed, multilateral, negotiations.

Despite the significant increase in new business and enquiries, we have continued to work to improve our operating efficiency and effectiveness. I pay tribute to the staff at ECGD for their commitment and hard work over a very busy period.

Conditions may remain challenging for British exporters but I am confident that ECGD will continue to provide much-needed support in a cost-effective way as the UK economy moves out of the downturn.

J.P.S. Crawford

Patrick Crawford, ECGD Chief Executive

Mission and Principles

Who ECGD is

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

What ECGD does

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

How ECGD operates

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

The principles ECGD applies

On individual cases, ECGD aims to:

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

Generally, ECGD aims to:

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

Financial Overview

Figure 1: Financial overview – five year summary

	2009-10	2008-09	2007-08	2006-07	2005-06
	£m	£m	£m	£m	£m
Guarantees issued	2206	1460	1830	1798	2230
• of which OII	73	87	138	152	239
Premium income	58	38	60	55	88
• of which OII	1	1	1	1	2
Claims paid	48	44	59	61	83
Net operating income	238	266	597	401	1699

Guarantees and Insurance Policies Issued

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

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Abu Dhabi				
Airbus S.A.S.	Etihad Airways	Airbus aircraft	-	121,377,091
The Football Association Premier League Ltd	Abu Dhabi Media Co PGSC	Football broadcasting rights	Low	62,739,842
Australia				
Airbus S.A.S.	Qantas Airways Ltd	Airbus aircraft	-	139,949,805
Austria				
Airbus S.A.S.	Niki Luftfahrt GMBH	Airbus aircraft	-	5,056,171
Bahrain				
Airbus S.A.S.	Gulf Air Company GSC	Airbus aircraft	-	41,484,672
Bermuda				
Airbus S.A.S.	Aircastle Ltd	Airbus aircraft	-	41,999,396
Brazil				
Airbus S.A.S.	Tam Lineas Aereas S.A.	Airbus aircraft	-	23,290,758
Cleveland Potash Ltd	Fertipar Group	Supply of potash	Low	24,605,333
China				
Voith Paper Ltd	Hangzou Huajin Special Paper Co Ltd	Machinery for paper production	Low	1,712,185
Voith Paper Ltd	Fuyang Weishida Paper Co Ltd	Machinery for paper production	Low	793,196
Colombia				
Airbus S.A.S.	Aerovias Del Continente S.A. (Avianca)	Airbus aircraft	-	66,586,034
El Salvador				
Airbus S.A.S.	Taca International Airlines	Airbus aircraft	-	12,830,234
Finland				
Airbus S.A.S.	Finnair Oyj	Airbus aircraft	-	29,408,024
Greece				
Airbus S.A.S.	Aegean Airlines	Airbus aircraft	-	8,676,960

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

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Ireland				
Airbus S.A.S.	RBS Aerospace Ltd	Airbus aircraft	-	75,820,382
Airbus S.A.S.	Aer Lingus	Airbus aircraft	-	14,596,258
Airbus S.A.S.	Awas Aviation Capital Ltd	Airbus aircraft		27,219,079
Kazakhstan				
Aedas Architects Ltd	Karachaganack Petroleum Operating BV	Architectural designs	-	231,994
Korea, Republic of				
Voith Paper Ltd	Hankuk Paper Mfg Co Ltd	Machinery for paper production	Low	3,460,320
Kuwait				
Airbus S.A.S.	ALAFCO Aviation Lease and Finance Company (KSCC)	Airbus aircraft	-	88,568,959
Airbus S.A.S.	Jazeera Airways KSC	Airbus aircraft	-	16,758,945
Malaysia				
Airbus S.A.S.	AirAsia Berhad	Airbus aircraft	-	59,931,955
Airbus S.A.S.	AirAsia X	Airbus aircraft	-	68,608,890
Mauritius				
Airbus S.A.S.	Air Mauritius	Airbus aircraft	-	14,177,860
Netherlands				
Airbus S.A.S.	Aercap Ireland Ltd	Airbus aircraft	-	216,073,122
Airbus S.A.S.	Aerventure Ltd	Airbus aircraft	-	17,291,473
Nigeria				
Airbus S.A.S.	Arik Air Ltd	Airbus aircraft	-	30,318,373
Oman				
Airbus S.A.S.	Oman Air	Airbus aircraft	-	139,432,196
Pakistan				
Motorola Ltd	Wateen Telecom (Pvt) Ltd	Expansion of WiMax broadband network	Low	37,045,589
Philippines				
ABN Amro Bank	N/A	Loan to Coke Power Project[2]	-	32,644,382

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

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Russian Federation				
Airbus S.A.S.	Aeroflot Russian Airlines JSC	Airbus aircraft	-	35,239,645
Saudi Arabia				
Hawker Beechcraft Inc	National Air Services	Corporate Jets	-	2,479,678
Singapore				
Airbus S.A.S.	BOC Aviation Pte Ltd	Airbus aircraft	-	59,750,180
Airbus S.A.S.	Tiger Airways	Airbus aircraft	-	14,758,089
South Africa				
BNP Paribas	N/A	Loan to Mozal Aluminium Smelter[2]	-	13,710,706
Deutsche Bank AG	N/A	Loan to Mozal Aluminium Smelter[2]	-	10,079,120
Thailand				
Airbus S.A.S.	Thai Airways International Public Company Ltd	Airbus aircraft	-	161,043,451
Turkey				
Chinook Sciences Ltd	DT Metals Geri Kazanim Teknolojileri Sanayi Ve Ticaret AS	Steam turbine and boiler system for aluminium recycling facility	Medium	8,947,908
Faun Municipal Vehicles Ltd	Mili Savunma Bakanligi	Temporary roadway solution	-	11,621,817
United Arab Emirates				
Airbus S.A.S.	Emirates	Airbus aircraft	-	22,604,993
Airbus S.A.S.	Al Jaber Aviation	Airbus aircraft	-	6,037,025
United States of America				
Airbus S.A.S.	Aviation Capital Group Corp	Airbus aircraft	-	16,497,818
Airbus S.A.S.	International Lease Finance Corporation	Airbus aircraft	-	225,940,984
Airbus S.A.S.	CIT Group Inc	Airbus aircraft	-	43,886,371

Figure 2: List of Guarantees and Insurance Policies Issued or Renewed continued				
Market/ Exporter/ Investor	**Buyer/Airline/ Operating Lessor**	**Project/Goods and Services**	**Case Impact[1]**	**ECGD Max Liability, £s or equivalent**
Airbus S.A.S.	General Electric Capital Corporation	Airbus aircraft	-	114,514,145
Vietnam				
Airbus S.A.S	Vietnam Airlines Corporation	Airbus aircraft	-	14,854,857
	Sub-Total			**2,184,656,265**
	Other Business not listed[3]			21,044,714
	Grand Total			**2,205,700,979**

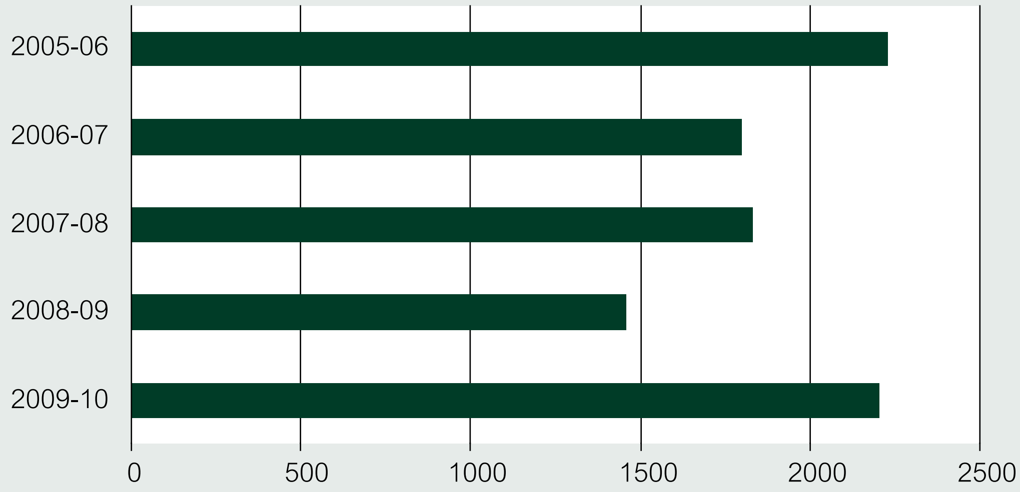
1 The level of environmental and/or social impacts that could potentially occur without the intervention of the impact elimination systems.

2 Overseas Investment Insurance policy renewals.

3 Some transactions are not disclosed e.g. for reasons of commercial confidentiality.

Business Overview

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

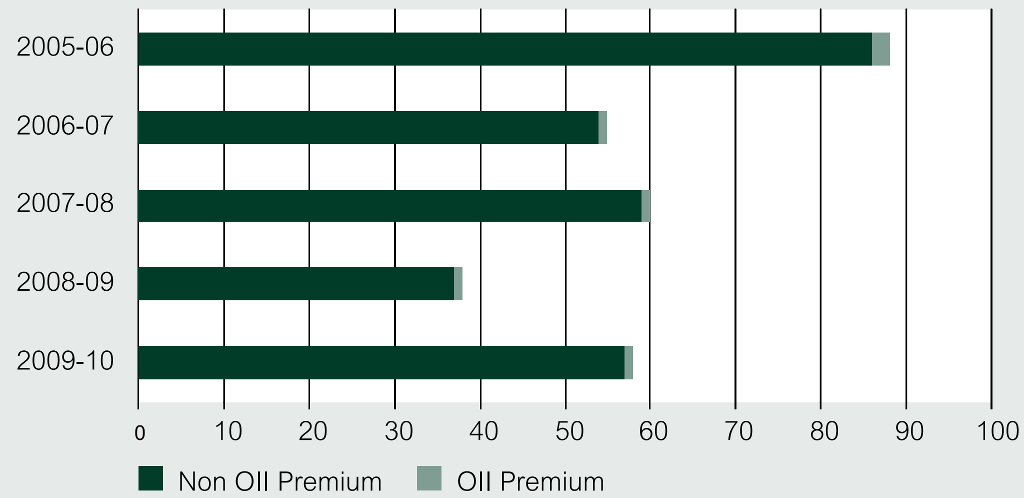


During 2009-10 ECGD supported exports and investments through the issue of guarantees and insurance policies with an aggregate value of £2,206m. This represented a 51 per cent increase from the level of business supported in 2008-09. Buyer Credit and Supplier Credit financing accounted for £2,028m of support, Supplier Credit Insurance for £105m, and Overseas Investment Insurance (OII) business for £73m.

The business supported related to 30 countries, compared with 22 in the previous year, and the total number of guarantees and insurance policies issued increased from 136 to 198 (including nine OII renewals, being equal to last year).

Net premium income was £57.6m, up by 50 per cent from 2008-09.

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



Aerospace Business

The dislocation in international financial markets that began in 2008 led to a sharp reduction in the appetite of commercial banks to fund transactions in the aviation sector through 2009. As a result, there has been a significant rise in the demand for Export Credit Agency support. Due to uncertain commercial banking capacity and high liquidity costs, ECGD has agreed to apply its guarantee in support of transactions funded from the international capital markets. This should provide buyers with a new source of funding against ECGD's guarantee, alongside that from the banking markets.

ECGD support for the UK civil aerospace industry in 2009-10 was 87 per cent higher by value than the previous year; ECGD guaranteed financing for 166 aircraft deliveries. This represented the largest number of Airbus aircraft ever supported by ECGD in a single financial year, and accounted for 34 per cent of all Airbus deliveries. The aircraft were delivered to 34 airlines and operating lessors in Abu Dhabi, Australia, Austria, Bahrain, Bermuda, Brazil, Chile, Columbia, El Salvador, Finland, Greece, Ireland, Kuwait, Malaysia, Mauritius, Netherlands, Nigeria, Oman, Russian Federation, Saudi Arabia, Singapore, Thailand, Turkey, USA and UAE. Nearly 50 per cent of the 166 aircraft delivered were powered by UK aero-engines (supplied by either Rolls-Royce or IAE).

It is expected that a comparable level of support will be provided by ECGD in 2010-11.

ECGD has developed its co-operation arrangements with the French and German Export Credit Agencies in support of Airbus business, involving the provision of a form of re-insurance support to each other. Under these arrangements, one of the three agencies fronts the transactions with the buyer; the other two agencies provide support to the lead agency. This approach is intended to provide a more efficient service to Airbus and its customers. It has also permitted a more efficient use of resources at a time of increased demand for support. This method of providing support was used in approximately 80 per cent of Airbus transactions supported by ECGD.

ECGD has continued to discuss business opportunities with Hawker Beechcraft Corporation and Gulfstream Aerospace Corporation in the business jet market, with a view to providing further support to the UK supply chain on their programmes. As Bombardier approaches the production ramp-up phase on its new C-Series regional jet aircraft, ECGD is engaging with it on financing approaches.

Figure 5: Value of business supported by sector (%) 2009-10

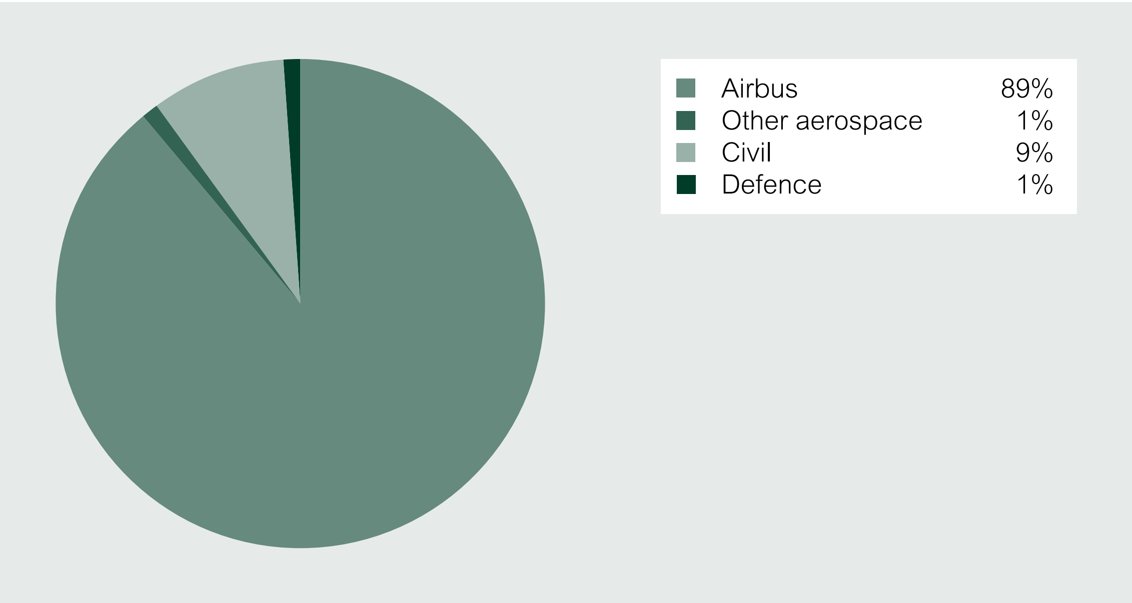


Figure 6: Value of business supported by sector (%) – five year summary

	2009-10	2008-09	2007-08	2006-07	2005-06
Airbus	89	72	29	27	44
Other aerospace	1	1	1	2	3
Civil	9	26	13	29	30
Defence	1	1	57	42	23
Total	100	100	100	100	100

Non-Aerospace Business

The impact of the international financial crisis varied across ECGD's business in the non-aerospace sectors.

The project financing sector was heavily affected by a marked slowdown in the progress of some potential transactions, as project sponsors and their banking partners reviewed their stance in the light of changed economic and financial circumstances. This resulted in an effective suspension of substantive work on various projects that ECGD had been considering. The reduction in bank lending capacity, together with the general hardening of bank loan terms, also encouraged sponsors to consider seeking a larger volume of support from international Export Credit Agencies.

ECGD has remained in close contact with sponsors, banks and other commercial parties involved in a number of significant potential project financings in a range of sectors and overseas markets, for which ECGD support either had been, or is expected to be, sought. Towards the end of the financial year there were increasing signs of forward momentum on a number of these cases. Lead times are, however, expected to be lengthy, not least because of the sheer scale of some of the projects to be funded and the required scope of related due diligence.

By contrast ECGD saw a marked increase in the volume of enquiries for support across a broad spectrum of corporate risk business, ranging in size from very small contracts with small and medium-sized enterprises (SMEs) (whose needs would normally have been met by the private credit insurance market) to very large projects involving major international buyers, who might not necessarily have sought Export Credit Agency support before the crisis.

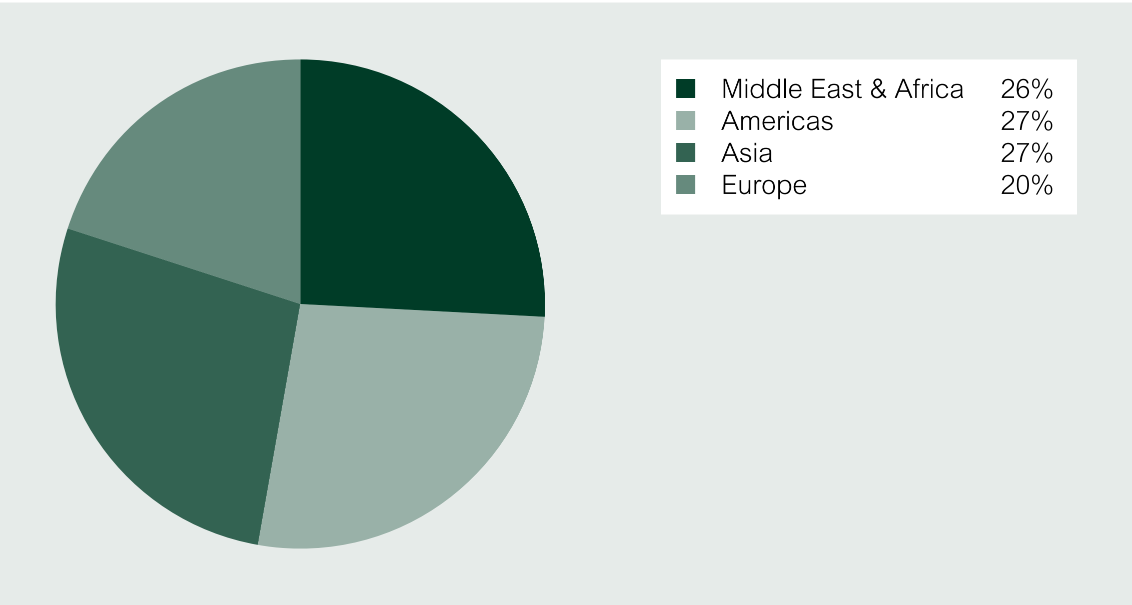
As a result a number of very large corporate risk transactions in a range of markets and sectors were taken forward over the reporting period. These include projects in the energy, construction, power supply, water treatment and shipping sectors located in the Middle East, Africa, Latin America, Russia and the Far East, for which ECGD expects to provide support in the course of 2010-11.

New non-aerospace business concluded over the period included:

- Structured finance support for a US$45.4m contract won by Motorola Ltd in Pakistan. The contract with Wateen Telecom (Pvt) Ltd will provide equipment to reinforce its ongoing WiMax wireless broadband network project. This will allow a growing number of households in low density rural areas to purchase their own terminals in order to access broadband services. The contract was the first to take advantage of ECGD's revised foreign content rules that allow ECGD to support greater amounts of third country supply, where these are the contractual responsibility of the UK exporter.

- Credit insurance cover for exports of potash, with a total value of US$38.6m, from Cleveland Potash Ltd to Fertipar Fertilizantes do Parana, a Brazilian fertiliser production company. A new form of insurance agreement had to be prepared and executed at short notice in order to address a lack of private market export credit insurance capacity.
- A guarantee of US$100.55m to Barclays Bank to support its confirmation of a letter of credit relating to the supply of television coverage of Premier League football matches for the next three seasons (commencing 2010-11) and a license for its broadcast into the Middle East and North Africa.
- Credit insurance for Aedas Architects Ltd in respect of its US$0.36m contract with Karachaganak Petroleum Operating BV of Kazakhstan to provide architectural design and planning for the development and provision of office complexes and related compounds.
- Support under ECGD's Sovereign Star facility for the export by Chinook Sciences Ltd of Nottingham of a US$14m power plant (boiler and steam turbine system) to Turkey, for integration into a scrap aluminium recycling plant located in Cerkezkoy. Chinook's power generation equipment will capture and re-cycle waste heat generated by the aluminium recycling plant, thereby reducing reliance on the local electricity grid and improving the economic efficiency of the project.
- Credit insurance for Voith Paper Ltd for the supply, installation and commissioning of machinery associated with paper manufacturing in China and South Korea, with a total value of about €5.23m.

Figure 7: Business supported by region (%) 2009-10



Defence and Security

ECGD issued an insurance policy to FAUN Municipal Vehicles Ltd of Anglesey in respect of exports which will provide the Turkish Ministry of Defence with a portable roadway system. The roadway is capable of being rapidly deployed and recovered to enable vehicle convoys to gain access to areas that would otherwise be impassable due to swamp, mud, snow, ice, sand or damaged roads.

Overseas Investment Insurance

Under its Overseas Investment Insurance scheme, ECGD provides political risk insurance in respect of UK investments. No new policies were issued during the year. At 31 March 2010 the maximum liability in respect of OII stands at a total of £73m, a reduction from £81m at 31 March 2009.

Market Engagement

ECGD's Market Engagement Team within its Business Group, working with the Department for Business, Innovation and Skills (BIS) and UK Trade and Investment (UKTI), has been raising awareness in the UK and overseas of the benefits of ECGD support and identifying opportunities where ECGD support might help UK exporters to win business.

ECGD has continued to liaise with exporters and trade associations in sectors where ECGD has traditionally been active. In particular, in collaboration with ECGD the Renewable Energy Association has undertaken a survey of its more than 500 members to understand their general trade credit insurance needs. The results are expected to be available in early 2010-11 and should help to identify those aspects on which ECGD may be able to assist UK exporters in the sector.

Letter of Credit Guarantee Scheme

In October 2009 ECGD launched a Letter of Credit Guarantee Scheme to assist UK exporters by boosting the availability of short-term export finance through letters of credit. Under the scheme ECGD may share up to 90 per cent of the risk on an eligible letter of credit.

By sharing the credit risks associated with confirmed letters of credit with banks, ECGD can help to increase the amount of short-term export finance which the banking sector can make available to UK exporters, in order to counter any reduction in the overall risk appetite of the trade finance market due to the global economic downturn.

The scheme does not cover exports within the EU or to Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland or the United States. To do so would require EU State Aids approval from the European Commission, and in practice letters of credit are not commonly used in these markets.

Six banks (Bank of London and the Middle East, Barclays Bank, HSBC Bank, Lloyds TSB, Royal Bank of Scotland and Standard Chartered Bank) are currently participating in the scheme, which covers almost 300 overseas banks in 36 export markets. More banks and export markets are expected to be added to the scheme as it progresses. ECGD underwrote its first business in December and has been seeking to raise awareness of the scheme with banking trade finance teams.

The scheme is planned to be open for new business until 31 March 2011.

Funding

In the second half of 2008 exporters expressed concern about the ability of banks to fund long-term ECGD-guaranteed loans because of the impacts of the economic downturn on financial markets. In response ECGD has facilitated funding of new loans in the capital markets by agreeing to support the issue of notes backed by ECGD-guaranteed loans. Additionally the Bank of England has, since August 2009, allowed banks to use securities backed by ECGD-guaranteed loans as collateral under certain of its lending operations. In the event no ECGD-supported export business failed to proceed due to a lack of funding.

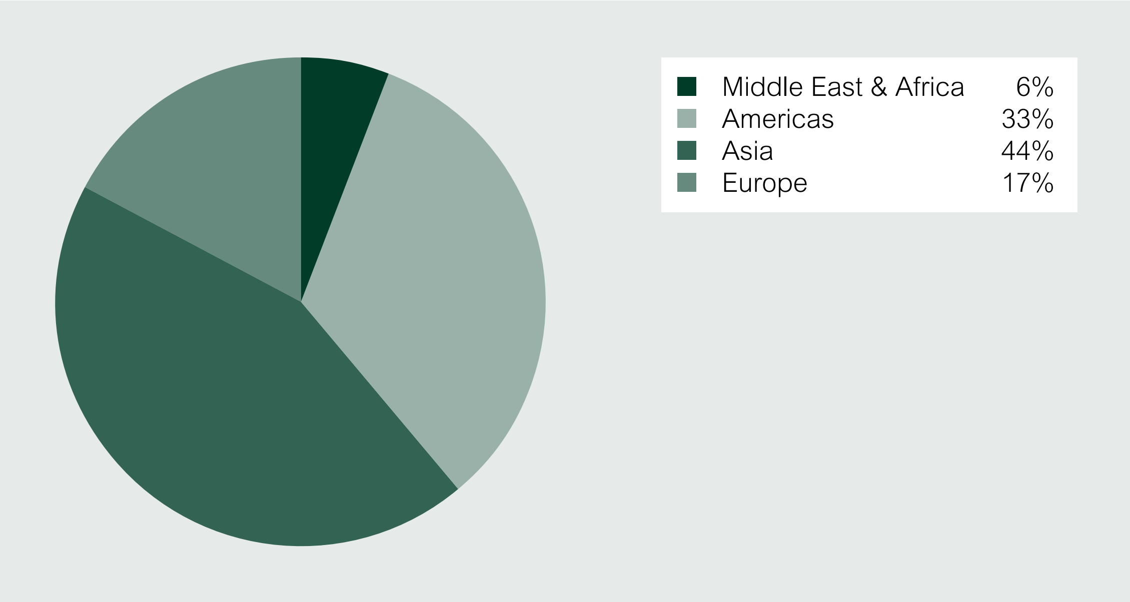
Conditions in bank lending markets continued to improve in the second half of 2009 and early-2010, with a larger number of the banks showing greater willingness to fund ECGD-guaranteed export credits. Nevertheless, as bank funding capability remains constrained, ECGD continues to work closely with banks and other parts of Government to assess these constraints.

Claims and Recoveries

ECGD seeks to recover claims which it has paid either:

- through the Paris Club. This is the informal group of official creditors that seeks to establish co-ordinated and sustainable solutions for debtor nations' debt service difficulties. ECGD implements debt rescheduling and debt write-off agreed by the Paris Club in respect of its exposure to some of the world's poorest countries, reflecting the UK Government's commitment to addressing debt sustainability; or
- directly, on a case-by-case basis (non-Paris Club recoveries).

Figure 8: Claims payments by region (%) 2009-10



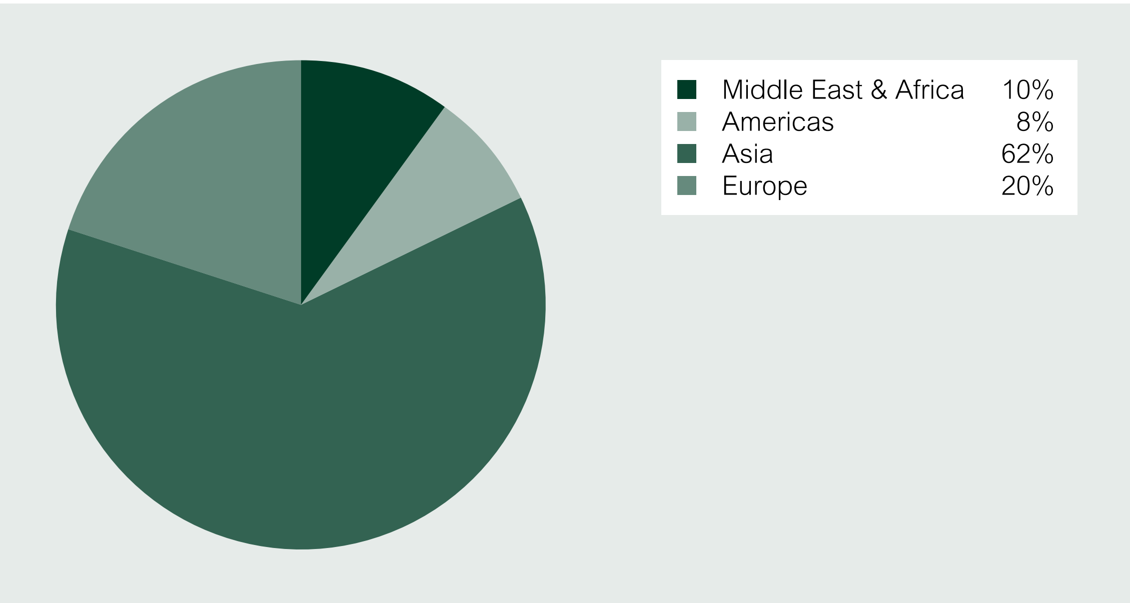
Claims

Payments authorised on capital goods and project business in 2009-10 was £48m, compared to £44m in 2008-09.

Recoveries

Recoveries of principal and interest made during 2009-10 were £205m, compared to £256m in the previous year.

Figure 9: Recoveries by region (%) 2009-10



Paris Club Activity

ECGD received £152m in rescheduled debt and interest payments in 2009-10, compared to £197.8m in 2008-09. ECGD participated in three rescheduling negotiations through the Paris Club, with the Central African Republic, the Cote d'Ivoire, and the Democratic Republic of the Congo respectively.

As a result of repayments and further debt reduction, the amount owed to ECGD under Paris Club arrangements was £2.3bn at 31 March 2010, compared to £2.5bn at 31 March 2009.

Non-Paris Club Recoveries

Recoveries of £53m were made during the year, compared to £31m in 2008-09.

Recovery work was dominated by the aircraft sector. Four repossessed aircraft were sold. As a result ECGD's distressed airline portfolio, where aircraft have been repossessed or where the lease repayments have been restructured, accounted for 33 aircraft involving four airlines at 31 March 2010. 32 of these aircraft, with an exposure of £151m, remain in operation with their original airlines on restructured leases. This compares to a portfolio of 39 aircraft involving five airlines at 31 March 2009. ECGD's distressed aircraft exposure at 31 March 2010 was £161m, a reduction from £284m at 31 March 2009.

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

Fixed Rate Export Finance

ECGD's Fixed Rate Export Finance (FREF) scheme enables exporters to offer their buyers fixed-rate financing at OECD Commercial Interest Reference Rates. FREF financing is available for Sterling, Euro, US Dollar, and Japanese Yen-denominated loans.

The current scheme was subject to a review in 2008, which included a public consultation. In response to the economic downturn and the dislocation in the banking sector the scheme was then extended to 31 December 2009. Given the continuing challenging conditions facing banks and exporters, ECGD announced in November 2009 a further extension of the scheme to 31 March 2011. Access to the scheme remains subject to the availability of funds under its existing budget.

During 2010 ECGD will discuss with banks and exporters how to take forward the decisions set out in the interim response to ECGD's 2008 consultation on the future of the FREF scheme. Once the outcome of these discussions is known, the Government will produce a final response to that consultation.

Legislative change

ECGD derives its statutory authority from the Export and Investment Guarantees Act 1991 (EIGA). On 21 May 2009, the EIGA was amended when the Industry and Exports (Financial Support) Act 2009 was signed into law. The amendment, to section 1(1) of the EIGA, enabled ECGD to make arrangements "in connection with" exports, rather than "with a view to facilitating" exports.

This change clarified ECGD's powers to support exports that had already been partially or fully supplied. The context was that, on major projects, overseas project sponsors increasingly seek financing, including export credits, after they have procured goods and services from suppliers, including from UK exporters. It has also sometimes been the case that supplies have been made before ECGD has been able to complete its assessment of the environmental, social and human rights (ESHR) impacts of the project in question. This amendment allows ECGD to support such exports, but it would do so only if it is satisfied the project meets the relevant international standards in regards to ESHR impacts, where this is required by the *OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*.

Credit Risk Management

ECGD's primary activity involves supporting exports and overseas investments by issuing insurance contracts and guarantees and thereby accepting financial risks. ECGD has established a risk management framework that seeks to identify, manage and as far as possible minimise, these risks through the operation of effective risk management policies and procedures.

Approach

Financial objectives for the credit risk portfolio are set by HM Treasury and compliance with these objectives is subject to regular review. ECGD's performance against its objectives for the year is reported on pages 54-55.

For pre-1991 exposures there are no specific financial objectives other than the aim to recover as much as possible of the debt in respect of claims paid in a manner that takes account of the Government's policy on debt forgiveness.

Organisational Structure

ECGD's organisational structure is functionally-based and separates customer relationship management from the risk and control functions; the customer relationship function, in particular, is separated from the financial risk assessment process so far as is practically possible.

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

Management of Credit Risk

The main objective for ECGD's risk management framework is to identify, assess and manage defined risks in accordance with agreed policies and procedures. The Risk Committee reviews comprehensive credit risk management reports, including regular country reviews, and recent ratings and risk parameters for both corporate and sovereign business. These are used to inform ECGD's risk appetite and pricing for new business.

2009-10 Experience

During the year ECGD conducted country risk reviews for over twenty markets, with rating adjustments downwards on five, and upwards on eight, such markets. For this purpose ECGD receives information from a number of different sources to inform its judgements, including the results of discussions at the quarterly OECD country experts meetings. A process of continuing scrutiny enables ECGD to maintain an informed view on risks and related determinations of exposure to ‘expected loss’ as conditions and risk expectations change, especially on key markets.

Stronger economic or political profiles, or both, for many emerging markets have been reflected in higher internal risk ratings, despite the generally poor global economic climate that has prevailed in the last eighteen months. Generally emerging markets have remained relatively unscathed and are showing the first signs of improvement. While ECGD monitors a number of markets closely, no new potential impairments have surfaced in its portfolio.

In addition to sovereign risk reviews, ECGD conducts regular assessments on its corporate risk portfolio and internal risk ratings are adjusted as appropriate. Default statistics used for the purpose of modelling and pricing are updated every six months. Similarly, aircraft residual asset values are adjusted regularly on the basis of advice from an independent professional valuation firm and cross-checked with advice from other appraisers.

While the effects of the global economic downturn and of credit volatility in financial markets were evident throughout the reporting year, prospective claims, including in the airline sector which was subject to significant stress, have yet to manifest themselves. There may be a lagging effect as markets and sectors come out of the downturn, so it is too early to judge fully the impact of the recent difficult risk environment. One small new claim has been paid, relating to a non-aerospace financial guarantee case underwritten in 2003, with the prospect of a full recovery from a potential restructuring which is under discussion. Furthermore, receipt of expected recoveries from existing cases has not been interrupted by the economic downturn.

ECGD applies minimum risk standards to bank credit quality for contingent exposures and for direct financial counterparty risk on hedging transactions conducted by its Treasury Division. ECGD has paid particular attention to counterparty risk, particularly on banks, as stresses in the global banking sector featured heightened funding risk, increased loan loss provisions and stresses on levels of capital adequacy. ECGD’s aggregate exposure to financial institutions remains below ten per cent of its total portfolio and principally relates to investment grade credits. Loss experience on Account 2 since 1991 has been minimal for bank counterparties, although recent strains for the sector have been without parallel over that period.

Against this background ECGD has sought to apply rigorous risk analysis in relation to both its existing credit risk portfolio and its structuring of new business transactions.

ECGD's credit risk management framework includes the application of extensive scenario analysis and stress-testing to its portfolio, in line with best market practice, in order to measure ECGD's risk exposure against its financial objectives and to inform its decision-making. These techniques have proved especially useful in deepening understanding of the wider implications of specific risk events and the combinations of such risk events. The synchronised global economic downturn, the operating losses of many participants in the airline sector and the systemic banking crisis in a number of the larger economies caused ECGD to place a greater focus on the inter-connections between risks.

While there has been a decline in the overall quality of ECGD's portfolio as a whole, in line with the global risk environment, that decline has not been material when measured by the weighted average rating profile or the movement in 'expected loss' rates. This reflects the secured nature of the large airline segment within the overall portfolio, the wide diversification within certain sub-portfolio risks, the minimum risk standards applied and the absence of material stress for many of the emerging market sovereign obligors to which ECGD has exposure.

Financial Objectives

Total nominal credit exposure has remained broadly static on Account 2, with run-offs closely matching new business, and is well within ECGD's related financial objective. The portfolio risk measure at the 99.1 percentile of the loss distribution is materially below the specified risk appetite limit. Accordingly, ECGD does not expect to face any portfolio capacity constraint on its ability to support new business.

The civil aerospace sector remains ECGD's largest concentration of exposure. A similar level of support provided in 2009-10 is forecast for 2010-11, given the continued restricted appetite in the commercial markets for airline risk. This is principally due to balance sheet and funding constraints in the banking sector, alongside the effects of prospective regulatory changes, although there is now some evidence of a reduction in the volatility of cost of funds and better access to market sources of liquidity. Certain of the expected new credits, especially at the lower risk rating bands, may provide ECGD with challenges on risk quality and on associated pricing.

Staff Resources

Steps were taken to strengthen staff resources to support risk assessments on the increased volumes of aerospace business and of requests from exporters for indications of support on the non-aerospace side.

International Developments

During the past year ECGD has represented the UK at international meetings on the following issues:

G20 Trade Finance Initiative

To support the UK Presidency of the G20 in 2009, ECGD supported HM Treasury in its role as co-chair, with US Treasury, of the G20 Trade Finance Experts Group, helping to coordinate and monitor delivery of the US$250bn Trade Finance Initiative launched by G20 Leaders at the London Summit in April 2009.

Export Credit Agency Premium Rates

In February 2010, OECD members agreed to introduce a new framework of minimum premium benchmarks for both sovereign and corporate risk. The new rates will replace the current Minimum Premium Benchmarks, which were introduced in 1998. This is a significant step forward towards achieving a more level playing field for UK exporters, given that the previous agreement only covered sovereign risks. The new premium agreement will apply to all official export credit support with a repayment period over two years, except defence business (which is outside the OECD Arrangement) and civil aircraft and ships (which are subject to separate OECD premium regimes).

The main features of the package are:

- A five-to-ten per cent reduction on current OECD minimum rates for sovereign risks;
- Risk-related scales of up to seven minimum rates for corporate/bank risk including “sovereign equivalent” and, exceptionally, “better than sovereign” obligors;
- Risk categories for corporate/bank rates mapped against independent credit ratings;
- Qualitative descriptions of the risk categories to help Export Credit Agencies identify the minimum rate appropriate to each case;
- Guidelines to help Export Credit Agencies determine that the premium rates for business in rich countries do not undercut available private market pricing;
- Discounts for certain forms of buyer risk mitigation, such as use of escrow accounts or local currency financing; and
- Enhanced transparency through an associated reporting regime.

The agreement will come into force on 1 September 2011 and the new rates will apply to all new commitments from that date.

Energy and Climate Change

In June 2009 OECD members agreed to revised terms and conditions for the two OECD Arrangement sector understandings which govern support for renewable energy and water projects, and for nuclear power plants respectively. The maximum credit terms available under both understandings were extended from fifteen years to eighteen years. More flexible repayment profiles were also introduced. These flexibilities are available for repayment terms of up to eighteen years for renewable energy and water projects and for up to fifteen years for nuclear power plants.

OECD members agreed to continue to review the sector understanding for renewable energy and water projects with a view to broadening its scope to include technologies which help to combat climate change. A revised agreement is expected during 2010.

Aircraft Sector Understanding

The Aircraft Sector Understanding (ASU), negotiated by all OECD members and Brazil, sets the financial terms and conditions that can be offered by Export Credit Agencies in the civil aviation sector. Towards the end of 2009 its parties agreed that recent developments in the aircraft market required a review of the ASU with the aim of agreeing to a single set of rules to replace the previous agreement, reached in 2007, which set different terms for large aircraft and for regional jets. Negotiations began in February 2010 and are expected to continue throughout 2010.

Common Approaches on the Environment

Members of the OECD Export Credit Group have begun to review the *OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*. Negotiations are due to be completed by December 2010. ECGD has been involved in discussions to consider possible revisions to the Recommendation and, where possible, has formed alliances with other OECD members in order to pursue improvements.

Outreach to non-OECD countries

ECGD has had regular contact with non-OECD Export Credit Agencies and their guardian authorities, both in London and at meetings of the OECD (where non-OECD countries are invited to attend as observers) and the Berne Union (the international organisation of public and private sector providers of export credit and investment insurance). This included a special one-day OECD workshop to develop and enhance non-OECD members' understanding of the *OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*.

People and Infrastructure

ECGD seeks to be an efficient, flexible and high performing organisation. Its staff are central to this objective. Steps to strengthen staff skills and experience have had specific focus in 2009-10, given the increased demand for ECGD's services resulting from the global economic downturn. ECGD has also recruited staff to add to its expertise in credit risk, aviation financing, and the analysis and assessment of environmental, social and human rights impacts.

2009-10 saw a coordinated programme of staff training at all levels across the organisation, including a programme on nurturing leadership talent. For the second year running ECGD has participated in a cross-government initiative to recruit and develop trainee accountants.

ECGD participated in the first Civil Service People Survey, with a departmental response rate of almost ninety per cent. ECGD's Investors in People accreditation (held since 1999) was renewed following a thorough assessment, which found evidence of continued improvement against all the key indicators. Both the survey and the assessment also revealed areas for further improvement, and ECGD is taking steps to address these.

ECGD has also worked to improve its operational efficiency and effectiveness. It is close to completion of the main elements of a programme to reconfigure and simplify its corporate processes and systems, introducing new ownership structures and greater automation of case management and management reporting functions. As a result ECGD expects to be more cost-effective, while providing customers with a more responsive service. ECGD also expects to benefit from improved controls against the risks of operational error, and from more efficient and secure data handling.

In addition the simplification of ECGD's technical infrastructure will enable its IT support contract to be re-tendered in due course, with a move from onsite IT support to an offsite IT service; this should give rise to material savings in operating costs.

Sustainable Development Report

Introduction

This is ECGD's annual Sustainable Development Report.

ECGD contributes to sustainable development mainly through benchmarking of the potential environmental and social impacts of overseas projects against relevant international standards where ECGD is asked to support related exports. ECGD also seeks to minimise the environmental impacts of its own domestic footprint. ECGD addresses its contribution to sustainable development through its Sustainable Development Action Plan (SDAP), which is published on its website, and its reporting under the Sustainable Development in Government initiative (SDiG).

Sustainable Development Action Plan

In June 2009, ECGD published a new Sustainable Development Action Plan (SDAP) setting out the Department's goals in respect of sustainable development for the 2009-11 financial years.

The 2009-11 SDAP placed particular emphasis on the influence ECGD can have on sustainable development through the standards it applies to the business it supports. The SDAP also focused on ECGD's role in seeking to improve how Export Credit Agencies apply environmental standards through its participation in OECD and EU negotiations. In addition to its focus on outward business activities, the SDAP also detailed ECGD's continued progress in relation to the reduction of its domestic footprint and meeting the targets set out in the Sustainable Operations on the Government Estate (SOGE) framework.

Progress against 2009-11 SDAP Actions

ECGD has completed the following actions:

- **Action 5**: *ECGD will contribute to the development of the EU's position for OECD negotiations during 2009 on the Renewables and Water Sector Understanding, consistent with wider UK Government policy*. This action has been amended to reflect current negotiations to expand the sector understanding for renewable energy and water projects to cover technologies that mitigate climate change.
- **Action 7(i)**: *ECGD will annually publish on its website estimates of the Greenhouse Gas (GHG) emissions from high and medium impact projects from 1 April 2008 and 1 April 2009 respectively*.
- **Action 13**: *ECGD will launch a Sustainable Development intranet site in the summer of 2009 to better inform its staff and to improve sustainable development efforts within ECGD*.

The remaining actions are on target. The table below summarises the status of the actions.

Action no.	Action	Progress	Comments
1	To obtain multilateral agreement for improvements to the *Common Approaches on the Environment and Officially Supported Export Credits* (Common Approaches). ECGD will work to develop the UK position for the purposes of the review of the OECD Common Approaches in 2010. The UK's objectives will include: (i) that the Common Approaches should require OECD Export Credit Agencies to provide more environmental information during the due diligence phase in order to allow greater participation by interested parties before decisions are made; and (ii) a tightening of the use of the 'escape' clause, whereby Export Credit Agencies can support projects which do not meet international standards.	**On Target**	Negotiations on the revision to the 2007 Common Approaches are underway at the OECD. Preliminary meetings with other Government Departments have taken place and ECGD's Minister approved the UK's aims for these OECD negotiations in 2010.
2	ECGD will continue to apply the stated standards on all transactions in which it is involved.	**On Target**	Throughout 2009-10 ECGD has applied the applicable standards to all business on which it offered support.
3	ECGD will continue to comply with the *OECD Recommendation on Bribery and Officially Supported Export Credits*. ECGD will also seek to identify possible improvements to the procedures set out in the Recommendation through monitoring their implementation and by pursuing, on a multilateral basis, any changes as may be supported.	**On Target**	
4	ECGD will continue to conform to OECD standards in respect of Sustainable Lending, and to monitor the effectiveness of the OECD Principles and Guidelines.	**On Target**	

Action no.	Action	Progress	Comments
5	ECGD will contribute to the development of the EU's position for OECD negotiations during 2009 on the Renewables and Water Sector Understanding, consistent with wider UK Government policy.	**Complete**	A revised Renewable Energies and Water Sector Understanding (REWSU) was agreed in June 2009.
		On Target	A second phase of negotiations has commenced, with a view to expanding the REWSU to include additional renewable energy technologies and to broaden the scope to include technologies which mitigate Climate Change. Further work is scheduled for 2010.
6	ECGD will continue to engage with potential customers in the UK renewables sector to raise awareness of the Department's facilities and ascertain whether ECGD's services can be of assistance to UK exporters of capital goods and related services in that sector.	**On Target**	ECGD has continued to engage over the year with potential customers and trade associations. This has included discussions with the UK Renewable Energy Association on how the two organisations could work together. ECGD has also attended four renewable industry events including the largest such event, "All Energy '09". In collaboration with ECGD, the Renewable Energy Association is undertaking a survey of its more than 500 members to identify how ECGD may be able to sist UK exporters in the sector.
7	ECGD will:	**Complete**	ECGD's Annual Review and Resource Accounts 2008-09 were laid before Parliament on 13 July 2009. Incorporated within them was ECGD's Annual Sustainable Development Report, which included for the first time information on GHG emissions from high impact projects.
	(i) annually publish on its website estimates of the GHG emissions from high and medium impact projects from 1 April 2008 and 1 April 2009 respectively; and	**Complete**	GHG emissions from medium impact projects above the reporting thresholds are included in ECGD's 2009-10 Annual Review and Resource Accounts.
	(ii) explore the feasibility of airlines being willing and able to report periodically the emissions of the aircraft that benefit from ECGD support.	**On Target**	ECGD is exploring with a number of airlines the feasibility of obtaining details of their CO_2 monitoring on aircraft supported by ECGD.
8	ECGD will seek to engage with other Export Credit Agencies with a view to exploring the potential to develop a common understanding regarding supply chain policies and practices for capital goods business.	**On Target**	Discussions are taking place in the OECD Environmental Practitioners Group.

Action no.	Action	Progress	Comments
9	ECGD will continue to review and improve performance against those SOGE targets already met, and to work toward achieving improvements in energy efficiency and waste reduction.	**On Target**	ECGD has engaged with the Carbon Trust and carried out energy surveys at its London office (HEX). In conjunction with this, a similar survey has been carried out at its Cardiff file repository. Both surveys have identified areas in which energy efficiency can be improved. Additionally, ECGD is considering entering into a 'green lease' with the HEX landlord and also joining a tenants Green Committee. These will ensure that performance against the SOGE targets is consistently improved.
10	ECGD will continue the dialogue with the building management of its London office to work to encourage that the energy supply sourced meets sustainable targets.	**On Target**	The Green Committee and the Green Lease will ensure the London building management remains focused on energy issues, such as the energy supply contracts.
11	ECGD will continue its involvement with the Government Carbon Offsetting Fund for the 2009-11 period and work toward offsetting other forms of travel, even if not mandatory under the new GCOF II.	**On Target**	A budget has been set specifically to cover the Government Carbon Offsetting Fund, so that ECGD makes a fair contribution. ECGD will continue to monitor all business travel and has put procedures in place to identify this data.
12	ECGD will continue work on delivery of the key elements of its Learning and Development Strategy to promote the professional development of its staff.	**On Target**	Significant activity continued during 2009 to deliver the Learning & Development Strategy. As well as targeted functional training, we have begun the delivery of the grade-specific development programmes. So far, the 'Releasing Potential' programme for Administrative staff and the 'Powerhouse' programme for Senior Managers have been delivered. The programmes for Senior Administrative staff and Middle Managers began in early 2010.
13	ECGD will launch a Sustainable Development intranet site in the summer of 2009 to better inform its staff and to improve sustainable development efforts within ECGD.	**Complete**	In consultation with ECGD's Human Resources Division and Business Group, the Chief Executive's Office has launched a Sustainable Development intranet site for staff.

Action no.	Action	Progress	Comments
14	ECGD will continue to contribute to the local community through providing work experience opportunities for local students; by supporting and promoting staff volunteering; and by making appropriate paid special leave available for this purpose.	**On Target**	In 2009 ECGD continued to offer work experience opportunities to students from Tower Hamlets, taking three students overall. ECGD also continues to promote volunteering, and supports it through the provision of special leave.
15	ECGD will review its Flexible Working provision in 2009-10.	**On Target**	ECGD's Flexible Working provision has been reviewed and a revised policy will be implemented in 2010-11.

Embedding Sustainability

ECGD complies with the international agreements that relate to sustainable development on environmental, social and human rights impacts, anti-bribery, and sustainable lending, in respect of the business which it supports. In addition, ECGD complies with relevant UK legislation, such as the Freedom of Information Act, and wider government polices where applicable.

ECGD has in place a comprehensive learning and development strategy to help equip staff with the skills and expertise to perform effectively. This strategy promotes staff health and wellbeing and is complemented by frequent seminars for staff on health-related issues and by health screening opportunities.

Sustainability has been embedded further in the Department's domestic operations through the establishment of a green committee for tenants by the managers of the building that ECGD occupies in London. This committee will give ECGD greater influence over the decisions the landlord makes over sustainability issues on their estate that directly affect the Department.

Governance of sustainability has been strengthened in ECGD through the establishment of ECGD's Sustainable Development Forum to co-ordinate policy on sustainable development issues across ECGD.

Although it has a limited domestic footprint, ECGD has made good progress against the targets set out for government departments in the Sustainability on the Government Estate framework. More detail can be found in the relevant section of this report on page 42-44.

Next Steps

In December 2009, following discussions on its 2009-11 SDAP with the Sustainable Development Commission, ECGD decided to produce a new SDAP, which it aims to publish in the autumn of 2010. The new SDAP will be produced alongside ECGD's 2011-2015 Business Plan.

Sustainable Lending

ECGD did not support any cases that required further assessment in accordance with the application of *OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries*

Environmental, social and human rights impacts

Information related to the application of the *OECD Revised Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*

	Number
Insurance policies and guarantees issued that were screened for environmental, social and human rights (ESHR) impacts	10
Insurance policies and guarantees issued for which an ESHR impact assessment was provided	0
Insurance policies and guarantees issued that were categorised as being medium potential ESHR impact cases, for which the project was expected to comply fully with the relevant international standards at the time of the guarantee being issued	1
Insurance policies and guarantees issued categorised as being high potential ESHR impact, cases for which the project was expected to comply fully with the relevant international standards at the time of the guarantee being issued	0
Projects reported by ECGD to the OECD under the terms of the Common Approaches for non-compliance with the relevant international standards	0
Insurance policies and guarantees issued which were categorised as being medium potential ESHR impact cases to which environmental conditions were attached	1
Insurance policies and guarantees which were categorised as being high potential ESHR impact cases to which environmental conditions were attached	0
Transactions that ECGD declined to support on ESHR impact grounds	0

Environment, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2009-10

Market/ Exporter	Overseas project	Exported goods/ services	Potential impact category[1]	Explanation of category	Compliance with relevant international standards	Estimated GHG emissions
Brazil & Uruguay	Fertiliser manufacture	Bulk, granular muriate of potash	Low	Insignificant impacts in terms of environmental, health & safety, social and human rights issues.	Not applicable	Not required for cases with low potential impacts
China	Paper manufacture	Supply of eco-soft calendar machine	Low	As above	Not applicable	As above
China	Paper manufacture	Supply of Ecocal calendar machine	Low	As above	Not applicable	As above
Kazakhstan	Office and residential compound	Construction services	Low	As above	Not applicable	As above
Pakistan	Wireless broad-band network	Design, supply and the installation of wireless broad-band network	Low	As above	Not applicable	As above
South Korea	Paper manufacture	Ecosoft calendar and tail threading machine	Low	As above	Not applicable	As above
Turkey	Aluminium recycling facility	Turnkey supply of boiler system & steam turbine	Medium	Potential negative environmental, social or human rights impacts but not at a level requiring an EIA.	Compliant at date of issue of support.	Not significant and below the reporting thresholds

Environment, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2009-10 continued

Market/ Exporter	Overseas project	Exported goods/ services	Potential impact category[1]	Explanation of category	Compliance with relevant international standards	Estimated GHG emissions
United Arab Emirates	Television broadcast	Television broadcast of English Premier League 2010 – 2013.	Low	Insignificant impacts in terms of environmental, health & safety, social and human rights issues.	Not applicable	Not required for cases with low potential impacts

Notes:

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

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

1 The level of environmental and/or social impacts that could potentially occur without the intervention of the impact elimination systems.

Issued cases designated as having high potential environmental, social and human rights impacts

Year of issue/ Market/ Exporter	Overseas project	Exported goods/ services	Compliance with relevant international standards	Comments
2003-04 / Azerbaijan / BP Exploration (Caspian Sea) Ltd, CB&I John Brown Ltd	Baku-Tbilisi-Ceyhan (BTC) Pipeline	Range of goods and services	Compliant	Operation phase
2004-05 / Iran / MAN Ltd	South Pars gas field: Projects 9 & 10	Piping, electrical and mechanical equipment, and other steel related products	Action plan agreed with project sponsors to address air quality compliance	Construction phase
2005-06 / Brazil / Rolls-Royce Power Engineering, InvSat Ltd (now Nessco Ltd), ETA Process, VWS Westgarth Ltd	P-52 Floating Oil Production Unit	Turbines, power generation modules, associated plant and oil production equipment	Compliant	Operation phase

Issued cases designated as having high potential environmental, social and human rights impacts continued

Year of issue/ Market/ Exporter	Overseas project	Exported goods/ services	Compliance with relevant international standards	Comments
2006-07 / Saudi Arabia / Foster Wheeler Energy, Fluor Ltd	Yanbu National Petrochemical Company (Yansab)	Project management, contract, engineering design and procurement services.	Compliant	Construction phase
2008-09 / Saudi Arabia / Fluor Ltd and other UK exporters	Saudi Kayan Petrochemical Co.	Refinery and Petrochemical plant	Compliant	Construction phase

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

Anti-bribery and corruption

ECGD reviews the applications which it receives for support in accordance with the *OECD Council Recommendation on Bribery and Officially Support Export Credits*.

Annually, ECGD publishes on its website statistical information about the operation of its anti-bribery policies for the year in question. During 2009-10, ECGD additionally conducted a review of the operation of revised anti-bribery policies and practices that had been introduced in July 2006, in fulfilment of a commitment to the then House of Commons Trade and Industry Select Committee. The review was published on ECGD's website on 3 December 2009.

The review found that exporters, banks and investors had complied with the new procedures. However, the review also considered that the arrangements for dealing with situations where ECGD reinsures another Export Credit Agency in respect of UK sub-contracts to overseas main contractors would benefit from certain revisions. Following a public consultation, the Government decided in an interim response to that consultation, published on 19 March, to implement proposals to revise ECGD's policies in situations where it provides reinsurance to another Export Credit Agency that complies with the OECD anti-bribery recommendation.

Revisions to ECGD’s Business Principles and ancillary policies

In December 2009 the Government launched a public consultation on proposals to revise ECGD’s Business Principles and ancillary policies in order to take account of international and legislative changes since they had first been issued in 2000.

The Government published an interim response on 19 March and a final response on 1 April 2010, which announced that it had decided to implement these proposals with effect from 1 May 2010. Copies of the consultation document, the submissions received, and the Government’s initial and final responses were published on ECGD’s website.

Parliamentary Joint Committee on Human Rights

In December 2009 the Joint Committee on Human Rights issued a report entitled *Any of our business? Human rights and the UK private sector*. The report made a number of recommendations about ECGD, including that the Government should act unilaterally to ensure that there are clear consequences following a negative final statement against a UK company of the UK National Contact Point for *OECD Guidelines for Multinational Enterprises*, including consequences for any future applications by that company for ECGD support.

The Government agreed to propose to the OECD, as part of its current review of the *OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*, that Export Credit Agencies should take into account in their decision-making those situations where a company has received a negative finding under the *OECD Guidelines for Multinational Enterprises* by a National Contact Point. The Government rejected the Committee’s recommendation that ECGD’s Business Principles should be incorporated into ECGD’s statutory framework in the absence of more transparency on the assessments it conducts of projects for which its support is sought. Copies of the Committee’s response and the Government’s response can be found at www.parliament.uk

Exporter supply chains

In furtherance of an objective to seek a multilateral understanding among Export Credit Agencies on exporter supply chain due diligence, ECGD organised an informal discussion forum in June 2009 among the OECD Export Credit Group’s environmental practitioners. ECGD also gave presentations at two meetings of the Multilateral Financial Institutions Working Group on the Environment.

While mixed views were expressed about the appropriateness of Export Credit Agencies involving themselves in supply chain due diligence, these presentations helped to raise awareness of the issue and provided a platform to garner support among a number of Export Credit Agencies to take this initiative forward. Planned activities include participating in the review by the International Finance Corporation of its performance standards; examining the approach to supply chains by the European Bank for Reconstruction and Development; and collaborating with the Department for Business, Innovation and Skills on its review of the *OECD Guidelines for Multinational Enterprises.*

Requests for Information

The Freedom of Information Act 2000 gave the public new rights of access to information held by public authorities. It came into force on 1 January 2005. Since then, ECGD has received a steady flow of requests covering a range of issues.

In 2009-10 ECGD received 65 requests for information under the Freedom of Information Act or the Environmental Information Regulations.

Requests for information 2009-10 and 2008-09

Issue	2009-10	2008-09
Anti-bribery and corruption procedures	1	4
Defence business	8	3
Environmental information	3	6
Project Information and general business matters	29	13
International debt	2	3
Organisation/procurement	22	28
Total	65	**57**

ECGD responded to 89 per cent of cases within the statutory time limit.

No cases were referred to the Information Commissioner or the Information Tribunal.

Sustainable Development in Government

Since 1999 the Government has publicly reported progress in meeting sustainable development objectives in the management of its own estate. In June 2006 the Prime Minister launched new common targets for the Sustainable Operations on the Government Estate (SOGE). These targets replaced those in the Framework for Sustainable Development on the Government Estate (originally published between 2002 and 2004) and are focused on key operational areas such as energy. Departments are required to report annually on whether they have met their targets, and progress is assessed in the annual Sustainable Development in Government report. The responsibility for annually assessing performance of departments against the framework rests with the Sustainable Development Commission.

The 2008-09 SOGE reporting period (the most recent) shows ECGD as being on course to meet seven of its nine applicable SOGE targets. It will be necessary for ECGD to maintain performance through to the various target dates in order for these achievements to be recognised. ECGD has either met or is on course to meet the targets to:

- Reverse the upward trend in carbon emissions by April 2007. ECGD achieved this target by the due date.
- Reduce carbon emissions (from offices) by 12.5 per cent by 2010-11, relative to 1999-2000 levels. In 2008-09, ECGD reduced the total carbon emissions from its offices by 44.3 per cent (relative to 1999-2000 levels). This is a further reduction on the 32.4 per cent reduction reported for the 2007-08 period.
- Reduce carbon emissions (from road vehicles used for administrative operations) by 15 per cent by 2010-11, relative to 2005-06 levels. ECGD reduced the total carbon emissions from road vehicles by 82.4 per cent.
- Increase recycling figures to 40 per cent of waste arisings by 2010. ECGD has continued to improve its recycling, with an increase from 65.7 per cent of waste arisings in 2007-08 to 81.9 per cent in 2008-09.
- Reduce water consumption by 25 per cent on the office and non-office estate by 2020, relative to 2004-05 levels. ECGD is exceeding this target, reducing water consumption by 74.9 per cent by 2008-09.
- Source at least 10 per cent of electricity from renewables by 31 March 2008. ECGD met this target, sourcing 12.8 per cent in 2007-08. In 2008-09, ECGD sourced 36 per cent of its electricity from renewable energy.
- Source at least 15 per cent of electricity from Combined Heat and Power by 2010. In the reporting year, ECGD sourced 64 per cent of its electricity from Combined Heat and Power (CHP). The building owner reviews the purchasing of energy at ECGD's London premises on an annual basis. As a result, the energy supplier and type is subject to change.
- Increase energy efficiency per m^2 by 15 per cent by 2010, relative to 1999-2000 levels. In common with all government departments that have reduced their floor space, ECGD has found that energy efficiency has decreased as a result of more efficient use of workspace (more workstations and computers per m^2). ECGD's energy efficiency has declined by 17.4 per cent against a targeted increase of 15 per cent by 2010-11 (relative to 1999-2000 levels). This result should be understood in the context of an overall reduction of 62 per cent in fossil fuel and 44 per cent in electricity consumption in comparison with the baseline year of 2004-05. This measure is to be replaced following a recommendation by the Environmental Audit Committee in its 2008 report on *Making Government operations more sustainable*, which stated that the target gave misleading pictures of departmental performance.

- Reduce waste arisings by 5 per cent by 2010, relative to 2004-05 levels. ECGD's waste arisings have increased by 16.5 per cent. Waste arisings are difficult to assess as ECGD's London office is part of a multi-tenanted office complex and ECGD's waste is not measured separately from other tenants. ECGD reports waste as being its 'share' of the waste for the whole office complex, based on its share of the floor space.

There are a number of Mandated Mechanisms in the SOGE framework; of the two of which apply to ECGD, both are on target:

- ECGD has successfully encouraged staff to take an active role in volunteering in the community, with 17 full-time equivalent days reported in 2008-09.
- ECGD also has a non-certified Environmental Management System in place for Harbour Exchange Square.

ECGD purchases carbon offsets for its air and rail travel.

Export Guarantees Advisory Council Annual Report 2009-10

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

The Council's broad remit is to provide advice to Ministers on the principles that guide ECGD's pursuit of the aims and objectives set out in its Mission Statement and how these principles inform its business policies. The Council does not provide advice on decisions to support individual cases, though it does carry out retrospective reviews of cases so that it may understand how ECGD's principles and policies are applied in practice and advise on how these might be further developed.

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

Chair

Professor Jonathan Kydd
(Dean of the External System, University of London) – *to July 2009*

Andrew Wiseman
(Partner, Stephenson Harwood) – *from July 2009*

Members

Gillian Arthur
(Head of Philanthropy Services, Sanne Group) – *from May 2009*

Robert Barrington
(Director, External Affairs, Transparency International) – *to September 2009*

Alistair Clark
(Corporate Director, Environment and Sustainability Department, European Bank for Reconstruction and Development (EBRD)) – *from May 2009*

John Newgas
(Consultant, Sagwen Computer Consultancy) – *from May 2009*

Martin Roberts

Anthony Shepherd
(Chairman, The Alderley Group)

Anna Soulsby
(Associate Professor of Organisational Behaviour, Nottingham University Business School) – *from May 2009*

Paul Talbot
(Assistant General Secretary, Unite)

Andrew Wiseman
(Partner, Stephenson Harwood) – *to July 2009*

Peter Haslehurst, an ECGD non-executive director, attends Council meetings as an observer, in order to provide a link between the Council and ECGD's Management Board.

During the year, my predecessor Professor Jonathan Kydd retired from the Council, having served both as a member, and latterly as Chair, for over nine years. On behalf of the Council, I thank Professor Kydd for his valuable contribution to the work of the Council. Similarly, I also take this opportunity to thank Robert Barrington for his services to the Council over the past three years. In May 2009, four new members joined the Council: Gillian Arthur, Alistair Clarke, John Newgas and Anna Soulsby. I am confident that the range of experience and expertise of these new members will assist the Council in its deliberations on the issues on which it has been tasked to provide advice.

The Council met on five occasions in 2009-10, including two special meetings called at short notice to discuss issues on which ECGD sought the Council's advice. The Council also met ECGD's Minister, Ian Pearson, in April 2009. As in previous years, the Council focused its attention on policies stemming from ECGD's Business Principles and their application to ECGD's activities.

The Council's first meeting in April 2009 was a special meeting to discuss and provide advice on the Government's intention to make an amendment to ECGD's statutory purpose by way of the Industry and Exports (Financial Support) Bill. The amendment, which was technical in nature, did not alter ECGD's role and responsibilities but would enable the Department to support business in circumstances where exports had already taken place. The Council endorsed the amendment on the basis that it would not change or dilute the application of ECGD's Business Principles. During its passage, Ministers gave such an assurance to Parliament. The Bill received Royal Assent in May 2009. At this meeting, the Council was also briefed by ECGD on the Government's 'New Industry, New Jobs' policy statement, and the 2009 Budget Statement, which announced an intention by the Government to undertake a review of ECGD.

The first of the Council's regular quarterly meetings took place in May 2009. The Council discussed themes and actions that had arisen in its meeting with non-governmental organisation (NGO) representatives which took place in March 2009. One of the actions from this meeting was to produce a note of the role and responsibility of the Council which explained its advisory function; this was published in October 2009. We also examined ECGD's performance under Freedom of Information legislation during 2008. The Council reviewed and commented on ECGD's draft 2009-11 Sustainable Development Action Plan, and noted ECGD's continued positive performance in meeting its Sustainability in Government targets.

The Council undertook a case study of the South Pars project in Iran. Nicholas Hildyard of The Corner House attended the meeting and gave evidence to the Council, for which we were grateful. As a result, the Council gained an understanding of the performance of the project and, more generally, the nature of the arrangements which ECGD puts in place to monitor the performance of projects after its support has been provided.

The Council met in July for a special meeting to discuss the Government's proposal for ECGD to introduce a Letter of Credit Guarantee Scheme and its plans to undertake a public consultation. The Council's advice was particularly sought in regards to the proposal that business supported under the scheme should not be subject to environmental, social and human rights impacts due diligence and that ECGD's anti-bribery policies should be amended to take into account the way in which the scheme would be operated. While these proposals did not mean that ECGD would act in contravention of the relevant international agreements, they would result in a change of ECGD's usual policy and practice at that time in regards to environmental, social and human rights impacts and anti-bribery due diligence. The Council considered that the nature of the exports that would be supported under the Scheme and the timescales involved to approve business meant that ECGD could justifiably propose to amend its usual policies and practices.

Our second quarterly meeting took place in October. The Council undertook a review of the work of ECGD's Business Principles Unit (BPU) over the financial year 2008-09. The Council noted that the workload of the BPU remained heavy, and that ECGD intended to increase BPU staff resources so that it could continue to undertake with due rigour its key role of assessing the environmental, social and human rights impacts of projects for which ECGD support had been requested.

The Council considered a proposal by the Government to undertake a public consultation on proposals to make changes to ECGD's Business Principles and ancillary policies. The key proposals were that ECGD should adopt a policy of applying international agreements and not create and operate polices which went beyond those agreements; ECGD should revise and substantially reduce its statement of Business Principles; and ECGD should adopt the Government's Code of Practice on Public Consultations. The Council noted that the proposals to apply international agreements would mean that ECGD would no longer undertake environmental, social and human rights impact due diligence for certain projects where the relevant OECD agreement did not compel such investigation. The Council considered that this would weaken ECGD's existing practice and recommended that ECGD should consider reserving discretion to continue to screen all projects, irrespective of value and credit terms, where there appeared to be high potential impacts. Such a reservation of discretion was included in the consultation document as a possible course of action on which views were sought.

The Council also considered a report on ECGD's experience of its revised anti-bribery and corruption rules, covering the third year of their implementation: July 2008 - June 2009. As in previous years, and at the request of the Council, ECGD subsequently published the report. The Council also reviewed a report of ECGD's experience of operation of its anti-bribery policies over the three years they had been in operation. This fulfilled a commitment made by the Government in its response to the Trade and Industry Select Committee report on ECGD's anti-bribery policies that was published in 2006. The Council noted that exporters had complied with the new arrangements and had provided to ECGD all the information it had sought for the purpose of carrying out its anti-bribery due diligence. The Council also endorsed recommendations made in the report to make certain changes to its anti-bribery practices in situations where it reinsured another Export Credit Agency that was a member of the OECD and therefore applied the relevant international agreement. The Council noted the proposed change in the personnel that would in future be responsible for carrying out due diligence on cases that would be processed under the Special Handling Arrangements. The Council noted that the recommendations in this report would be included in the proposed public consultation on ECGD's Business Principles and ancillary policies.

The Council met in December. At the Council's request, it received a briefing on Santiago Metro project for which ECGD had provided support in the previous year. The Council wanted to understand more fully how ECGD classified projects with regard to their potential environmental and social impacts and how it undertook related due diligence to satisfy itself that projects met international standards. The Council made a number of suggestions for ECGD to consider when it carries out its due diligence.

The Council discussed the proposed UK objectives for changes to the *OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits* which would be reviewed during 2010. The Council also received a briefing on the work ECGD had undertaken during 2009 to seek a common understanding among Export Credit Agencies on supply chain policies and standards. There was a further briefing on ECGD's experiences under Freedom of Information legislation during 2009.

The Council's final meeting during the year was held in March 2010. The Council considered the submissions made to the Government on its public consultation to make revisions to ECGD's Business Principles and ancillary policies. The Council noted that industry was broadly in favour of the proposed changes (and was against the reservation of discretion the Council had suggested) but that NGOs had raised objections. The Council gave its advice on specific areas that should be addressed in the Government's response to the submissions received from interested parties and the decisions to be taken on the proposals made. It noted that ECGD would always retain a discretion, without express reservation, to investigate any project, support for an export to which had been solicited. The Council received an update on developments under ECGD's Sustainable Development Action Plan. The Council was briefed on the work of the Business Principles Unit and noted that staff numbers had been increased, with the recruitment of qualified environmental practitioners, to assist ECGD in responding to higher demand and the consequent increase in environmental, social and human rights impacts due diligence.

We would like to thank ECGD for assisting the Council in its work during the period covered by this report. Although the Council has a partial view of the work of ECGD, since it is not an executive body and does not look at new business for which ECGD support is sought, the Council has been impressed by the diligence, rigour and quality of the Department's staff and the way in which they determine whether or not projects meet the relevant international standards before it decides on giving support.

During the remainder of 2010 we plan to hold separate meetings with exporters and those NGOs who take an interest in ECGD. We will be monitoring developments with regard to the discussions taking place within the OECD to revise the *OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*.

Andrew Wiseman
EGAC Chair

Governance

The Management Board

Back Row L-R:
David Havelock, David Godfrey, Nicholas Ridley, David Harrison, Steve Dodgson, Peter Haslehurst

Front Row L-R:
Nigel Addison Smith, Katherine Letsinger, Guy Beringer (Chairman), Patrick Crawford (Chief Executive)

ECGD's Management Board is responsible for advising and supporting the Accounting Officer in respect of the governance of ECGD. It is led by a non-executive Chairman and consists of four independent non-executive directors and five members of ECGD's Executive Committee. During the year ECGD appointed a new Chairman, Guy Beringer, who took over responsibility for the Board in February 2010. Guy replaced Graham Pimlott CBE, who had served as Chairman from January 2004 to January 2010.

The Board supports the Accounting Officer in the discharge of his responsibilities and has accountability to the Secretary of State for Business, Innovation and Skills and the Minister for Employment Relations, Consumer and Postal Affairs for:

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

- monitoring performance; assessing and monitoring enterprise-wide risks;
- approving accounting policies and the Annual Review and Resource Accounts; and
- approving the remuneration of the Chief Executive and all members of the Senior Civil Service.

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

The Board is supported by two sub-committees, the Audit Committee and the Remuneration Committee. Both are entirely composed of non-executive directors.

Statement on Compliance with the Code of Good Practice

A review showed that the Board continued to be in compliance with the Code of Good Practice for Corporate Governance in Central Government Departments.

Officers of the Shareholder Executive meet non-executive directors annually to review governance arrangements in the absence of the Chairman and of ECGD members of staff.

Non-Executive Directors

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

Board Performance Evaluation

A Board performance evaluation involving both executive and non-executive directors showed that throughout the year ECGD's Management Board had complied with best practice.

Executive Committee

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

The sub-committees of the Executive Committee are the Business Systems and Infrastructure Committee, the Information Security and Assurance Committee and the Risk Committee. The membership of these committees is comprised of ECGD officials.

Audit Committee

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

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

Internal Audit and Assurance

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

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

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

Enterprise Risk Management

An enterprise risk register is maintained and formally reviewed every six months by the Board. Quarterly risk reports are provided by senior managers to the Executive Committee on their arrangements for managing risks in their areas of responsibility. Programmes and projects are governed by formal programme and project management disciplines, including the regular review of risks, overseen by either the Executive Committee or the Business Systems and Infrastructure Committee. Where appropriate, Office of Government Commerce "Gateway" peer reviews provide additional independent assurance over the effective management of change. More detail on ECGD's management of risk can be found in the Statement on Internal Control within the Resource Accounts on page 74.

Performance against Financial Objectives

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

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

ECGD's performance in respect of these objectives and controls is reported to HM Treasury on a monthly basis.

Financial Objectives
Overall Summary: 11 of the 11 targets were achieved throughout the year.

Financial Objectives on the provision of Fixed Rate Export Financing	
Objective and Description	***Results***
2005 FREF Portfolio The total cost of this portfolio must remain no greater than £10m. The total cost is measured by the aggregate of the Mark-to-Market value, the cumulative cash outturn, and the administrative cost of the portfolio.	**Met** The total cost remained within the agreed limit.
All FREF Portfolios The interest rate risks arising from the FREF portfolios (other than risks arising from Prepayment Optionality) must be contained within agreed sensitivity limits.	**Met** There were no breaches of the sensitivity limits.
Arrangements in Old FREF Portfolio with Prepayment Optionality The interest rate risks arising from Prepayment Optionality in the Old FREF Portfolio must be contained within agreed sensitivity limits.	**Met** There were no breaches of the sensitivity limits.

Financial Objectives on guarantee and insurance business issued since 1991

Objective and Description		***Results***
Maximum Commitment This measure places a cap on the maximum amount of nominal risk exposure (that is, the total amount of taxpayers' money that may be put at risk by ECGD).		**Met** The maximum exposure in the year was £13.79bn, against a notional maximum commitment of £25bn (unadjusted for foreign-exchange movements).
Risk Appetite Limit This limit places a constraint on ECGD's appetite for risk at the 99.1 percentile of ECGD's estimated ten-year Loss Distribution.		**Met** ECGD's 99.1 percentile of the ten-year Loss Distribution was £0.98bn, against a notional Risk Appetite Limit of £2.5bn (unadjusted for foreign-exchange movement).
Reserve Index This index ensures that ECGD has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5 per cent level of confidence		**Met** The reserve index did not fall below 3.26 in the year, against a target of 1.00.
Pricing Adequacy Index This index tests whether, over time, ECGD earns enough premium income to cover all its risk and operating costs. It is measured over three different periods:	(i) Past Two Years and Present Financial Year:	**Met** This index for 2009-10 was 1.32, against a target of 1.00.
	(ii) Previous, Present and Next Year:	**Met** This index did not fall below 1.30, against a monthly target of 1.00.
	(iii) Present Year and Next Two Years:	**Met** This index did not fall below 1.25, against a monthly target of 1.00.
Premium to Risk Ratio This measure ensures that each year ECGD charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to administrative costs.		**Met** This ratio did not fall below 2.03, against a target of 1.35

Export Credits Guarantee Department

Resource Accounts 2009-10

The Accounting Officer authorised these financial statements for issue on 14 July 2010

LONDON: The Stationery Office
HC27

Contents

Annual Report

Resource Accounts: Export Credits Guarantee Department

Overall Results

The Export Credits Guarantee Department (ECGD) issues guarantees and insurance against loss for or on behalf of exporters of goods and services and overseas investors from the UK, and supports the provision of Fixed Rate Export Finance (FREF). ECGD achieved an operating surplus in 2009-10 of £237.7 million, as compared to £266.1 million in 2008-09. The reduction in operating income was caused by:

- a marked decrease in net investment return, £53.8 million in 2009-10 compared to £108.6 million in 2008-09, caused by a reduction in short-term interest rates and in the fair value of Credit Default Swaps, and
- the foreign exchange gain of £126.7 million in 2008-09 turning into a loss of £35.3 million in 2009-10;
- offset by favourable changes to provisions for Recoverable Claims with a gain of £87.8 million in 2009-10 compared to a cost of £28.5 million in 2008-09, and
- an increase in the release of Underwriting Funds to £99.8 million in 2009-10 compared to £43.6 million in 2008-09.

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

Statutory Powers

ECGD is a Department of the Secretary of State for Business, Innovation and Skills. It derives its statutory authority from the Export and Investment Guarantees Act, 1991, as amended by the Industry and Exports (Financial Support) Act 2009, (the Act), and its primary function is to support the exports of goods and services by the provision of guarantees and insurance pursuant to Section 1 of the Act. Section 2 enables ECGD to provide Overseas Investment Insurance.

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

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

Ministers

The Ministers who had responsibility for ECGD during the year ended 31 March 2010 and up to the date of these accounts were:

The Rt. Hon. Lord Mandelson, First Secretary of State, Secretary of State for Business, Innovation and Skills and Lord President of the Council until 11 May 2010.

The Rt Hon Dr Vince Cable, MP, Secretary of State for Business, Innovation and Skills from 11 May 2010.

Lord Davies of Abersoch CBE, Minister for Trade, Investment and Small Business until 11 May 2010.

Edward Davey, MP, Minister for Employment Relations, Consumer and Postal Affairs from 11 May 2010.

Accounting Officer of ECGD and the Management Board

ECGD's Accounting Officer is Mr Patrick Crawford.

The Accounting Officer confirms that so far as he is aware, there is no relevant audit information of which the Department's auditors are unaware and that he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

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

Executive Members:

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

Non-Executive Members:

Mr Guy Beringer, Chairman (from January 2010)
Mr Graham Pimlott CBE, Chairman (to January 2010)
Mr David Godfrey
Mr David Harrison
Mr Peter Haslehurst
Ms Katherine Letsinger

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

Activities of ECGD

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

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

There are no other entities included within the Resource Accounting boundary. Guaranteed Export Finance Corporation PLC (GEFCO), a special purpose company which refinances certain of ECGD's export finance loans, is not consolidated. This is in accordance with the Government Financial Reporting Manual (FReM) (see Note 31).

Accounts 1, 2, 3 and 4

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

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

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

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

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

Segmental Information

The Annual Review and Resource Accounts include segmental information regarding the results for the year and net assets by Account, which reflects the operational structure of the organisation and the basis upon which senior management reviews ECGD’s operations.

Foreign Content

The amount of foreign content approved during the year for support by ECGD was £27.8 million.

Payment Policy

ECGD’s payment policy is that all invoices should be paid on the contractual due date or, where there is no contractual provision, within thirty days of receipt. This policy is in accordance with the requirements laid down in Managing Public Money and follows the Confederation of British Industry code on prompt payment of commercial debt. During 2009–10 ECGD paid 99.1 per cent of invoices within the policy requirement. In addition, ECGD follows guidance issued during the year that all Government departments should plan to make payments within ten working days. At 31 March 2010 the creditor days outstanding were 2.7 days.

Days Lost due to Absence

ECGD expects good attendance. It recognises, however, that from time to time absences for medical reasons may be unavoidable. ECGD aims to treat its staff who are ill with sympathy and fairness and, where possible, to provide them with support which will enable them to recover their health and attend work regularly.

Over the period 1 April 2009 to 31 March 2010, the average working days lost per full time employee was 5.0 days. This compares to the previous year figure of 8.3 days and the most recently published Civil Service average figure of 8.7 days.

Further Information on ECGD Activities

Further information on ECGD’s activities, results and performance are included within the Annual Review.

Audit

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

Management Commentary

Five Year Summary

	2009-10 £m	2008-09 £m	2007-08 £m	2006-07 £m	2005-06 £m
Statement of Income					
Overall Value of Guarantees and Insurance Policies Issued	**2,206**	**1,460**	**1,830**	**1,798**	**2,230**
Net Premium Income	**58**	**38**	**60**	**55**	**88**
Net Operating Income – total	**238**	**266**	**597**	**401**	**1,699**
– Account 1	96	91	388	211	1,464
– Account 2	135	169	176	157	143
– Account 3	-	-	18	23	54
– Account 4	7	6	15	10	38
Statement of cash flows					
Claims Recoveries – total	**151**	**110**	**389**	**872**	**720**
– Account 1	31	11	307	735	682
– Account 2	120	99	82	137	38
Interest Recoveries in the year – total	**54**	**146**	**362**	**593**	**958**
– Account 1	23	93	301	573	948
– Account 2	31	53	61	20	10
Claims Paid – total	**48**	**44**	**59**	**61**	**83**
– Account 1	-	-	-	-	4
– Account 2	48	44	59	61	79
Net Cash Flows – total	**215**	**239**	**782**	**1,557**	**1,815**
– Account 1	44	59	599	1,306	1,608
– Account 2	140	139	138	168	103
– Account 4	31	41	45	83	103
Statement of Financial Position					
Amounts at Risk	**11,799**	**10,420**	**9,625**	**9,955**	**11,282**
Non-FREF	10,493	8,630	7,656	7,524	8,039
FREF	1,306	1,790	1,969	2,431	3,243
Recoverable Claims – Gross	**1,561**	**1,762**	**1,905**	**2,287**	**4,536**
– Account 1	853	910	1,092	1,444	3,574
– Account 2	708	852	813	843	962
Recoverable Claims – Net	**833**	**872**	**861**	**1,127**	**1,909**
– Account 1	344	328	315	540	1,233
– Account 2	489	544	546	587	676
Interest on Unrecovered Claims – Net	**169**	**148**	**150**	**184**	**601**
– Account 1	163	128	109	127	565
– Account 2	6	20	41	57	36
Underwriting Funds - Net of Reinsurance	**406**	**506**	**583**	**642**	**723**
– Account 1	1	3	3	5	6
– Account 2	405	503	580	624	687
– Account 3	-	-	-	13	32
Direct Funding balance	**330**	**492**	**701**	**998**	**1,475**
FREF Loans balance	**941**	**1,365**	**1,419**	**1,737**	**2,570**

Management commentary

Account 1

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

- In the recent past, the majority of Net Operating Income for Account 1 was generated when recoveries of claims or interest exceeded the book value net of provisions. During 2009-10, Operating Income increased to £96 million from £91 million (2008-09). The income for the year includes an exchange loss of £13 million on claims held in foreign currencies.

- Claims Recoveries were £31 million (Indonesia £10 million, Egypt £8 million, Croatia £6 million), compared to £11 million in 2008-09.

- Recoveries of interest on claims were £23 million (Serbia £8 million, Indonesia £4 million, Egypt £4 million), compared to £93 million in 2008-09. The reduction in interest income is as a result of the reducing Claims balance and the reduction in short term interest rates.

- Recoverable Claims, which have reduced significantly over the last few years, continued to reduce but at a slower rate during the year. The balances for gross claims decreased from £910 million (2008-09) to £853 million during the year, while those for net claims increased from £328 million (2008-09) to £344 million during the same period due, in the main, to reductions in provision rates.

- Recoverable Interest on Unrecovered Claims has increased from £128 million (2008-09) to £162 million. The increase has been caused by reductions in provision rates.

Account 2

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

- The total of guarantees and insurance issued during the year was £2,206 million compared to £1,460 million for 2008-09.

- Net Premium Income was £58 million, compared to £38 million in 2008-09. The increase in premium for the year was caused by a significant increase in guarantees for Airbus aircraft. Premium ceded to reinsurers has increased from £2.7 million in 2008-09 to £44.8 million in 2009-10. This is primarily due to a change in arrangements for the financing of Airbus aircraft. The three Export Credit Agencies of France, Germany and the UK agree who will lead a number of transactions with the other two providing reinsurance.

- Claims authorised and paid or payable during the year increased to £48 million from £44 million in 2008-09. There was one minor new claim authorised in the year (with a value of less than £1 million); the total was in respect of further payments of claims previously authorised.

- Net Operating Income was £135 million, compared to £169 million in 2008-09. The reduction in net income was caused by the effect of Foreign Exchange movements changing from income of £73.7 million in 2008-09 to a loss of £22.6 million in 2009-10. Net Investment Return had a negative balance of £12.3 million in 2009-10 compared to a positive balance of £32.7 million in 2008-09, due to lower short term interest rates and reductions in the fair value of Credit Default Swaps. These reductions in income were offset by the release from Underwriting Funds which increased from £43.4 million in 2008-09 to £97.7 million in 2009-10.

- Claim Recoveries for the year were £120 million, compared to £99 million in 2008-09. Gross Claims balances were £708 million, as against £852 million in 2008-09. Net Claims balances were £480 million, compared to £544 million in the previous year.

Account 3

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

There were no new guarantees issued or claims made on this Account during the year. There was no income for the year, as was the case for 2008-09, because there are no longer any significant Underwriting Funds for this Account.

Account 4

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

- FREF loan balances continued to run off during the year, with the balance reducing to £941 million from £1,365 million in 2008-09, due to loan instalments being paid.

- The Direct Funding balance represents the funds loaned by HM Treasury to reduce the cost of FREF. The balance continued to reduce during the year to £330 million from £492 million in 2008-09, as both regular instalments and early repayments were made.

- Net Operating Income increased to £7 million in 2009-10 from £6 million in 2008-09.

All Accounts

Operating expenses increased by £3.1 million to £26.0 million, due mainly to an increase of £1.4 million in staffing costs and an increase in other costs of £0.7 million related to higher IT project costs. ECGD's staffing level decreased from an average full time equivalent of 209 for the year ended 31 March 2009 to 207 for the year ended 31 March 2010.

For the reasons set out above (see Account 1), the major asset of ECGD, being Net Recoverable Claims, decreased from £872 million (2008-09) to £824 million during the year. Gross claims also reduced from £1.8 billion to £1.6 billion.

Future Developments

ECGD has been considering the balance between its income and its costs and had embarked on a programme of measures to reduce costs over the period to March 2011. These focus on staff numbers, accommodation costs and IT efficiencies. During the economic downturn there has been a significantly increased level of enquiries for ECGD products. ECGD is still focused on cost reduction but increasing business demands are causing a rebalancing of that focus. Administrative costs are still being reduced but greater emphasis is being put on adequately resourcing the handling of new business. It is not expected that there will be a reduction in demand from British exporters in the immediate future due to constraints in bank liquidity and a riskier credit environment.

Financial Risk Management

The objectives and policies of ECGD for the management of financial risks and its exposure to those risks, where material, are disclosed within note 30 to the Departmental Resource Accounts entitled 'Risk Management: Financial Instruments and Insurance Contracts'.

Detailed Explanation of Variances between Estimate and Outturn

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

RfR 1 – Provision of export finance assistance

Overall, the net cost after appropriations in aid was £20.9 million compared to an estimate of £29.6 million The variance was largely due to the Estimate including an amount for possible unwinding of derivative contracts, which in the event was not required.

RfR 2 Provision of export credit guarantees and insurance

This RfR includes the costs of ECGD which are offset by Appropriations in Aid (A. in A.) to give a requirement for a nominal £2,000 for the purposes of the Estimate. Total expenses at £98.9 million compare with £150.7 million in the Estimate.

The Central Government Spending Departmental Expenditure Limits (DEL) Section A - Administration estimate of £55.9 million includes (i) an End-Year Flexibility estimate of £19.0 million relating to Onerous Lease Provisions £12.5 million and the cost of implementing the cost reduction programme of £6.4 million; and (ii) other changes in spending estimate of £8.0 million relating to the adoption of Onerous Lease Provisioning under IFRS. Against the remaining estimate of £28.9 million, actual expenditure was £27.0 million.

The Non-Budget Section B – Export Credits estimate was £94.8 million against which actual expenditure was £71.9 million. The variance was largely due to lower claims exposure, favourable foreign exchange trends, a reduction in ECGD's exposure on Credit Default Swaps, and a reduction in the notional capital charge.

The levels of A. in A. remain sufficient to reduce the net Estimate requirement to zero.

Comparison of Resource Outturn with Operating Income and Budgeted Cost

	Note	2009-10 £'000	2008-09 £'000
Net Resource Outturn (Estimates)	3	(20,958)	(37,066)
Consolidated Fund Extra Receipts in the OCS	4(a)	258,695	336,488
Net Operating Income (Accounts)		237,737	299,422
Other Consolidated Fund Extra Receipts	4(a)	(258,695)	(336,488)
Other adjustments		(37,252)	(10,743)
Resource Budget Outturn (Budget)		(58,210)	(47,809)
of which			
Departmental Expenditure Limits (DEL)		(4,975)	(5,898)
Annually Managed Expenditure (AME)		(53,235)	(41,911)

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

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

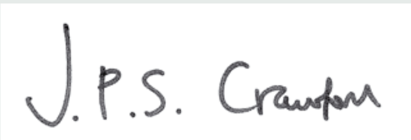
It should be noted that comparative figures are quoted on a UK GAAP basis as required by H.M. Treasury.

Personal Data

ECGD confirms that no personal data-related incidents have occurred since 1 April 2009, which were:

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

ECGD undertook regular information risk assessments, including penetration testing of systems holding personal data and formal independent reviews of the Risk Management and Accreditation Document Set in accordance with the required standards.



JPS Crawford
Accounting Officer
Export Credits Guarantee Department
30 June 2010

Statement of Accounting Officer's Responsibilities

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

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

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

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

Remuneration report

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

Remuneration

Remuneration Policy

Executive Directors

2 The Executive members of the Management Board are members of the Senior Civil Service (SCS). The Cabinet Office determines the SCS pay system. The remuneration of SCS members is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB). Each year, in the light of economic evidence and movements in the private and wider public sector markets for senior executives, the SSRB makes recommendations to the Prime Minister on SCS pay covering revalorisation of the pay bands, increases to base salary and the level of non-consolidated payments. In light of the SSRB's recommendations, the Government makes decisions about SCS pay.

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

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

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

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

6 There is no centrally prescribed formula for deciding on individual awards. Departments are able to apply judgement to salary decisions and are permitted to vary awards to differentiate between levels of performance. Broadly, strongest contributors are paid a more significant award than those who have performed at a lower level.

7 The applicable base pay ranges from 1 April 2009 were:

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

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

Non-Executive Directors

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

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

- the equivalent rates amongst other public bodies;
- the need to give a fair reflection of the time, including preparation for meetings, to invest in the role; and
- the role being advisory, as they do not carry the same legal responsibilities as non-executive directors in the private sector.

Remuneration Committee

11 The Remuneration Committee is responsible for overseeing the performance management and pay of Executive Directors of the Management Board. The membership of the Remuneration Committee for 2009-10 was:

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

12 The Chief Executive attends meetings, other than discussion of his own performance. The Head of Human Resources Division (HRD) acts as Secretary.

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

- establishes and publishes an annual Pay Strategy;
- assesses the achievement of the Department's aims and objectives to inform the justification for non-consolidated awards;
- endorses and authorises decisions on base pay increases;
- communicates and monitors pay outcomes, including the publication of an annual report of the operation of the system; and
- advises on succession management for executive positions on the Management Board.

Service Contracts

Executive Directors

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

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

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

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

Non-Executive Directors

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

Remuneration (The following information is subject to audit)

	2009-10		2008-09	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Executive Directors				
Patrick Crawford *Chief Executive*	230-235	0	255-260	2,900
Nigel Addison Smith *Finance Director*	125-130	0	125-130	0
Steve Dodgson *Director, Business Group*	115-120	0	110-115	0
David Havelock *Director, Credit Risk Group*	120-125	0	125-130	0
Nicholas Ridley *General Counsel*	140-145	0	140-145	0

	2009-10		2008-09	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Non Executive Directors				
Graham Pimlott CBE *Non Executive Chair (Until February 2010)*	35-40 *(45-50 Full year equivalent)*	0	60-65	0
Guy Beringer *Non-Executive Chair (Appointed January 2010[2])*	10-15 *(45-50 Full year equivalent)*	0		
David Godfrey	20-25	0	10-15	0
David Harrison	15-20	0	15-20	0
Peter Haslehurst	20-25	0	15-20	0
Katherine Letsinger	15-20	0	15-20	0

Salary

18 'Salary' includes gross salary, non-consolidated awards and other emoluments paid via payroll. This report is based on payments made by ECGD and thus recorded in the Resource Accounts.

Benefits in kind

19 The monetary value of benefits in kind covers any benefits provided by ECGD and treated by HM Revenue and Customs as a taxable emolument. The Chief Executive had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code in the period 1 April 2008 to 30 August 2008.

[2] Guy Beringer was appointed for three years starting on 4 January 2010

<u>Pension Benefits</u> (The following information is subject to audit)

20 The pension provision is as follows:

	Accrued pension at pension age as at 31/3/10 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/10	CETV at 31/3/09[3]	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Executive Directors					
Patrick Crawford *Chief Executive*	10-15	2.5-5	224	167	44
Nigel Addison Smith *Finance Director*	5-10	0-2.5	116	83	23
Steve Dodgson *Director, Business Group*	45-50 Plus lump sum of 140-145	2.5-5 Plus lump sum of 12.5-15	960	824	89
David Havelock *Director, Credit Risk Group*	5-10	0-2.5	166	118	38
Nicholas Ridley *General Counsel*	15-20 Plus lump sum of 50-55	0-2.5 Plus lump sum of 5-7.5	366	298	48
Non Executive Directors	Nil	Nil	Nil	Nil	Nil

Civil Service Pensions

21 Pension benefits are provided through the Civil Service Pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium, or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

22 Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits from October 2002 calculated as in premium. In nuvos, a member builds-up pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that

[3] The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008

scheme year and the accrued pension is uprated in line with RPI. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

24 The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

25 Further details about the Civil Service Pension arrangements can be found at the website http://www.civilservice.gov.uk/about/working/pensions/index.aspx

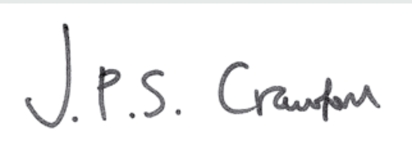
Cash Equivalent Transfer Values

26 A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

27 The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

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



JPS Crawford

Accounting Officer
Export Credits Guarantee Department
30 June 2010

Statement on Internal Control

1. Scope of responsibility

1.1 ECGD is a Department of the Secretary of State for Business, Innovation and Skills. In fulfilling ECGD's statutory obligations under the Export and Investment Guarantees Act 1991 as amended by the Industry and Exports (Financial Support) Act 2009 and in accordance with the connected HM Treasury Standing Consent and the duties assigned to me in 'Managing Public Money', I have responsibility as Accounting Officer for maintaining a sound system of internal control that supports the achievement of ECGD's aims, objectives and policies, while safeguarding public funds and Departmental assets, for which I am personally responsible.

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

1.3 I report to the Secretary of State for Business, Innovation and Skills and the Minister for Employment Relations, Consumer and Postal Affairs. The Shareholder Executive is responsible for giving the Secretary of State independent advice on his responsibilities for ECGD. I have regular meetings with the Minister for Employment Relations, Consumer and Postal Affairs, and HM Treasury and Shareholder Executive officials on a range of matters, including actual and potential risks to which the organisation is, or may be, exposed.

2. Purpose of the system of internal control

2.1 ECGD's primary business purpose is to support UK exporters and UK investors by issuing financial guarantees or insurance contracts, thereby accepting financial risks in furtherance of its statutory powers in connection with the provision of support for exports and overseas investments.

2.2 Separate arrangements exist to manage financial risks, being the assessment and acceptance of credit and treasury risk exposures (that represent contingent public expenditure liabilities on the Exchequer until the risks expire), and the associated operational risks.

2.3 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve aims, objectives and policies; it can therefore provide only a reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of ECGD's aims, objectives and policies; to evaluate the likelihood of those risks being realised and the impact should they transpire; and to manage them efficiently, effectively and economically. Our system of internal control has been in place in ECGD for the year ended 31 March 2010 and up to the date of approval of the Annual Review and Resource Accounts, and accords with HM Treasury guidance.

3. Capacity to handle risk

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

3.2 The Chief Executive's Office is responsible for enterprise risk management policy and coordination which includes strategic and operational risk. Guidance has been provided for reviewing and reporting risk and on risk escalation.

3.3 The Audit Committee, a sub-committee of the Management Board, examines and reviews, in conjunction with Internal Audit and Assurance, the adequacy of the arrangements for accounting, risk management and internal control. The membership of the Audit Committee is comprised solely of non-executive members. I am not a member of the Committee but attend its meetings, as does the Finance Director, the Head of Internal Audit and Assurance and an official of the National Audit

Office. The Chair formally reports to the Management Board after each meeting of the Audit Committee.

3.4 The Finance Director is responsible for ECGD's operational risk management policies and practices, and acts as the Senior Information Risk Owner.

3.5 The Director of the Credit Risk Group is responsible for financial risk, management systems and practices in ECGD.

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

3.7 The Head of Human Resources is responsible for ensuring that ECGD employs good personnel management systems and practices, so that staff possess the right level of knowledge, skill and competence to run the business efficiently and effectively. The Staff Handbook sets out the principles and rules of conduct, including a duty of care, standards of propriety and avoidance of conflicts of interest, to which staff members are expected to adhere. The Head of Human Resources is responsible for Facilities Management (including Health & Safety) and is ECGD's Departmental Security Officer.

3.8 The General Counsel manages legal risk.

4. The risk and control framework

4.1 During the year, ECGD continued to adapt its organisational and management arrangements in order to provide a platform for the effective management of its financial, operational and information risks. This has included:

- Implementation of a new enterprise risk management framework, including processes to review and assess risk across ECGD;
- Continuation of the comprehensive Business Systems Reconfiguration (BSR) Programme to improve the efficiency and control of core business and financial processes and supporting IT systems;
- An extension to the existing IT support contract in order to support the timely completion of the BSR Programme against a consistent IT infrastructure;
- A programme of business process review and documentation to reinforce ownership of processes, systems and information, including the position of controls;
- Appointing an Information Management and Security Officer to improve ECGD's information security arrangements, and conducting an independent information assurance benchmarking and technical risk assessment;
- Establishing an inventory of end-user developments to reinforce controls over their development and operation and (where appropriate) to support work to replace them;
- The development of a risk management and control framework for the new Letter of Credit Guarantee product;
- Updating documentation of claims and recoveries processes;
- The drafting of a new Fraud Policy and Fraud Response Plan in line with the Fraud Act;
- Improving the efficiency of the monthly management reporting process and the quality of the presentation of the information in such reports;
- Migration to the new Government Banking Service; and
- Converting payroll to a fully managed arrangement with an external supplier.

4.2 The policies, structures and practices for managing financial and operational risks are set out in separate policy statements. The structures and processes include:

Financial Risk

- The Risk Committee is responsible for providing advice to me on the effective management of all aspects of ECGD's financial risk exposures. Responsibilities are delegated by me to named individuals within a framework agreed by the Risk Committee.

Operational Risk

- Key enterprise risks are reviewed every six months by the Management Board;
- Projects are governed by formal project management disciplines, including the regular review of project risks and issues, overseen by the Executive Committee or by the Business Systems and Infrastructure Committee on its behalf; and
- Operational risks are allocated to owners to manage and are regularly reviewed by me and the management team. Significant operational risks are assessed and reported to EC every quarter, along with relevant actions and specified sources of assurance.

Information Risk

- The Senior Information Risk Officer is responsible for information risk within ECGD. The Departmental Security Officer takes day-to-day responsibility for information risk and is also responsible for security policy and practices. Named information asset owners are responsible for the identification of information assets and their locations, uses and risks;
- The Information Security Assurance Committee, a sub-committee of the Executive Committee, is responsible for securing the information required for ECGD's business operations, systems and processes in accordance with its legal, regulatory and central government requirements;
- Information security risk is reviewed and access to sensitive information is restricted. Any significant information risks are reported to the Senior Information Risk Officer and the Departmental Security Officer, along with relevant actions and identified sources of assurance;
- Staff are trained in information security in order to understand the risks associated with handling information within, and outside, ECGD; and
- Procedures are in place to respond to requests for access to information and ensure that an information asset is used effectively.

5. Review of effectiveness

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

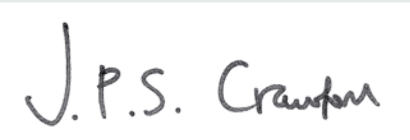
- An enterprise risk management process to monitor progress towards the key strategic goals and to ensure that the management of underlying risks, both at a strategic and operational level, is satisfactory;
- Reports by Internal Audit and Assurance, which include the Head of Internal Audit and Assurance's independent opinion, on the adequacy and effectiveness of ECGD's enterprise risk management, and control and governance systems, together with his recommendations for improvement;
- Reports from the chairs of the Business Systems and Infrastructure Committee, and the Information Security Assurance Committee;
- A formal year-end process implemented by senior management, in order to provide assurance that, as far as is possible, the controls and safeguards are being operated in line with established practices, policies and standards;
- An annual review of actual or potential litigation by the General Counsel;
- An annual review of security risks by the Departmental Security Officer;
- Comments made by the external auditors in their management letter and reports; and

- Review of monthly management reports that include financial framework compliance, key performance indicators, financial ratios and indices.

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

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

- *Staff resources:* the increase in new business volumes has created pressure on staff resources in respect of certain key skills but ECGD has successfully recruited personnel on short term appointments to manage the higher workload. If there were to be an increase in claims activity, further pressure on staff resources could arise which might require further recruitment to be undertaken. Succession planning must also be addressed at junior levels so that in the medium term mid-ranking and senior posts can be filled with suitably experienced staff.
- *Complex IT*: the nature of ECGD's activities requires the use of modern banking and other operating systems, although ECGD is a small organisation with limited resources. A programme has been undertaken to reduce significantly the operational risk that arises from these systems and the related data and processes. IT support and development, data integrity review, and process and control development are carried out in as controlled a way as possible, as key skills have to be sustained within ECGD and its IT support supplier within a limited budget.



JPS Crawford

Accounting Officer
Export Credits Guarantee Department
30 June 2010

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

I certify that I have audited the financial statements of the Export Credits Guarantee Department for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Statement and the Statement of Financial Position, the Statement of Cashflows, the Statement of Changes in Taxpayers' Equity, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions 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 conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating income, changes in taxpayers' equity and cash flows for the year then ended; and

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

Emphasis of Matter – Significant Uncertainty

In forming my opinion on the financial statements, which is not qualified, I have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the considerable uncertainty attaching to the final outcome of the underwriting activities. As explained in the section of Note 1 headed "Significant uncertainty arising from the nature of ECGD's Underwriting Activity

(Accounts 1 - 3)", the nature of these activities mean that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts.

Opinion on other matters

In my opinion:

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

- the information given in the Annual Report for the financial year for which the financial statements are prepared from pages 59 to 66 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
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria, London, SW1W 9SP

12 July 2010

Statement of Parliamentary Supply

For the year ended 31 March 2010

Summary of Resource Outturn 2009-10

	2009-10 Estimate			2009-10 Outturn			2009-10	2008-09 Outturn
Request for Resources	Gross Expenditure £'000	A. in A. £'000	Net total £'000	Gross Expenditure £'000	A. in A. £'000	Net total £'000	Net Outturn Compared with Estimate Savings/ (Excess) £'000	Net total £'000
1 Export Finance Assistance	69,294	39,719	29,575	50,123	29,165	20,958	8,617	37,066
2 Export Credit Guarantees and Insurance	150,659	150,657	2	98,916	98,916	-	2	-
Total Resources	**219,953**	**190,376**	**29,577**	**149,039**	**128,081**	**20,958**	**8,619**	**37,066**
Non-Operating Cost A. in A.			**5,000**			**3,978**	**1,022**	**-**

Net cash requirement 2009-10

	Note	2009-10 Estimate £'000	Outturn £'000	2009-10 Net Total outturn compared with estimate: saving/ (excess) £'000	2008-09 Outturn £'000
Net cash requirement	5	(3)	-	3	-

Summary of the income payable to the Consolidated Fund

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

	Note	2009-10 Forecast Income £'000	*Receipts £'000*	Outturn 2009-10 Income £'000	*Receipts £'000*
Total	6	235,063	*298,485*	258,695	*372,997*

Explanations of variances between the Estimate and the Outturn are given in Note 3 and in the Management Commentary.

The notes on pages 86 to 139 form part of these accounts.

Operating Statement

For the year ended 31 March 2010

	Note	2009-10 £'000	2008-09 £'000
Request for resources 2:			
Export Credit Guarantees and Insurance			
Income			
Gross premium income		102,453	41,182
Less ceded to reinsurers		(44,835)	(2,687)
Net premium income		**57,618**	**38,495**
Net investment return	12	43,788	99,759
Net claims credit for the year	14	87,777	-
Changes in insurance liabilities	28	59,598	41,481
Reinsurers' share of changes in insurance liabilities	22	40,193	2,156
Net foreign exchange gain	17	-	126,691
Total income		**288,974**	**308,582**
Expenses			
Net claims charge for the year	14	-	(28,462)
Staff costs	15	(11,071)	(9,854)
Other administration and operating costs	16	(11,516)	(10,073)
Net foreign exchange loss	17	(35,299)	-
Total expenses		**(57,886)**	**(48,389)**
Net income arising from Export Credit Guarantees and Insurance Activities		**231,088**	**260,193**
Request for resources 1:			
Export Finance Assistance			
Income			
Net investment return	12	10,024	8,862
Expenses			
Staff costs	15	(1,654)	(1,472)
Other administration and operating costs	16	(1,721)	(1,508)
Total expenses		**(3,375)**	**(2,980)**
Net Income on Export Finance Assistance Activities		**6,649**	**5,882**
Net operating income for the year		**237,737**	**266,075**

All income and expenditure is derived from continuing operations.

The notes on pages 86 to 139 form part of these accounts.

Statement of Financial Position

As at 31 March 2010

	Note	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Non-current assets:				
Plant and equipment	19(a)	1,120	1,382	1,576
Intangibles	19(b)	891	-	-
Financial assets				
Loans and receivables	20(b)	233,678	333,171	493,235
Insurance contracts				
Insurance assets	21	855,814	890,214	893,326
Reinsurers' share of insurance liabilities	22	81,145	40,952	38,796
Insurance and other receivables	23	1,812	6,467	3,819
Total non-current assets		**1,174,460**	**1,272,186**	**1,430,752**
Current assets:				
Financial assets				
Fair value through profit or loss	20(a)	65,006	98,956	55,599
Loans and receivables	20(b)	100,550	174,914	226,058
Insurance contracts				
Insurance assets	21	146,101	129,955	117,064
Insurance and other receivables	23	5,361	5,601	5,770
Cash and cash equivalents	24	345,068	413,432	865,060
Total current assets		**662,086**	**822,858**	**1,269,551**
Total assets		**1,836,546**	**2,095,044**	**2,700,303**
Current liabilities:				
Financial liabilities				
Fair value through profit or loss	25	(56,659)	(71,172)	(43,119)
Payable to Consolidated Fund	26	(345,068)	(413,432)	(865,060)
Insurance and other payables	27(a)	(11,034)	(29,368)	(49,869)
Total current liabilities		**(412,761)**	**(513,972)**	**(958,048)**
Non-current assets plus net current assets		**1,423,785**	**1,581,072**	**1,742,255**
Non-current liabilities				
Insurance contracts				
Insurance liabilities	28	(487,051)	(546,649)	(588,130)
Provisions	27(b)	(6,625)	(3,899)	(2,417)
Financial liabilities				
Payable to Consolidated Fund	26	(177,159)	(163,828)	(167,243)
Total non-current liabilities		**(670,835)**	**(714,376)**	**(757,790)**
Assets less liabilities		**752,950**	**866,696**	**984,465**
Taxpayers' equity				
Exchequer Financing		(1,911,985)	(1,566,238)	(1,187,758)
Cumulative Trading Surplus		2,654,707	2,423,619	2,163,426
General Fund		10,228	9,315	8,797
Total taxpayers' equity		**752,950**	**866,696**	**984,465**

The notes on pages 86 to 139 form part of these accounts.

J.P.S. Crawford

JPS Crawford

Accounting Officer
Export Credits Guarantee Department
30 June 2010

Statement of Cash Flows

For the year ended 31 March 2010

	Note	2009-10 £'000	2008-09 £'000
Cash flows from operating activities			
Net operating income		237,737	266,075
Less: net investment return	12	(53,812)	(108,621)
Adjustments for other non-cash transactions:			
Depreciation of property and equipment	16	424	349
Claims (credit)/charge for the year	14	(87,777)	28,462
Other administration and operating expenses		278	271
Unrealised foreign exchange loss/(gain)	17	30,714	(141,842)
Interest received		81,052	186,390
Decrease in insurance liabilities	28	(59,598)	(41,481)
Increase in reinsurers' share of insurance liabilities	22	(40,193)	(2,156)
Movements in working capital other than financial assets	18	100,336	49,357
Movement in financial assets		5,843	2,688
Net cash inflow from operating activities		215,004	239,492
Cash flows from investing activities			
Purchase of plant, equipment and intangibles	19	(1,053)	(155)
Purchase of financial instruments		(2,889)	(1,426)
Export Finance Loans:			
Recoveries	31	165,913	209,625
Payments	31	(3,978)	-
Net cash inflow from investing activities		157,993	208,044
Net increase in cash and cash equivalents in the year before adjusting for payments to the Consolidated Fund		372,997	447,536
Payments of amounts due to the Consolidated Fund of amounts:			
received in the prior year		(413,432)	(865,060)
received in the current year		(27,929)	(34,104)
Net decrease in cash and cash equivalents in the year after adjusting for payments to the Consolidated Fund		(68,364)	(451,628)
Cash and cash equivalents at the beginning of the year		413,432	865,060
Cash and cash equivalents at the end of the year	**24**	**345,068**	**413,432**

The notes on pages 86 to 139 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2010

	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2008	(1,187,758)	2,163,426	8,797	984,465
Changes in taxpayers' equity for 2008-09				
Non-cash charges - cost of capital (note 12)	27,245	-	32,406	59,651
Non-cash charges - auditors' remuneration	223			223
Non-cash charges - property, equipment and other charges	403	-	-	403
Transfers between reserves	37,770	-	(37,770)	-
Net operating income for the year	-	260,193	5,882	266,075
Total recognised income and expense for 2008-09	65,641	260,193	518	326,352
CFER arising in year transferred into current liabilities	(447,536)	-	-	(447,536)
Long term Consolidated Fund creditor	3,415	-	-	3,415
Balance at 31 March 2009	(1,566,238)	2,423,619	9,315	866,696
Changes in taxpayers' equity for 2009-10				
Non-cash charges - cost of capital (note 12)	12,099	-	22,468	34,567
Non-cash charges - auditors' remuneration	233			233
Non-cash charges - property, and equipment charges	45	-	-	45
Transfers between reserves	28,204	-	(28,204)	-
Net operating income for the year	-	231,088	6,649	237,737
Total recognised income and expense for 2009-10	40,581	231,088	913	272,582
CFER arising in year transferred into current liabilities	(372,997)	-	-	(372,997)
Long term Consolidated Fund creditor	(13,331)	-	-	(13,331)
Balance at 31 March 2010	**(1,911,985)**	**2,654,707**	**10,228**	**752,950**

The notes on pages 86 to 139 form part of these accounts.

Statement of Operating Costs by Departmental Strategic Objectives

For the year ended 31 March 2010

ECGD has not been set Departmental Strategic Objectives by Ministers. Consequently, ECGD does not prepare a Statement of Operating Costs by Departmental Strategic Objectives. ECGD has a number of objectives and KPI’s set out in the Financial Framework agreed with HM Treasury.

The Notes on pages 86 to 139 form part of these accounts.

Notes to the Departmental Resource Accounts

1 Accounting policies

(A) Basis of preparation

The financial statements have been prepared in accordance with the 2009-10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The date of transition to IFRS for ECGD, and the date of its opening IFRS statement of financial position, was 1 April 2008.

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

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

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

New accounting pronouncements

As noted above, ECGD applies the Accounting Standards set out in the FReM. The 2009-10 FReM applies financial reporting standards that are effective for the financial year.

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

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

	Title	**Nature of Change**	**Date of issue**	**Effective date**
IFRS 9	Financial Instruments	IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. As a first instalment, the chapters on classification and measurement of financial assets have been issued. Later instalments will cover financial liabilities, impairment methodology, and hedge accounting. Under IFRS 9, financial assets should be classified on the basis of the entity's business model for their management and of their contractual cash flow characteristics. They	November 2009	1 January 2013

		should be measured initially at fair value, and subsequently at either fair value or amortised cost. IFRS 9 simplifies the classification and measurement of financial assets, removing the numerous categories of financial asset specified in IAS 39, and resulting in one impairment method.		

The following Amendments and Interpretations are not anticipated to have any significant impact on ECGD's financial statements.

Amendments to IFRSs

- IFRS 1 Additional Exemptions for First-time Adopters (Amendments to IFRS 1)
- IFRS 1 Limited Exception from Comparative IFRS 1 Disclosures for First-time Adopters (Amendment to IFRS 1)
- IAS 24 Related Party Disclosures
- IFRS 2 Group Cash-settled Share-based Payment Transactions (Amendments to IFRS2)
- IFRS 3 Business Combinations
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Classification of Rights Issues
- IAS 39 Eligible Hedged items

Amendments to IFRSs resulting from Annual Improvements to IFRSs (May 2008 and April 2009)

- IFRS 2 Share-based Payment
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 8 Operating Segments
- IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash Flows
- IAS 17 Leases
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation

New Interpretations

- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Amendments to Interpretations

- IFRIC 14 Prepayments of a Minimum Funding Requirement

Major FReM changes for 2010-11

ECGD has reviewed the major FReM changes for 2010-11 and determined the following will have no significant impact on the Department's financial statements.

- Chapter 6 Tangible non-current assets

- Chapter 8 Impairments
- Chapter 13 Accounting for consolidated fund revenue

ECGD has identified the following accounting change as significant.

- Chapter 11 Income and Expenditure. The removal of Cost of Capital charging from the accounts. From 1 April 2010 notional costs should not be recorded for cost of capital. Cost of Capital charging will be excluded from ECGD's accounts.

(B) Use of estimates

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

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

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

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

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

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

(C) Summary of Significant Accounting Policies

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of ECGD for the purpose of giving a true and fair view has been selected. The particular policies adopted by ECGD are described below. These have been applied consistently in dealing with items considered material to the accounts.

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

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

(D) Insurance Contracts

Fund Basis of Accounting for insurance contracts

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

Under the Fund Basis of Accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until three years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until nine years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year). However, as Account 1 is in run-off and in surplus, this Account is considered as a whole.

Liability adequacy test

At the date of each Statement of Financial Position, ECGD performs liability adequacy tests to ensure that the carrying amount of insurance liabilities, net of any reinsurance, is sufficient to cover the current best estimate of future cash outflows under its insurance contracts. If, as a result of these tests, a deficiency is identified and the Fund for any underwriting year is considered insufficient to meet estimated future net claims or losses, the deficiency is charged to the Operating Statement to cover the potential shortfall. Where the Fund for any underwriting year is in excess of the total amounts at risk, the excess is credited to the Operating Statement to reduce the Fund value to the level of the maximum exposure.

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

- **Political:** risks associated with a sovereign country which could potentially affect every supported transaction in that country due to both political risks (such as war, government interference) and economic risks;

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

Product Classification

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

Premium Income

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

- **Project Business:** the income on all guarantees and insurance contracts excluding Overseas Investment Insurance becoming effective during the year (including income for which deferred payment terms have been agreed);

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

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

Interest Receivable – Underwriting Activities

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

Insurance Assets – Recoverable Claims

Claims: these are recognised when authorised.

Recoveries: where a realistic prospect of full or partial recovery exists, the estimated recovery proceeds, net of estimated expenses in achieving the recovery, are included as assets in the Statement of Financial Position, as "Recoverable Claims". When ECGD considers that it is no longer practicable or cost effective to pursue recovery, recoverable claims are formally abandoned and the amounts are deducted from recoverable assets and written off to profit or loss for the year, to the extent that existing provisions are not adequate to cover such amounts.

Reinsurance assets

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

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

ECGD's reinsurance assets are reviewed for impairment. Any impairment losses identified are recognised through the Operating Statement.

(E) Net investment return

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

- Interest income is recognised as it accrues (see interest types set out below).

- All non-insurance financial assets are classified as 'fair value through profit or loss', or 'loans and receivables'.

- For financial assets classified as 'fair value through profit or loss', realised gains and losses represent the difference between net sales proceeds and the purchase price (if acquired during the year), or fair value at the previous year-end.

- For financial assets classified as loans and receivables, realised gains and losses are the difference between the proceeds received on disposal, net of transaction cost, and its amortised cost.

- Unrealised gains and losses represent the difference between the carrying value at the year-end and the carrying value at the previous year-end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

ECGD receives the following types of interest:

- Moratorium Interest – interest on Paris Club sovereign country rescheduled balances: this includes interest on both Original Debt and Capitalised Interest;

- Late (Penalty) Interest – Interest on arrears of the above;

- Default Interest – Interest on non-Paris Club balances; or

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

(F) Operating expenses

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

(G) Foreign exchange

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

(H) Capital charge

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

(I) Property and equipment and Intangible assets

i. Property and equipment

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

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

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

ii. Intangible assets

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

Computer software cost recognised as an asset is amortised using the straight-line method over its useful life, not exceeding a period of 3 years. The amortisation commences once the software is brought into service.

iii. Impairment review

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

(J) Leases

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

(K) Amounts payable to Consolidated Fund

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

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

(L) Exchequer financing

To reflect the long-term nature of ECGD's activities, and recognising that operating and investment cash flows in a particular year may not always be sufficient to service operating commitments, a cumulative balance with the Exchequer is maintained and disclosed on the face of the Statement of Financial Position. The balance moves from year to year in response to the cash flows and accrued income arising from ECGD's operating and investment activities.

(M) Pension costs

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

(N) Financial assets

Recognition

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

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

Impairment of financial assets

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

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

Derivative financial instruments

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

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

Interest rate swaps, interest rate options and credit default swaps

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments. A cap (floor) is an interest rate option contract under which the purchaser is entitled to receive payments when an underlying reference rate (e.g. 6 month Libor) is above (below) a specified ‘strike’ rate. Credit default swaps are a bilateral contract under which two counterparties agree to isolate and separately trade the credit risk of at least one third-party reference entity. Under a credit default swap agreement, a protection buyer pays a periodic fee to a protection seller in exchange for a contingent payment by the seller upon a credit event (such as a default or failure to pay) happening in relation to the reference entity. When a credit event is triggered, the protection seller either takes delivery of the defaulted debt instrument for par value or pays the protection buyer the difference between the par value and recovery value of a predetermined debt instrument; centralised auction settlement procedures are now usually used to determine the settlement amount. Exposure to gain or loss on all these derivative contracts will increase or decrease over their respective lives as a function of maturity dates, interest rates, credit rating and timing of payments.

(O) Financial liabilities

Financial liabilities at ‘fair value through profit or loss’ are recognised both initially and subsequently at their fair value, with any resultant gains or loss recognised in the Operating Statement. The net gain or loss recognised in the Operating Statement incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 25.

(P) Provisions

ECGD makes provisions for liabilities and charges where, at the Statement of Financial Position date, a legal or constructive liability exists (i.e. a present obligation from past events exists), where the outflow of economic benefits is probable and where a reasonable estimate can be made. The obligation is normally the amount that the entity would rationally pay to settle the obligation at the Statement of Financial Position date or to transfer it to a third party at that time. If the effect is material, expected future cash flows are discounted using the real rate set by HM Treasury (currently 2.2%).

Provisions consist of (i) Onerous Leases and (ii) Dilapidations on leasehold property.

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

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

(Q) Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, ECGD discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

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

2 First-time adoption of IFRS

This is the first year that ECGD has presented its financial statements under IFRS. The following disclosures are required in the year of transition. ECGD's previous financial statements under UK GAAP were for the year ended 31 March 2009 and the date of transition to IFRS was therefore 1 April 2008.

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with standard arrangements.

(1) Significant differences between ECGD's UK GAAP and IFRS accounting policies

	UK GAAP	IFRS
a.	**Prior period adjustments**	
	Prior period adjustments are made only for a changes in accounting policy or for a fundamental error. A fundamental error is defined as an error of such significance as to destroy the true and fair view, and hence the validity, of the financial statements. During the year ended 31 March 2009, an error was detected in the carrying value of insurance liabilities related to prior period underwriting funds. The effect of this error was to overstate insurance liabilities at 1 April 2008 by £33,367,000, with a corresponding understatement of the cumulative trading surplus. Of this amount, £21,774,000 relates to the 1999-2000 underwriting fund year which would have been released to income in the year ended 31 March 2009. The error was determined not to be a fundamental error and, therefore, the error was corrected in the Operating Statement for the year ended 31 March 2009 as part of changes in insurance liabilities recognised in the year.	The concept of a fundamental error does not exist under IFRS. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires retrospective adjustment for all material errors in the first set of financial statements issued after its discovery. The correction of the error is excluded from the Operating Statement in the year of discovery. On implementation of IFRS, the error adjusted for in the year of discovery under UK GAAP, has been recognised retrospectively within the IFRS opening statement of financial position at 1 April 2008. Insurance liabilities have reduced by £33,367,000, with a corresponding increase in the cumulative trading surplus at 1 April 2008. Consequently, the changes in insurance liabilities included in the Operating Statement for the year ended 31 March 2009 have reduced by £33,367,000. The Five Year Summary included within the Management Commentary has been adjusted for this material error.

	UK GAAP	IFRS
b.	**Reinsurance assets**	
	Insurance liabilities are shown after deducting any potential future losses that are recoverable from reinsurance contracts. Insurance liabilities at 1 April 2008 under UK GAAP amounting to £582,701,000 are stated after netting off reinsurance assets totalling £38,796,000.	Under the provisions of IFRS 4 *Insurance Contracts*, reinsurance assets cannot be offset against the related insurance liabilities. On implementation of IFRS, the portion of the underwriting funds attributable to reinsurance contracts has been reclassified as reinsurance assets. This asset comprises the value of reinsurance premiums ceded to reinsurers by ECGD. The adjustment to the opening IFRS statement of financial position at 1 April 2008 has increased insurance liabilities by £38,796,000, creating a reinsurance asset of the same amount. The Statement of Financial Position at 31 March 2009 has also been adjusted, recognising a reinsurance asset of £40,952,000 with a corresponding increase in insurance liabilities.
c.	**Provisions, Contingent Liabilities and Contingent Assets**	
	Insurance and other payables included provisions for onerous lease contracts and dilapidations. The provision for onerous lease contracts has been calculated based upon management's best estimate of the likely future net obligations payable. The provision has been calculated taking into account management's estimate of future lease rentals receivable from sub-letting the affected office space to third parties. Provisions for onerous leases amounted to £350,000 and £1,852,000 at 1 April 2008 and 31 March 2009 respectively. Provisions for dilapidations amounted to £750,000 at 1 April 2008 and 31 March 2009.	Provisions are now separately disclosed. On the implementation of IFRS, the provision for onerous lease contracts was increased by £1,317,000 to £1,667,000. This represents the discounted value of all the future lease obligations on the relevant property. The cumulative trading surplus decreased by a corresponding amount. The provision for onerous leases included in the statement of financial position at 31 March 2009 is £3,149,000, an increase of £1,297,000 with a corresponding decrease in the cumulative trading surplus. Net income for the year ended 31 March 2009 has increased by a net £20,000, representing a net decrease in the provision for onerous leases charged in the year of £78,000, offset by the unwinding of the discount – effectively a borrowing cost – on the opening provision of £58,000. Contingent assets are not recognised in the financial statements. The related asset is only recognised when the receipt of the associated income is virtually certain.

All Parliamentary Supply 2008-09 comparatives (including Note 11) are reported on a UK GAAP basis.

(2) Opening Statement of Financial Position at 1 April 2008

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets:				
Plant and equipment		1,576	-	1,576
Financial assets				
Loans and receivables		493,235	-	493,235
Insurance contracts				
Insurance assets		893,326	-	893,326
Reinsurers' share of insurance liabilities	b	-	38,796	38,796
Insurance and other receivables		3,819	-	3,819
Total non-current assets		**1,391,956**	**38,796**	**1,430,752**
Current assets:				
Financial assets				
Fair value through income		55,599	-	55,599
Loans and receivables		226,058	-	226,058
Insurance contracts				
Insurance assets		117,064	-	117,064
Insurance and other receivables		5,770	-	5,770
Cash and cash equivalents		865,060	-	865,060
Total current assets		**1,269,551**	**-**	**1,269,551**
Total assets		**2,661,507**	**38,796**	**2,700,303**
Current liabilities:				
Financial liabilities				
Financial liabilities held at fair value		(43,119)	-	(43,119)
Payable to Consolidated Fund		(865,060)	-	(865,060)
Insurance and other payables	c	(50,969)	1,100	(49,869)
Total current liabilities		**(959,148)**	**1,100**	**(958,048)**
Non-current assets plus net current assets		**1,702,359**	**39,896**	**1,742,255**
Non-current liabilities				
Insurance contracts				
Insurance liabilities	a, b	(582,701)	(5,429)	(588,130)
Provisions	c	-	(2,417)	(2,417)
Financial liabilities				
Payable to Consolidated Fund		(167,243)	-	(167,243)
Total non-current liabilities		**(749,944)**	**(7,846)**	**(757,790)**
Assets less liabilities		**952,415**	**32,050**	**984,465**
Taxpayers' equity				
Exchequer Financing		(1,187,758)	-	(1,187,758)
Cumulative Trading Surplus	a, c	2,131,376	32,050	2,163,426
General Fund		8,797	-	8,797
Total taxpayers' equity		**952,415**	**32,050**	**984,465**

Statement of changes in taxpayers' equity	**Note**	**£'000**
UK GAAP taxpayers' equity		952,415
Prior period adjustments	a	33,367
Provisions	c	(1,317)
Taxpayers' equity under IFRS		**984,465**

(3) Operating Statement for the year ended 31 March 2009

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Request for resources 2:				
Export Credit Guarantees and Insurance				
Income				
Gross premium income		41,182	-	41,182
Less ceded to reinsurers		(2,687)	-	(2,687)
Net premium income		38,495	-	38,495
Net investment return		99,759	-	99,759
Changes in insurance liabilities	a, b	77,004	(35,523)	41,481
Reinsurers' share of changes in insurance liabilities	b	-	2,156	2,156
Net foreign exchange gain		126,691	-	126,691
Total income		341,949	(33,367)	308,582
Expenses				
Net claims charge for the year		(28,462)	-	(28,462)
Staff costs		(9,854)	-	(9,854)
Other administration and operating costs	c	(10,093)	20	(10,073)
Total expenses		(48,409)	20	(48,389)
Net Income arising from Export Credit Guarantees and Insurance Activities		293,540	(33,347)	260,193
Request for resources 1:				
Export Finance Assistance				
Income				
Net investment return		8,862	-	8,862
Expenses				
Staff costs		(1,472)	-	(1,472)
Other administration and operating costs		(1,508)	-	(1,508)
Total expenses		(2,980)	-	(2,980)
Net Income on Export Finance Assistance Activities		5,882	-	5,882
Net Operating Income for the year		299,422	(33,347)	266,075

(4) Statement of Financial Position at 31 March 2009

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets:				
Plant and equipment		1,382	-	1,382
Financial assets				
Loans and receivables		333,171	-	333,171
Insurance contracts				
Insurance assets		890,214	-	890,214
Reinsurers' share of insurance liabilities	b	-	40,952	40,952
Insurance and other receivables		6,467	-	6,467
Total non-current assets		**1,231,234**	**40,952**	**1,272,186**
Current assets:				
Financial assets				
Fair value through income		98,956	-	98,956
Loans and receivables		174,914	-	174,914
Insurance contracts				
Insurance assets		129,955	-	129,955
Insurance and other receivables		5,601	-	5,601
Cash and cash equivalents		413,432	-	413,432
Total current assets		**822,858**	**-**	**822,858**
Total assets		**2,054,092**	**40,952**	**2,095,044**
Current liabilities:				
Financial liabilities				
Financial liabilities held at fair value		(71,172)	-	(71,172)
Payable to Consolidated Fund		(413,432)	-	(413,432)
Insurance and other payables	c	(31,970)	2,602	(29,368)
Total current liabilities		**(516,574)**	**2,602**	**(513,972)**
Non-current assets plus net current assets		**1,537,518**	**43,554**	**1,581,072**
Non-current liabilities				
Insurance contracts				
Insurance liabilities	b	(505,697)	(40,952)	(546,649)
Provisions	c	-	(3,899)	(3,899)
Financial liabilities				
Payable to Consolidated Fund		(163,828)	-	(163,828)
Total non-current liabilities		**(669,525)**	**(44,851)**	**(714,376)**
Assets less liabilities		**867,993**	**(1,297)**	**866,696**
Taxpayers' equity				
Exchequer Financing		(1,566,238)	-	(1,566,238)
Cumulative Trading Surplus	c	2,424,916	(1,297)	2,423,619
General Fund		9,315	-	9,315
Total taxpayers' equity		**867,993**	**(1,297)**	**866,696**

Statement of changes in taxpayers' equity	**Note**	**£'000**
UK GAAP taxpayers' equity at 31 March 2009		867,993
Provisions	c	(1,297)
Taxpayers' equity under IFRS at 31 March 2009		**866,696**

3 Analysis of net resource Outturn by section

							2009-10		2008-09
						Outturn	Estimate		
	Admin	Other Current	Grants	Gross Resource Expenditure	A. in A.	Net Total	Net Total	Net Total outturn compared with estimate	Prior-year outturn
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for Resources 1: To provide export finance assistance through interest support to benefit the UK economy by facilitating exports (RfR 1)									
Spending in Annually Managed Expenditure (AME)									
Central Government spending									
A - Fixed Rate Export Finance	-	19,067	-	19,067	19,067	-	4,975	4,975	5,130
Non-Budget									
B - GEFCO loans and interest equalisation	-	8,588	22,468	31,056	10,098	20,958	24,600	3,642	31,936
RfR 1 Total	-	27,655	22,468	50,123	29,165	20,958	**29,575**	**8,617**	**37,066**
Request for Resources 2: To provide export credit guarantees to benefit the UK economy by facilitating exports and to provide investment insurance (RfR 2)									
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A - Administration	27,044	-	-	27,044	1,082	25,962	53,235	27,273	22,927
Non-Budget									
B - Export Credits	-	71,872	-	71,872	97,834	(25,962)	(53,233)	(27,271)	(22,927)
RfR 2 Total	27,044	71,872	-	98,916	98,916	-	**2**	**2**	**-**
Resource Total	**27,044**	**99,527**	**22,468**	**149,039**	**128,081**	**20,958**	**29,577**	**8,619**	**37,066**

Brief explanation of variances between Estimate and Outturn:

RfR1

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

RfR2

Gross expenditure of £98.9 million compares with £150.7 million in the Estimate. Certain costs included in the Estimate were not reflected in the Outturn including Onerous Lease Provisioning, and delivery of the cost reduction programme. In addition, other costs were generally lower than the Estimate. There was sufficient income to return the Request for Resources to zero.

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

4 Reconciliation of outturn to net income against Administration Budget

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

				2009-10	2008-09
				Outturn compared	
			Supply	with	
		Outturn	estimate	estimate	Outturn
	Note	£'000	£'000	£'000	£'000
Net resource outturn	3	(20,958)	(29,577)	8,619	(37,066)
Non-supply income (CFERs)	6	258,695	235,063	23,632	336,488
Net operating income		**237,737**	**205,486**	**32,251**	**299,422**

4(b) Outturn against final Administration Budget

			2009-10
		Budget	Outturn
	Note	£'000	£'000
Gross Administration Budget		55,892	27,044
Income Allowable against the Administration Budget		2,657	1,082
Net outturn against final Administration Budget	**3**	**53,235**	**25,962**

5 Reconciliation of resources to net cash requirement

	Note	Estimate £'000	Outturn £'000	Net total outturn compared with estimate: savings / (excess) £'000
Net resource requirement	3	(29,577)	(20,958)	8,619
Voted capital items:				
Capital :				
Acquisition of plant, property and Intangible assets	19	(1,102)	(1,053)	49
Advance of export finance loans		(5,000)	(3,978)	1,022
Less Non-operating A in A:				
Repayment of export finance loans		5,000	3,978	(1,022)
Accruals adjustments				
Non-cash items		146,203	5,634	(140,569)
Movements in working capital other than cash	18	4,695	94,303	89,608
Excess cash receipts surrenderable to the Consolidated Fund	6	(120,222)	(77,926)	42,296
Net cash requirement		**(3)**	**-**	**3**

The variances between Estimate and Outturn are explained within the Management Commentary.

Overall, there is a reduction £42.3 million in the excess cash receipts surrenderable to the Consolidated Fund outturn, when compared to the estimate. This reflects lower than predicted adjustments to remove non-cash items including Onerous Lease Provisions, notional capital charges, Claims credits, and Foreign Exchange losses. However, this was offset by a favourable movement in net total resources of £8.6 million and movements in working capital of £51.0 million reflecting favourable Claims provisioning.

6 Analysis of Income Payable to the Consolidated Fund

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

	Note	Forecast Income £'000	2009-10 Forecast Receipts *£'000*	Income £'000	2009-10 Outturn Receipts *£'000*
Operating income and receipts - Excess A. in A.		81,398	*24,598*	258,695	*133,136*
Non-operating income and receipts	8	153,665	*153,665*	-	*161,935*
Excess cash receipts surrenderable to the Consolidated Fund	5	-	*120,222*	-	*77,926*
Total		**235,063**	***298,485***	**258,695**	***372,997***

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

	Note	2009-10 £'000	2008-09 £'000
Income authorised to be Appropriated in Aid	11	386,776	451,168
Gross income		386,776	451,168
Income authorised to be Appropriated in Aid	3	(128,081)	(114,680)
Operating income payable to the Consolidated Fund	6	**258,695**	**336,488**

8 Non-operating income - Excess Appropriations in Aid

	Note	2009-10 £'000	2008-09 £'000
Principal repayments of voted loans	31	161,935	209,625
Non-operating income - excess A. in A.	6	**161,935**	**209,625**

9 Non-operating income not classified as Appropriations in Aid

ECGD does not have income of this classification.

10 Segmental Information

10.1 Operating segments

As stated at Note 1(A) above, ECGD has adopted IFRS 8 – *Operating Segments*, as adapted for the public sector, early. ECGD has determined its operating segments based upon its organisational structure.

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

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

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

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

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

Request for resources 2 (Export Credit Guarantees and Insurance) reflects the combination of Accounts 1, 2 and 3, whilst request for resources 1 (Export Finance Assistance) is solely Account 4.

10.2 Segmental Operating Statement for the year ended 31 March 2010

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Income					
Gross premium income	-	102,453	-	-	102,453
Less ceded to reinsurers	-	(44,835)	-	-	(44,835)
Net premium income	**-**	**57,618**	**-**	**-**	**57,618**
Net investment return income	56,042	-	-	10,024	66,066
Net claims credit for the year	54,307	33,470	-	-	87,777
Changes in insurance liabilities	2,046	57,527	25	-	59,598
Reinsurers' share of changes in insurance liabilities	-	40,193	-	-	40,193
Total income	**112,395**	**188,808**	**25**	**10,024**	**311,252**
Expenses					
Net investment return expense	-	(12,254)	-	-	(12,254)
Staff costs	(1,527)	(9,544)	-	(1,654)	(12,725)
Other administration and operating costs	(1,588)	(9,928)	-	(1,721)	(13,237)
Net foreign exchange losses	(12,735)	(22,564)	-	-	(35,299)
Total expenses	**(15,850)**	**(54,290)**	**-**	**(3,375)**	**(73,515)**
Net income	**96,545**	**134,518**	**25**	**6,649**	**237,737**

Total income per the Operating Statement includes Net investment return expense shown under account 2 above.

10.3 Segmental Operating Statement for the year ended 31 March 2009

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Income					
Gross premium income	-	41,182	-	-	41,182
Less ceded to reinsurers	-	(2,687)	-	-	(2,687)
Net premium income	**-**	**38,495**	**-**	**-**	**38,495**
Net investment return income	67,086	32,669	4	8,862	108,621
Changes in insurance liabilities	95	41,299	87	-	41,481
Reinsurers' share of changes in insurance liabilities	-	2,156	-	-	2,156
Net foreign exchange gain	52,981	73,710	-	-	126,691
Total income	**120,162**	**188,329**	**91**	**8,862**	**317,444**
Expenses					
Net claims charge for the year	(26,659)	(1,803)	-	-	(28,462)
Staff costs	(1,133)	(8,721)	-	(1,472)	(11,326)
Other administration and operating costs	(1,160)	(8,913)	-	(1,508)	(11,581)
Total expenses	**(28,952)**	**(19,437)**	**-**	**(2,980)**	**(51,369)**
Net income	**91,210**	**168,892**	**91**	**5,882**	**266,075**

10.4 Segmental Statement of Financial Position at 31 March 2010

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	1,120	-	-	1,120
Intangible assets	-	891	-	-	891
Financial assets					
Loans and receivables	-	-	-	233,678	233,678
Insurance contracts					
Insurance assets	426,612	429,202	-	-	855,814
Reinsurers' share of insurance liabilities	-	81,145	-	-	81,145
Insurance and other receivables	-	1,812	-	-	1,812
Total non-current assets	**426,612**	**514,170**	**-**	**233,678**	**1,174,460**
Current assets:					
Financial assets					
Fair value through income	-	-	-	65,006	65,006
Loans and receivables	-	-	-	100,550	100,550
Insurance contracts					
Insurance assets	79,653	66,448	-	-	146,101
Insurance and other receivables	-	5,361	-	-	5,361
Cash and cash equivalents	44,199	125,469	-	175,400	345,068
Total current assets	**123,852**	**197,278**	**-**	**340,956**	**662,086**
Total assets	**550,464**	**711,448**	**-**	**574,634**	**1,836,546**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	(1,400)	-	(55,259)	(56,659)
Payable to Consolidated Fund	(44,199)	(125,469)	-	(175,400)	(345,068)
Insurance and other payables	(4,988)	(5,708)	-	(338)	(11,034)
Total current liabilities	**(49,187)**	**(132,577)**	**-**	**(230,997)**	**(412,761)**
Non-current assets plus net current assets	**501,277**	**578,871**	**-**	**343,637**	**1,423,785**
Non-current liabilities					
Insurance contracts					
Insurance liabilities	(915)	(486,118)	(18)	-	(487,051)
Provisions	-	(6,625)	-	-	(6,625)
Financial liabilities					
Payable to Consolidated Fund	(162,610)	(11,041)	-	(3,508)	(177,159)
Total non-current liabilities	**(163,525)**	**(503,784)**	**(18)**	**(3,508)**	**(670,835)**
Assets less liabilities	**337,752**	**75,087**	**(18)**	**340,129**	**752,950**
Taxpayers' equity					
Exchequer Financing	(908,557)	(1,231,643)	(101,686)	329,901	(1,911,985)
Cumulative Trading Surplus	1,246,309	1,306,730	101,668	-	2,654,707
General Fund	-	-	-	10,228	10,228
Total taxpayers' equity	**337,752**	**75,087**	**(18)**	**340,129**	**752,950**

10.5 Segmental Statement of Financial Position at 31 March 2009

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	1,382	-	-	1,382
Financial assets					
Loans and receivables	-	-	-	333,171	333,171
Insurance contracts					
Insurance assets	345,546	544,668	-	-	890,214
Reinsurers' share of insurance liabilities	-	40,952	-	-	40,952
Insurance and other receivables	-	6,467	-	-	6,467
Total non-current assets	**345,546**	**593,469**	**-**	**333,171**	**1,272,186**
Current assets:					
Financial assets					-
Fair value through income	-	20,185	-	78,771	98,956
Loans and receivables	-	-	-	174,914	174,914
Insurance contracts					
Insurance assets	110,017	19,938	-	-	129,955
Insurance and other receivables	387	5,214	-	-	5,601
Cash and cash equivalents	59,175	137,537	-	216,720	413,432
Total current assets	**169,579**	**182,874**	**-**	**470,405**	**822,858**
Total assets	**515,125**	**776,343**	**-**	**803,576**	**2,095,044**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	-	-	(71,172)	(71,172)
Payable to Consolidated Fund	(59,175)	(137,537)	-	(216,720)	(413,432)
Insurance and other payables	(11,610)	(9,307)	-	(8,451)	(29,368)
Total current liabilities	**(70,785)**	**(146,844)**	**-**	**(296,343)**	**(513,972)**
Non-current assets plus net current assets	**444,340**	**629,499**	**-**	**507,233**	**1,581,072**
Non-current liabilities					
Insurance contracts					
Insurance liabilities	(2,961)	(543,645)	(43)	-	(546,649)
Provisions	-	(3,899)	-	-	(3,899)
Financial liabilities					
Payable to Consolidated Fund	(127,986)	(29,760)	-	(6,082)	(163,828)
Total non-current liabilities	**(130,947)**	**(577,304)**	**(43)**	**(6,082)**	**(714,376)**
Assets less liabilities	**313,393**	**52,195**	**(43)**	**501,151**	**866,696**
Taxpayers' equity					
Exchequer Financing	(836,371)	(1,120,017)	(101,686)	491,836	(1,566,238)
Cumulative Trading Surplus	1,149,764	1,172,212	101,643	-	2,423,619
General Fund	-	-	-	9,315	9,315
Total taxpayers' equity	**313,393**	**52,195**	**(43)**	**501,151**	**866,696**

10.6 Segmental Statement of Financial Position at 1 April 2008

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	1,576	-	-	1,576
Financial assets					
Loans and receivables	-	-	-	493,235	493,235
Insurance contracts					
Insurance assets	375,793	517,533	-	-	893,326
Reinsurers' share of insurance liabilities	-	38,796	-	-	38,796
Insurance and other receivables	-	3,819	-	-	3,819
Total non-current assets	**375,793**	**561,724**	**-**	**493,235**	**1,430,752**
Current assets:					
Financial assets					-
Fair value through income	-	6,947	-	48,652	55,599
Loans and receivables	-	-	-	226,058	226,058
Insurance contracts					
Insurance assets	48,133	68,931	-	-	117,064
Insurance and other receivables	140	5,630	-	-	5,770
Cash and cash equivalents	598,374	(25,869)	-	292,555	865,060
Total current assets	**646,647**	**55,639**	**-**	**567,265**	**1,269,551**
Total assets	**1,022,440**	**617,363**	**-**	**1,060,500**	**2,700,303**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	-	-	(43,119)	(43,119)
Payable to Consolidated Fund	(598,374)	25,869	-	(292,555)	(865,060)
Insurance and other payables	(31,187)	(13,625)	-	(5,057)	(49,869)
Total current liabilities	**(629,561)**	**12,244**	**-**	**(340,731)**	**(958,048)**
Non-current assets plus net current assets	**392,879**	**629,607**	**-**	**719,769**	**1,742,255**
Non-current liabilities					
Insurance contracts					-
Insurance liabilities	(3,056)	(584,944)	(130)	-	(588,130)
Provisions	-	(2,417)	-	-	(2,417)
Financial liabilities					
Payable to Consolidated Fund	(109,012)	(48,720)	-	(9,511)	(167,243)
Total non-current liabilities	**(112,068)**	**(636,081)**	**(130)**	**(9,511)**	**(757,790)**
Assets less liabilities	**280,811**	**(6,474)**	**(130)**	**710,258**	**984,465**
Taxpayers' equity					
Exchequer Financing	(777,743)	(1,009,794)	(101,682)	701,461	(1,187,758)
Cumulative Trading Surplus	1,058,554	1,003,320	101,552	-	2,163,426
General Fund	-	-	-	8,797	8,797
Total taxpayers' equity	**280,811**	**(6,474)**	**(130)**	**710,258**	**984,465**

10.7 Additional segmental information

For the year ended 31 March 2010, there were no customers who accounted for more than 10% of the total premium revenue. In 2008-09 two customers, both within Account 2, each accounted for in excess of 10% of total premium income, net of amounts ceded to reinsurers. These two customers accounted for net premium income of £26.5 million and £8.0 million respectively.

All premium income was earned from companies resident in the United Kingdom and therefore no geographical analysis of premium income is presented.

11 Income

This represents all income generated during the period and includes non-cash items such as changes in provisions before deduction of income authorised to be Appropriated in Aid:

	RfR 1	RfR 2	2009-10 Total	2008-09 Total
	£'000	£'000	£'000	£'000
Net premium income	-	57,618	57,618	38,495
Interest receivable	-	80,361	80,361	115,192
Claims credit for the year	-	87,777	87,777	-
Movements in insurance liabilities	-	99,791	99,791	77,004
Administration	-	1,082	1,082	1,149
Foreign exchange gain	-	-	-	126,691
Interest support costs	35,646	-	35,646	44,311
Interest income – Directly Funded Export Loans	24,501	-	24,501	36,514
Fair value CDS gain (incl. counterparty risk provision adjustment)	-	-	-	11,812
Total Income for the year	**60,147**	**326,629**	**386,776**	**451,168**

12 Net investment return

	Account 1	Account 2	2009-10 Total	2008-09 Total
	£'000	£'000	£'000	£'000
Export Credit Guarantees and Insurance				
Net (loss)/gain on Credit Default Swaps	-	(24,474)	(24,474)	11,812
Interest income	62,679	17,682	80,361	115,192
Capital charge	(6,637)	(5,462)	(12,099)	(27,245)
Total	**56,042**	**(12,254)**	**43,788**	**99,759**

	2009-10 Total	2008-09 Total
	£'000	£'000
Export Finance Assistance		
Net interest support costs	1,515	2,393
Net movement in fair value of derivatives	6,476	2,361
Interest income	24,501	36,514
Capital charge	(22,468)	(32,406)
Total	**10,024**	**8,862**

13 Interest receivable

	Note	Account 1	Account 2	2009-10 Total	2008-09 Total
		£'000	£'000	£'000	£'000
Interest arising from claims					
- interest charged in the year	21(b)	107,342	26,511	133,853	176,424
- net increase in provisions for unrecoverable interest	21(b)	(44,686)	(8,829)	(53,515)	(61,622)
Interest arising from claims net of provisions		62,656	17,682	80,338	114,802
Other Interest		23	-	23	390
Interest credit for the year	12	62,679	17,682	80,361	115,192

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

14 Claims credit/(charge) for the year

	Note	Account 1 £'000	Account 2 £'000	2009-10 Total £'000	2008-09 Total £'000
Claims authorised in year	21(a)	(10)	(48,462)	(48,472)	(43,875)
Expected recoveries on claims authorised in the year		1	33,684	33,685	25,160
Provision on authorised claims in the year		(9)	(14,778)	(14,787)	(18,715)
Net decrease/(increase) in provisions for claims authorised in previous years		54,316	48,248	102,564	(9,747)
Net claims credit/(charge) for the year	21(a)	**54,307**	**33,470**	**87,777**	**(28,462)**

15 Staff numbers and costs

A. Staff costs consist of:

	2009-10 £'000	2008-09 £'000
Salaries and Wages	9,383	8,680
Social Security Costs	809	809
Early Retirement Costs	777	-
Other Pension Costs	1,756	1,837
Total	**12,725**	**11,326**
Of which:		
Export Credit Guarantees and Insurance	11,071	9,854
Export Finance Assistance	1,654	1,472

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

For 2009-10, employers' contributions of £1,731,134 were payable to the PCSPS (2008-09: £1,814,724) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years. Following a full scheme valuation, the rates from 2010-11 will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, being a stakeholder pension with an employer contribution. Employers' contributions of £2,466 (2008-09: £20,204) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £658 (2008-09: £1,266), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the statement of financial position date were £371 (2008-09: £673). Contributions prepaid at that date were £Nil (2008-09: £Nil).

B. The average number of full-time equivalent persons employed (including senior management) was 207 (2008-09: 209) and full time equivalent of temporary workers during the year was 19 (2008-09: 38).

16 Other administrative and operating costs

	2009-10 £'000	2008-09 £'000
IT	2,860	2,983
Indirect staff and personnel expenses	2,008	1,380
Business promotion	63	15
Rent	2,608	3,050
Other establishment costs	1,476	1,128
Underwriting expenses	70	136
Claims and recovery expenses	275	145
Non-refundable premium administration income	(95)	(160)
Other administration costs	3,146	2,083
Depreciation	424	349
Fixed asset charges	45	48
Travel, subsistence and hospitality	357	424
Expenditure	**13,237**	**11,581**
Of which:		
Export Credit Guarantees and Insurance	11,516	10,073
Export Finance Assistance	1,721	1,508
Included in the above figures:		
Minimum lease payments under operating leases recognised as expense in the year	2,529	2,529
Audit fees	233	223

17 Foreign exchange (loss)/gain

	Account 1	Account 2	2009-10 Total	2008-09 Total
	£'000	£'000	£'000	£'000
Unrealised foreign exchange (loss)/gain arising on:				
- recoverable claims and interest before provisions	(28,707)	(22,714)	(51,421)	245,932
- provisions against recoverable claims and interest	15,972	5,427	21,399	(109,931)
- insurance premium receivables	-	(692)	(692)	5,841
Net unrealised foreign exchange (loss)/gain for year	(12,735)	(17,979)	(30,714)	141,842
Realised foreign exchange loss	-	(4,585)	(4,585)	(15,151)
Net foreign exchange (loss)/gain for year	**(12,735)**	**(22,564)**	**(35,299)**	**126,691**

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

Currency	Currency equivalent to £ 1 31 March 2010	31 March 2009
Euro	1.12	1.08
Japanese Yen	141.79	141.50
US Dollars	1.52	1.43

18 Movements in working capital other than cash and cash equivalents

	2009-10	2008-09
	£'000	£'000
The movements in working capital used in the reconciliation of resources to cash requirement comprise:		
Claims	102,393	66,505
Receivables, non-A. in A., other debtors and prepayments	7,518	(1,177)
Payables, insurance liabilities and accruals	(15,608)	(18,664)
Net decrease in working capital other than cash and cash equivalents	**94,303**	**46,664**
The movements in working capital other than cash and cash equivalents used in the Statement of cash flows comprise:		
Claims	102,393	66,505
Receivables, other debtors and prepayments	13,551	1,516
Payables, insurance liabilities and accruals	(15,608)	(18,664)
Net decrease in working capital other than cash and cash equivalents	**100,336**	**49,357**

19 Plant and equipment, and intangible assets

(a) Plant and equipment

	IT equipment £'000	Leasehold improvements £'000	Total £'000
Cost:			
Balance at 1 April 2008	4,106	2,970	7,076
Additions	155	-	155
Balance at 31 March 2009	**4,261**	**2,970**	**7,231**
Additions	162	-	162
Balance at 31 March 2010	**4,423**	**2,970**	**7,393**
Accumulated Depreciation:			
Balance at 1 April 2008	3,589	1,911	5,500
Charge for the Year	218	131	349
Balance at 31 March 2009	**3,807**	**2,042**	**5,849**
Charge for the Year	289	135	424
Balance at 31 March 2010	**4,096**	**2,177**	**6,273**
Carrying amount:			
31 March 2010	**327**	**793**	**1,120**
31 March 2009	454	928	1,382
1 April 2008	517	1,059	1,576

(b) Intangible assets

	Software £'000
Cost	
Balance at 1 April 2008	-
Balance at 31 March 2009	**-**
Additions	891
Balance at 31 March 2010	**891**
Accumulated Depreciation	
Balance at 1 April 2008	-
Balance at 31 March 2009	**-**
Balance at 31 March 2010	**-**
Carrying amount:	
31 March 2010	**891**
31 March 2009	**-**
1 April 2008	-

20 Financial assets

(a) Fair value through profit or loss:

	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Export Credit Guarantees and Insurance			
Credit Default Swaps	-	20,185	6,947
Export Finance Assistance			
Interest rate derivatives in relation to Export Finance Loan Guarantees	49,820	61,950	37,015
Interest rate derivative contracts entered into for hedging purposes	15,186	16,821	11,637
Total	**65,006**	**98,956**	**55,599**

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

All financial assets held at fair value through profit or loss fall due within one year.

(b) Loans and receivables:

	Note	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Export Finance Loans due from GEFCO	31	329,901	491,836	701,461
Export Finance Interest due from GEFCO	31	3,508	6,082	9,511
Other Export Finance Receivables		819	10,167	8,321
Total		**334,228**	**508,085**	**719,293**
Falling due:				
- within one year		100,550	174,914	226,058
- after more than one year		233,678	333,171	493,235

Loans and receivables are calculated on the amortised cost basis (refer to accounting policy Note 1(N) for an explanation of amortised cost basis). The fair value of Export Finance Loans due from GEFCO is £363,197,000 (2008-09: £536,828,000). The fair value of the other receivables is considered to be the same as amortised cost.

21 Insurance assets

	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Recoverable claims	833,409	872,245	860,581
Interest on unrecovered claims	168,506	147,924	149,809
Total	**1,001,915**	**1,020,169**	**1,010,390**
Falling due:			
- within one year	146,101	129,955	117,064
- after more than one year	855,814	890,214	893,326

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

(a) Recoverable claims

	Account 1 £'000	Account 2 £'000	Total £'000
Recoverable claims - gross			
Balance at 1 April 2008	1,092,313	812,882	1,905,195
Reclassifications	2,394	(2,394)	-
Claims approved in the year	13	43,862	43,875
Recoveries made in the year	(10,507)	(99,873)	(110,380)
Recoveries abandoned in the year	(238,636)	-	(238,636)
Foreign exchange movements	64,520	97,572	162,092
Balance at 31 March 2009	**910,097**	**852,049**	**1,762,146**
Reclassifications & transfers from interest (b)	-	9,159	9,159
Claims approved in the year	10	48,462	48,472
Recoveries made in the year	(30,689)	(120,176)	(150,865)
Recoveries abandoned in the year	(12,694)	(59,924)	(72,618)
Foreign exchange movements	(13,377)	(21,731)	(35,108)
Balance at 31 March 2010	**853,347**	**707,839**	**1,561,186**
Recoverable claims - provisions			
Balance at 1 April 2008	777,399	267,215	1,044,614
Reclassifications	(11,228)	11,228	-
Additional provisions in the year	26,659	1,803	28,462
Recoveries abandoned in the year	(238,636)	-	(238,636)
Foreign exchange movements	28,326	27,135	55,461
Balance at 31 March 2009	**582,520**	**307,381**	**889,901**
Reclassifications & transfers from interest (b)	-	9,159	9,159
Additional provisions in the year	(54,307)	(33,470)	(87,777)
Recoveries abandoned in the year	(12,694)	(59,924)	(72,618)
Foreign exchange movements	(5,827)	(5,061)	(10,888)
Balance at 31 March 2010	**509,692**	**218,085**	**727,777**
Net recoverable claims as at:			
- 31 March 2010	**343,655**	**489,754**	**833,409**
- 31 March 2009	327,577	544,668	872,245
- 1 April 2008	314,914	545,667	860,581

There are no recoverable claims on Accounts 3 and 4.

(b) Interest on unrecovered claims

	Account 1	Account 2	Total
	£'000	£'000	£'000
Interest on unrecovered claims - gross			
Balance at 1 April 2008	1,137,645	51,337	1,188,982
Reclassifications	8,587	(8,587)	-
Interest charged in the year	135,559	40,865	176,424
Interest received in the year	(93,187)	(52,870)	(146,057)
Recoveries abandoned in the year	(96,503)	-	(96,503)
Foreign exchange movements	78,497	5,343	83,840
Balance at 31 March 2009	1,170,598	36,088	1,206,686
Reclassifications & transfers to claims (a)	(54,831)	45,672	(9,159)
Interest charged in the year	107,342	26,511	133,853
Interest received in the year	(22,847)	(31,107)	(53,954)
Recoveries abandoned in the year	(46,562)	(5,381)	(51,943)
Foreign exchange movements	(15,330)	(983)	(16,313)
Balance at 31 March 2010	**1,138,370**	**70,800**	**1,209,170**
Interest on unrecovered claims - provisions			
Balance at 1 April 2008	1,028,633	10,540	1,039,173
Reclassifications	8,587	(8,587)	-
Net release of provision in the year	49,341	12,281	61,622
Recoveries abandoned in the year	(96,503)	-	(96,503)
Foreign exchange movements	52,554	1,916	54,470
Balance at 31 March 2009	1,042,612	16,150	1,058,762
Reclassifications & transfers to claims (a)	(54,831)	45,672	(9,159)
Additional provisions in the year	44,686	8,829	53,515
Recoveries abandoned in the year	(46,562)	(5,381)	(51,943)
Foreign exchange movements	(10,145)	(366)	(10,511)
Balance at 31 March 2009	**975,760**	**64,904**	**1,040,664**
Net interest on unrecovered claims as at:			
- 31 March 2010	**162,610**	**5,896**	**168,506**
- 31 March 2009	127,986	19,938	147,924
- 1 April 2008	109,012	40,797	149,809

22 Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 2008	38,796
Addition to the underwriting funds in the year	2,687
Net decrease of open credit funds	(531)
Balance at 31 March 2009	40,952
Addition to the underwriting funds in the year	44,831
Net decrease of open credit funds	(3,114)
Other fund movements	(1,524)
Balance at 31 March 2010	**81,145**

23 Insurance and other receivables

	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Insurance premium receivables	5,145	9,822	7,923
Prepayments and accrued income	2,028	2,162	1,493
Other receivables - policyholders	-	84	173
	7,173	**12,068**	**9,589**
Falling due:			
- within one year	5,361	5,601	5,770
- after more than one year	1,812	6,467	3,819

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

24 Cash and cash equivalents

	£'000
Balance at 1 April 2008	865,060
Net cash Inflow to ECGD	447,536
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(865,060)
in respect of amounts received in the current year	(34,104)
Balance at 31 March 2009	**413,432**
Net cash inflow to ECGD	372,997
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(413,432)
in respect of amounts received in the current year	(27,929)
Balance at 31 March 2010	**345,068**

Cash and cash equivalents comprise:	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
The Office of Paymaster General	326,659	402,074	853,019
Commercial banks and cash in hand	18,409	11,358	12,041
Total	**345,068**	**413,432**	**865,060**

25 Financial liabilities at fair value

	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Export Credit Guarantees and Insurance			
Credit Default Swaps	1,400	-	-
Export Finance Assistance			
Interest rate derivatives in relation to Export Finance Loan Guarantees	13,451	16,090	1,100
Interest rate derivative contracts entered into for hedging purposes	41,808	55,082	42,019
Total	**56,659**	**71,172**	**43,119**

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

A counterparty risk provision of £0.1 million has been made on the Account 4 Export Finance business to reflect the £258 million amount at risk with banking counterparties. This provision has been included within the fair values of the financial instruments to which they relate.

26 Payable to the Consolidated Fund

	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Due within one year	345,068	413,432	865,060
Due after one year	177,159	163,828	167,243
Total	**522,227**	**577,260**	**1,032,303**

The balance due within one year represents ECGD's bank balance at 31 March 2010.

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

27 Insurance and other payables, and provisions

(a) Insurance and other payables

	31 March 2010 £'000	31 March 2009 £'000	1 April 2008 £'000
Insurance payables - amounts due to policyholders	658	548	688
Income tax and National Insurance	272	281	284
Other payables	9,306	18,579	44,613
Accruals	798	9,960	4,284
Total	**11,034**	**29,368**	**49,869**
Falling due:			
- within one year	11,034	29,368	49,869
- after more than one year	-	-	-

(b) Provisions

	Dilapidations Provision £'000	Onerous Lease Provision £'000	Total £'000
Balance at 1 April 2008	(750)	(1,667)	(2,417)
Charge for the Year	-	(1,482)	(1,482)
Balance at 31 March 2009	**(750)**	**(3,149)**	**(3,899)**
Charge for the Year	(125)	(2,601)	(2,726)
Balance at 31 March 2010	**(875)**	**(5,750)**	**(6,625)**
Falling due after more than one year:			
- 31 March 2010	(875)	(5,750)	(6,625)
- 31 March 2009	(750)	(3,149)	(3,899)
- 1 April 2008	(750)	(1,667)	(2,417)

28 Insurance liabilities

Each Underwriting Fund for an underwriting year is set at the higher of (i) the current 'Expected Loss', as defined below, on amounts at risk on unexpired financial guarantees or insurance contracts, or (ii) accumulated premiums plus interest earned, less both administration costs and provisions made for the unrecoverable proportion of paid claims. In the case of the latter, the premium income credited to a provision is net of any reinsurance premium ceded to re-insurers where ECGD, as lead insurer, has reinsured a proportion of the total contract risk.

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

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

The following movements in Underwriting Funds have occurred in the year:

	Account 1	Account 2	Account 3	Total
	£'000	£'000	£'000	£'000
Insurance liabilities - Gross of reinsurance				
Balance at 1 April 2008	3,056	584,944	130	588,130
Addition to the underwriting funds in the year	-	28,981	-	28,981
Release of excess funds - cash	-	(23,150)	-	(23,150)
Release of excess funds - credit	-	(73,074)	-	(73,074)
Other fund movements	-	18,448	-	18,448
Net increase/(decrease) in insurance liabilities on closed funds	(95)	7,496	(87)	7,314
Balance at 31 March 2009	2,961	543,645	43	546,649
Addition to the underwriting funds in the year	-	80,177	-	80,177
Release of excess funds - cash	-	(21,612)	-	(21,612)
Release of excess funds - credit	-	(102,061)	-	(102,061)
Other fund movements	-	9,839	-	9,839
Net (decrease) in insurance liabilities on closed funds	(2,046)	(23,870)	(25)	(25,941)
Balance at 31 March 2010	**915**	**486,118**	**18**	**487,051**
Insurance liabilities - Net of reinsurance				
Balance at 1 April 2008	3,056	546,148	130	549,334
Addition to the underwriting funds in the year	-	26,294	-	26,294
Release of excess funds - cash	-	(23,150)	-	(23,150)
Release of excess funds - credit	-	(72,543)	-	(72,543)
Other fund movements	-	18,448	-	18,448
Net increase/(decrease) in insurance liabilities on closed funds	(95)	7,496	(87)	7,314
Balance at 31 March 2009	2,961	502,693	43	505,697
Addition to the underwriting funds in the year	-	35,346	-	35,346
Release of excess funds - cash	-	(21,612)	-	(21,612)
Release of excess funds - credit	-	(98,947)	-	(98,947)
Other fund movements	-	11,363	-	11,363
Net (decrease) in insurance liabilities on closed funds	(2,046)	(23,870)	(25)	(25,941)
Balance at 31 March 2010	**915**	**404,973**	**18**	**405,906**

Claims development tables

The tables that follow present the development of the estimated ultimate cost of claims for underwriting years 2004-05 to 2009-10.

The tables show the development of the carrying value of the insurance liabilities (Underwriting Funds) in the Statement of Financial Position. Within prior Fund years in the tables, open years refer to the credit Funds for the four underwriting years from 2000-01 to 2003-04.

For individual Fund years, the balance shown “at end of year” shows the estimated ultimate cost of claims at the end of the year it is created. Each subsequent row shows the estimate at the end of the next following year. The final row for each fund year shows the estimate at the date of the Statement of Financial Position.

Table 1: Development of insurance liabilities, gross of reinsurance

	Prior fund years		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
	Closed years	Open years	fund year	fund year	fund year	fund year	fund year	fund year	Grand Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Account 2									
Credit funds	36,215	157,976							
At end of year			19,512	53,095	24,845	23,265	28,485	79,484	
One year later			17,232	53,521	25,178	23,265	29,123		
Two years later			13,033	54,141	25,178	20,003			
Three years later			13,476	54,141	22,476				
Four years later			13,476	83,609					
Five years later			14,531						
Cash funds	18,932	-							
At end of year			12,902	22,935	21,255	20,423	7,963	693	
One year later			13,554	23,131	21,684	16,901	7,120		
Two years later			14,004	23,416	21,684	20,371			
Three years later			280	266	73				
Four years later			120	-					
Five years later			-						
Account 2 - credit fund	36,215	157,976	14,531	83,609	22,476	20,003	29,123	79,484	443,416
Account 2 - cash fund	18,932	-	-	-	73	20,371	7,120	693	47,189
Account 1	915	-							915
Account 3	18	-							18
	56,080	**157,976**	**14,531**	**83,609**	**22,549**	**40,374**	**36,244**	**80,176**	**491,538**
Cumulative paid claims - Account 2		(4,487)	-	-	-	-	-	-	(4,487)
	56,080	**153,489**	**14,531**	**83,609**	**22,549**	**40,374**	**36,244**	**80,176**	**487,051**

Table 2: Development of insurance liabilities, net of reinsurance

	Prior fund years: Closed years £'000	Prior fund years: Open years £'000	2004-05 fund year £'000	2005-06 fund year £'000	2006-07 fund year £'000	2007-08 fund year £'000	2008-09 fund year £'000	2009-10 fund year £'000	Grand Total £'000
Account 2									
Credit funds	30,912	157,821							
At end of year			15,937	49,916	16,468	20,086	25,798	34,653	
One year later			13,657	50,342	16,801	20,086	26,433		
Two years later			9,458	50,962	16,801	20,003			
Three years later			9,901	50,962	17,278				
Four years later			9,901	65,011					
Five years later			14,531						
Cash funds	18,932	-							
At end of year			12,902	22,935	21,255	20,423	7,963	693	
One year later			13,554	23,131	21,684	16,901	7,120		
Two years later			14,004	23,416	21,684	16,001			
Three years later			280	266	73				
Four years later			120	-					
Five years later			-						
Account 2 - credit fund	30,912	157,821	14,531	65,011	17,278	20,003	26,433	34,653	366,641
Account 2 - cash fund	18,932	-	-	-	73	16,001	7,120	693	42,819
Account 1	915	-							915
Account 3	18	-							18
	50,777	**157,821**	**14,531**	**65,011**	**17,351**	**36,004**	**33,553**	**35,346**	**410,393**
Cumulative paid claims - Account 2		(4,487)	-	-	-	-	-	-	(4,487)
	50,777	**153,334**	**14,531**	**65,011**	**17,351**	**36,004**	**33,553**	**35,346**	**405,906**

Table 3: Schedule of 'Expected Loss'

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

	Prior fund years		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
	Closed years	Open years	fund year	fund year	fund year	fund year	fund year	fund year	Grand Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Account 2									
'Expected Loss' - credit funds	30,912	17,115							
At end of year			15,937	30,697	9,322	12,203	14,077	29,302	
One year later			13,657	19,534	12,143	14,080	14,549		
Two years later			8,354	21,915	12,812	19,337			
Three years later			8,771	21,910	7,061				
Four years later			6,853	27,686					
Five years later			4,150						
'Expected Loss' - cash funds	18,932	-							
At end of year			11,008	4,955	20,718	20,423	7,963	544	
One year later			1,089	851	1,841	21	7,120		
Two years later			516	622	173	6			
Three years later			280	266	73				
Four years later			120	-					
Five years later			-						
Total Account 2	49,844	17,115	4,150	27,686	7,134	19,343	21,670	29,846	176,787
Account 1	915	-							915
Account 3	18	-							18
'Expected Loss' outstanding	**50,777**	**17,115**	**4,150**	**27,686**	**7,134**	**19,343**	**21,670**	**29,846**	**177,720**

29 Movement in Exchequer Financing

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

Notional capital charges are based on: (a) a charge of 1.25% of the Portfolio Unexpected Loss; (b) Net Financial Assets for Accounts 1, 2 and 3 at 6 months Libor plus 0.5%; (c) Charge for Fixed Assets at rate provided by HM Treasury; and (d) for Account 4 an amount which gives ECGD no net income or loss on direct funded loans through GEFCO.

30 Risk Management: Financial Instruments and Insurance Contracts

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

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

a) Market risk (including interest rate risk, foreign currency risk, and other price risk)
b) Credit risk (in this context meaning counterparty risk in relation to interest rate derivatives and credit default swaps)
c) Insurance risk (including related foreign currency risk)
d) Liquidity risk
e) Risk measurement

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

- Defined terms of reference for the Management Board and Risk Committee and specified duties for the Accounting Officer.
- A clearly defined organisational structure setting out the responsibilities of the various divisions and documented delegation authorities.
- A dedicated risk management function that is central to the business decisions of ECGD, with clearly defined roles and reporting lines.
- A Credit Risk Policy Statement that is reviewed, updated as necessary, and formally readopted at least annually. This framework sets out ECGD’s risk management objectives, policies and procedures for the effective recognition, assessment, monitoring and reporting of risks that it faces.

ECGD's approach to managing operational risk is described within the Statement on Internal Control. Its approach to managing enterprise risk more broadly is described within the Annual Review, under the heading of Governance.

30(a) Market risk

Market risk is the risk of adverse financial impact due to changes in the fair value or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates and other prices. ECGD is primarily exposed to market risk through its holdings of credit default swaps and of interest rate derivatives held in support of its Fixed Rate Export Finance (FREF) scheme.

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

(a)(i) Interest rate risk

Interest rate risk arises primarily from the operation of the FREF schemes, under which ECGD supports the provision of fixed rate finance to overseas borrowers. Such official financing support is provided by a number of governments or export credit agencies pursuant to the OECD Agreement on Officially Supported Export Credits (the OECD Agreement). The minimum fixed interest rates which may be supported under the OECD Agreement in this manner are called Commercial Interest Reference Rates (CIRR).

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

ECGD seeks to limit its exposure to interest rate risk through controlling the terms of the FREF schemes themselves: the use of effective hedging instruments such as interest rate swaps and interest rate floors; and, at an international level, applying pressure to reduce any subsidy in the CIRR arrangements underlying the FREF schemes.

The Risk Committee is responsible for the setting of the parameters for hedging activities. It has agreed that sensitivity hedging will apply to all FREF interest rate exposures, with risk tolerance kept within specific bands in total, and across all time horizons of the exposure.

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

Sensitivities to movements in interest rates are:

	1% increase in interest rates £'000	1% decrease in interest rates £'000
As at 31 March 2010		
Interest rate swap arrangements on Export Finance Loan Guarantees	(12,161)	10,720
Interest rate derivative contracts entered into for hedging purposes	13,501	(13,786)
Net impact on profit or loss	**1,340**	**(3,066)**
As at 31 March 2009		
Interest rate swap arrangements on Export Finance Loan Guarantees	(18,645)	17,289
Interest rate derivative contracts entered into for hedging purposes	19,877	(20,498)
Net impact on profit or loss	**1,232**	**(3,209)**

Sensitivities to movements in interest rate volatility were:

	5% increase in interest rate volatility £'000	5% decrease in interest rate volatility £'000
As at 31 March 2010		
Interest rate swap arrangements on Export Finance Loan Guarantees	(285)	230
Interest rate derivative contracts entered into for hedging purposes	327	(297)
Net impact on profit or loss	**42**	**(67)**
As at 31 March 2009		
Interest rate swap arrangements on Export Finance Loan Guarantees	(503)	411
Interest rate derivative contracts entered into for hedging purposes	339	(256)
Total	**(164)**	**155**

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

	One year or less £'000	Between one and five years £'000	After five years £'000	Total £'000
As at 31 March 2010				
Interest rate swap arrangements on Export Finance Loan Guarantees	116,810	398,033	118,505	633,348
Interest rate derivative contracts entered into for hedging purposes	169,909	446,522	140,320	756,751
Total	**286,719**	**844,555**	**258,825**	**1,390,099**
As at 31 March 2009				
Interest rate swap arrangements on Export Finance Loan Guarantees	133,069	502,116	182,332	817,517
Interest rate derivative contracts entered into for hedging purposes	211,763	545,451	228,235	985,449
Total	**344,832**	**1,047,567**	**410,567**	**1,802,966**

(a)(ii) Foreign currency risk

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

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

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

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
As at 31 March 2010				
Financial assets:				
Fair value through profit or loss	26,094	26,615	12,297	65,006
Loans and receivables	334,228	-	-	334,228
Insurance and other receivables	2,063	4,242	869	7,173
Financial liabilities:				
Fair value through profit or loss	(20,591)	(26,084)	(9,984)	(56,659)
Insurance and other payables	(11,034)	-	-	(11,034)
As at 31 March 2009				
Financial assets:				
Fair value through profit or loss	27,994	52,939	18,023	98,956
Loans and receivables	508,085	-	-	508,085
Insurance and other receivables	3,524	8,140	404	12,068
Financial liabilities:				
Fair value through profit or loss	(23,674)	(38,708)	(8,790)	(71,172)
Insurance and other payables	(33,267)	-	-	(33,267)

(a)(iii) Other price risk

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

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

ECGD is exposed to price risk through changes in the credit spreads for the entity on which protection has been purchased (the Reference Entity). The value of ECGD's CDS is sensitive to changes in these credit spreads. ECGD believes that the following changes in credit spreads were possible as at 31 March 2010. An increase in credit spreads of 100% would increase the carrying value of its CDS by £9,761,887 (31 March 2009: an increase of 80% in credit spreads would increase the carrying value of CDS by £24,614,690); while a decrease of 80% in credit spreads would reduce the carrying value by £8,294,608 (31 March 2009: an 80% decrease would reduce the carrying value by £29,452,926).

The maturity profile of ECGD's CDS is as follows:

	One year or less £'000	Between one and five years £'000	After five years £'000	Total £'000
As at 31 March 2010	42,836	206,808	15,517	265,161
As at 31 March 2009	17,453	183,728	92,339	293,520

30(b) Credit risk

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

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

Reports detailing credit exposures by counterparty, together with their limits, are reviewed by the Risk Committee on a monthly basis. At 31 March 2010 all counterparty exposures were with financial institution counterparties with an external credit rating of A+ or higher.

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

30(c) Insurance risk

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

(c)(i) Credit risk
ECGD has a significant exposure to credit risk which is measured in terms of 'Expected Loss' and 'Unexpected Loss' assessed at the time of initial transaction, both of which will vary over time.

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

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

The following table provides information regarding the credit exposure of amounts at risk and 'Expected Loss' on Account 2 as at 31 March 2010;

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at risk, gross of reinsurance			
Account 2			
Asset-backed	4,465,925	2,618,510	7,084,435
Other	2,518,770	2,131,497	4,650,267
	6,984,695	**4,750,007**	**11,734,702**
Amounts at risk, net of reinsurance			
Account 2			
Asset-backed	2,785,053	2,618,510	5,403,563
Other	1,361,954	2,131,497	3,493,451
	4,147,007	**4,750,007**	**8,897,014**
'Expected Loss', gross of reinsurance			
Account 2			
Asset-backed	16,321	73,294	89,615
Other	7,612	124,720	132,332
	23,933	**198,014**	**221,947**
'Expected Loss', net of reinsurance			
Account 2			
Asset-backed	11,117	58,361	69,478
Other	7,157	100,152	107,309
	18,274	**158,513**	**176,787**

The following table provides information regarding the credit exposure of amounts at risk and 'Expected Loss' on Account 2 as at 31 March 2009;

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at risk, gross of reinsurance			
Account 2			
Asset-backed	2,401,590	2,312,292	4,713,882
Other	3,840,005	1,777,664	5,617,669
	6,241,595	**4,089,956**	**10,331,551**
Amounts at risk, net of reinsurance			
Account 2			
Asset-backed	2,401,590	2,220,574	4,622,164
Other	2,779,914	1,605,772	4,385,686
	5,181,504	**3,826,346**	**9,007,850**
'Expected Loss', gross of reinsurance			
Account 2			
Asset-backed	5,183	61,640	66,823
Other	34,509	103,034	137,543
	39,692	**164,674**	**204,366**
'Expected Loss', net of reinsurance			
Account 2			
Asset-backed	5,183	60,855	66,038
Other	23,246	92,068	115,314
	28,429	**152,923**	**181,352**

Accounts 1 and 3 Amounts at risk were £47,774,000 and £16,909,000 respectively at 31 March 2010 (31 March 2009: £59,648,000 and £28,548,000 respectively). Related ‘Expected Loss’ on Accounts 1 and 3 were £915,000 and £18,000 respectively at 31 March 2010 (31 March 2009: £2,595,000 and £4,000 respectively).

Insurance assets – Unrecovered Claims

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

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

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

The following table provides information regarding the credit exposure of the recoverable claims and related interest as at 31 March 2010.

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims at 31 March 2010 - gross			
Account 1	16	853,331	853,347
Account 2	7,681	700,158	707,839
	7,697	**1,553,489**	**1,561,186**
Recoverable claims at 31 March 2010 - net of provisions			
Account 1	16	343,639	343,655
Account 2	7,323	482,431	489,754
	7,339	**826,070**	**833,409**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Interest on unrecoverable claims at 31 March 2010 - gross			
Account 1	-	1,138,370	1,138,370
Account 2	11	70,789	70,800
	11	**1,209,159**	**1,209,170**
Interest on unrecoverable claims at 31 March 2010 - net of provisions			
Account 1	-	162,610	162,610
Account 2	3	5,893	5,896
	3	**168,503**	**168,506**

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2009.

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims at 31 March 2009 - gross			
Account 1	905	909,192	910,097
Account 2	5,499	846,550	852,049
	6,404	**1,755,742**	**1,762,146**
Recoverable claims at 31 March 2009 - net of provisions			
Account 1	852	326,725	327,577
Account 2	2,564	542,104	544,668
	3,416	**868,829**	**872,245**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Interest on unrecoverable claims at 31 March 2009 - gross			
Account 1	-	1,170,598	1,170,598
Account 2	-	36,088	36,088
	-	**1,206,686**	**1,206,686**
Interest on unrecoverable claims at 31 March 2009 - net of provisions			
Account 1	-	127,986	127,986
Account 2	-	19,938	19,938
	-	**147,924**	**147,924**

Credit concentration risk

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

The following table provides an indication of the concentration of credit risk within the ECGD Account 2 portfolio as at 31 March 2010. The values have been presented based upon the geographical location of the ultimate obligor.

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2					
Asset-backed	2,697,563	1,827,971	972,125	1,586,776	7,084,435
Other	1,314,958	340,017	1,814,667	1,180,625	4,650,267
	4,012,521	**2,167,988**	**2,786,792**	**2,767,401**	**11,734,702**
Amounts at Risk, net of reinsurance					
Account 2					
Asset-backed	1,016,692	1,827,971	972,125	1,586,776	5,403,564
Other	158,141	340,017	1,814,667	1,180,625	3,493,450
	1,174,833	**2,167,988**	**2,786,792**	**2,767,401**	**8,897,014**
'Expected Loss', gross of reinsurance					
Account 2					
Asset-backed	16,571	15,265	9,312	48,467	89,615
Other	2,881	23,452	72,727	33,272	132,332
	19,452	**38,717**	**82,039**	**81,739**	**221,947**
'Expected Loss', net of reinsurance					
Account 2					
Asset-backed	13,038	14,644	6,006	35,790	69,478
Other	2,765	23,352	48,276	32,916	107,309
	15,803	**37,996**	**54,282**	**68,706**	**176,787**

The following table provides an indication of the concentration of credit risk within the ECGD Account 2 portfolio as at 31 March 2009.

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2					
Asset-backed	809,021	1,681,886	675,657	1,547,318	4,713,882
Other	218,202	440,391	3,358,460	1,600,616	5,617,669
	1,027,223	**2,122,277**	**4,034,117**	**3,147,934**	**10,331,551**
Amounts at Risk, net of reinsurance					
Account 2					
Asset-backed	809,021	1,681,886	675,657	1,455,600	4,622,164
Other	212,326	419,022	2,317,782	1,436,556	4,385,686
	1,021,347	**2,100,908**	**2,993,439**	**2,892,156**	**9,007,850**
'Expected Loss', gross of reinsurance					
Account 2					
Asset-backed	6,369	11,030	1,868	47,556	66,823
Other	3,472	18,421	65,719	49,931	137,543
	9,841	**29,451**	**67,587**	**97,487**	**204,366**
'Expected Loss', net of reinsurance					
Account 2					
Asset-backed	6,369	11,030	1,868	46,771	66,038
Other	3,189	18,233	47,229	46,663	115,314
	9,558	**29,263**	**49,097**	**93,434**	**181,352**

(c)(ii) Foreign currency risk

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

The following table sets out the underlying currency of ECGD's insurance assets at 31 March 2010.

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	1,093,000	463,640	4,546	1,561,186
- Provisions	(577,842)	(146,681)	(3,254)	(727,777)
Interest on unrecovered claims				
- Gross	1,017,188	179,526	12,456	1,209,170
- Provisions	(925,039)	(103,259)	(12,366)	(1,040,664)
Insurance assets at 31 March 2010	**607,307**	**393,226**	**1,382**	**1,001,915**

The following table sets out the underlying currency of ECGD's insurance assets at 31 March 2009.

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	1,199,790	557,884	4,472	1,762,146
- Provisions	(689,294)	(197,339)	(3,268)	(889,901)
Interest on unrecovered claims				
- Gross	906,491	287,708	12,487	1,206,686
- Provisions	(858,625)	(187,754)	(12,383)	(1,058,762)
Insurance assets at 31 March 2009	**558,362**	**460,499**	**1,308**	**1,020,169**

30(d) Liquidity risk

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

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

	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Total £'000
Accounts 1 - 3					
Gross Amounts at Risk	1,733,712	5,330,817	4,069,131	665,725	11,799,385
Less: Amounts at Risk ceded to reinsurers	(217,848)	(1,149,019)	(1,202,715)	(268,106)	(2,837,688)
Net amounts at risk at 31 March 2010	**1,515,864**	**4,181,798**	**2,866,416**	**397,619**	**8,961,697**

	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Total £'000
Accounts 1 - 3					
Gross Amounts at Risk	1,686,052	4,805,417	3,460,518	467,760	10,419,747
Less: Amounts at Risk ceded to reinsurers	(101,881)	(542,886)	(579,699)	(99,235)	(1,323,701)
Net amounts at risk at 31 March 2009	**1,584,171**	**4,262,531**	**2,880,819**	**368,525**	**9,096,046**

30(e) Risk measurement

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

The model is used to calculate the ‘Expected Loss’ and ‘Unexpected Loss’ calculations of the 99.1 percentile of the loss distribution for both individual and portfolio risks. The model uses a bespoke Sovereign Transition Matrix and Correlation Matrix, and the Standard & Poor's Corporate Transition Matrix.

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

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

The table below sets out the incremental impact of the movements indicated on: (i) total ‘Expected Loss’ on Account 2 insurance contracts in issue and current as at 31 March 2010, and (ii) on the Operating Statement after taking into account utilisation of the Underwriting Fund.

	Across the board ratings downgrade		Increased persistence	Reduced recovery rates	Combination: ratings down 2 notches, persistence +2 yrs, recovery rates -20%
	1 notch	2 notches	+ 2 years	-20%	
	£'000	£'000	£'000	£'000	£'000
As at 31 March 2010:					
- Increase in 'Expected Loss'	69,763	164,351	7,370	51,281	310,242
- Impact on net operating income for the year	26,655	76,325	2,572	19,729	180,033

The table below sets out the incremental impact of the movements indicated on: (i) total ‘Expected Loss’ on Account 2 insurance contracts in issue and current as at 31 March 2009, and (ii) on the Operating Statement after taking into account utilisation of the Underwriting Fund.

	Across the board ratings downgrade		Increased persistence	Reduced recovery rates	Combination: ratings down 2 notches, persistence +2 yrs, recovery rates -20%
	1 notch	2 notches	+ 2 years	-20%	
	£'000	£'000	£'000	£'000	£'000
As at 31 March 2009:					
- Increase in 'Expected Loss'	64,404	148,183	9,343	57,734	323,872
- Impact on net operating income for the year	15,785	50,867	2,603	15,919	147,629

Sensitivity analysis is not performed for Accounts 1 and 3, as the majority of these balances are comprised of a small number of large individual customers.

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

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

Scenario analysis
On an half-yearly basis, ECGD performs scenario analysis to estimate the impact on ECGD’s Account 2 portfolio of different economic scenarios that simulate the impact of various worse case adverse events or combinations of such events, as specified endorsed by the Risk Committee.

31 Related Party Transactions

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

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

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

GEFCO is incorporated in Great Britain and registered in England and Wales and is domiciled in the United Kingdom. It is the only subsidiary of First Securitisation Company Limited. As at 31 March 2010, First Securitisation Company Limited holds 49,999 of its shares with the one remaining share being held by Capita IRG Trustees Limited. GEFCO has three Directors: two appointed by Capita IRG Trustees Limited and the other appointed by Lloyds Banking Group Plc (Lloyds).

Between the financial years 1986-07 and 2002-03, GEFCO refinanced a number of export credit loans guaranteed by ECGD. Since 2002-03, there have been no new re-financings (although drawings under loans previously refinanced have themselves been refinanced). The loans which GEFCO has refinanced are now in run-off.

GEFCO has raised funds by issuing bonds guaranteed by the Secretary of State and by long term borrowing from ECGD. GEFCO repaid its last remaining bond on 7 January 2010. GEFCO has an overdraft facility with Lloyds, which is guaranteed by ECGD. GEFCO has, in connection with its refinancing of export credit loans in foreign currencies, entered into cross currency swaps, and its obligations under those swaps are guaranteed by ECGD.

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

In 2009-10, transactions between ECGD and GEFCO comprised:

- repayments of principal under loans made by ECGD to GEFCO: £165,913,000 (£209,625,000 in 2008-09);
- payment of advances of principal under loans by ECGD to GEFCO: £3,978,000 (nil in 2008-09);
- net interest received under those loans: £27,075,000 (£39,943,000 in 2008-09)

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

	Loan £'000	Interest £'000
Balance at 1 April 2008	**701,461**	**9,511**
Cash Advanced / Interest Charged in Year	**-**	**36,514**
Cash Received in Year	**(209,625)**	**(39,943)**
Balance at 31 March 2009	**491,836**	**6,082**
Cash Advanced / Interest Charged in Year	3,978	24,501
Cash Received in Year	(165,913)	(27,075)
Balance at 31 March 2010	**329,901**	**3,508**

Under the contracts for the refinancing of export credit loans, ECGD has agreed that, at the end of each month ECGD will reimburse GEFCO any expenses and fees incurred by GEFCO in administering the refinanced loans. In the financial year ended 31 March 2010, GEFCO fees and expenses totalled £821,000 (2008-09: £928,000).

The expenses deducted include:

- interest payable to Lloyds under the overdraft facility; and

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

The residual margin payments made by GEFCO to banks on ECGD's behalf pursuant to the Agency Agreement between ECGD and GEFCO totalled £1,780,000 (2008-09: £2,614,000).

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

32 Contingent Liabilities

(i) Amounts at Risk and other contingent liabilities

Gross of reinsurance	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Balance at 1 April 2008	77,860	9,507,644	39,052	-	9,624,556
Guarantees and insurance policies issued and renewed	-	1,830,090	-	-	1,830,090
Run off	(21,342)	(3,229,698)	(14,829)	-	(3,265,869)
Foreign exchange adjustments	3,130	2,223,515	4,325	-	2,230,970
Balance at 31 March 2009	**59,648**	**10,331,551**	**28,548**	**-**	**10,419,747**
Guarantees and insurance policies issued and renewed	-	3,904,336	-	-	3,904,336
Run off	(11,148)	(2,251,658)	(10,215)	-	(2,273,021)
Foreign exchange adjustments	(726)	(249,527)	(1,424)	-	(251,677)
Balance at 31 March 2010	**47,774**	**11,734,702**	**16,909**	**-**	**11,799,385**

Net of reinsurance	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Balance at 1 April 2008	77,860	8,225,479	39,052	-	8,342,391
Guarantees and insurance policies issued and renewed	-	1,459,610	-	-	1,459,610
Run off	(21,008)	(2,561,060)	(15,758)	-	(2,597,826)
Foreign exchange adjustments	2,796	1,883,821	5,254	-	1,891,871
Balance at 31 March 2009	**59,648**	**9,007,850**	**28,548**	**-**	**9,096,046**
Guarantees and insurance policies issued and renewed	-	2,205,701	-	-	2,205,701
Run off	(11,148)	(1,976,991)	(10,215)	-	(1,998,354)
Foreign exchange adjustments	(726)	(339,546)	(1,424)	-	(341,696)
Balance at 31 March 2010	**47,774**	**8,897,014**	**16,909**	**-**	**8,961,697**

(ii) Statutory Limits

The Export and Investment Guarantees Act 1991 sets limits on the maximum liabilities that ECGD may incur in both pounds sterling and foreign currency. The latter is expressed in Special Drawing Rights (SDR). The following table shows the Statutory Limits at 31 March 2010 and the cumulative outstanding commitments set against them:

				31 March 2010				31 March 2009
	Sterling £'000	Foreign currency SDR '000	Sterling equivalent £'000	Sterling Total £'000	Sterling £'000	Foreign currency SDR '000	Sterling equivalent £'000	Sterling Total £'000
Section 6(1) amounts								
Statutory Limit	35,000,000	30,000,000	30,064,200	65,064,200	35,000,000	30,000,000	31,277,700	66,277,700
Commitments	1,156,363	11,945,964	11,971,529	13,127,892	1,025,598	9,931,254	10,432,474	11,458,072
Section 6(3) amounts								
Statutory Limit	15,000,000	10,000,000	10,021,400	25,021,400	15,000,000	10,000,000	10,425,900	25,425,900
Commitments	-	-	-	-	-	-	-	-
Statutory Limit	**50,000,000**	**40,000,000**	**40,085,600**	**90,085,600**	**50,000,000**	**40,000,000**	**41,703,600**	**91,703,600**
Commitments	**1,156,363**	**11,945,964**	**11,971,529**	**13,127,892**	**1,025,598**	**9,931,254**	**10,432,474**	**11,458,072**
Exchange rate applied				**1SDR = £ 1.00214**				**1SDR = £ 1.04259**

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

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

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

33 Leasehold Obligations

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

	One year or less £'000	Between one and five years £'000	After five years £'000	Total £'000
As at 31 March 2010	2,529	10,116	632	13,277
As at 31 March 2009	2,529	10,116	3,161	15,806

34 Losses and Special Payments

Managing Public Money requires certain losses and special payments to be disclosed. ECGD did not incur or make such losses or payments during the year.

Glossary

Active Portfolio Management (APM)

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

Amounts at Risk (AAR)

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

Appropriations in Aid (A. in A.)

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

Buyer Credit

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

Consolidated Fund

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

Consolidated Fund Excess Receipts (CFER)

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

Credit Default Swaps (CDS)

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

Estimate

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

Excess Cash Receipts

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

Export Credit Agencies (ECAs)

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

Financial Objectives

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

Fixed Rate Export Finance (FREF)

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

Heavily Indebted Poor Countries (HIPC)

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

Overseas Investment Insurance (OII)

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

Premium Earned/Premium Income

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

Project Finance

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

Provisions

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

Spending Review

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

Supplier Credit

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

Supplier Credit Finance Facility (SCF)

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

The Arrangement

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

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