Presented pursuant to National Loans Act 1968, c.13 s.21(2)

National Loans Fund Account 2006-2007

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Foreword

The Consolidated Fund (CF) was first set up in 1787 as 'one fund into which shall flow every stream of public revenue and from which shall come the supply for every service'.

In order to separate government revenue and expenditure on the one hand and government borrowing and lending on the other, the National Loans Fund (NLF) was established on 1 April 1968 by the National Loans Act 1968 to account for government borrowing and lending, which were until then accounted for on the CF. The accounts for the CF and NLF are now published separately.

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

The DMO was established as an executive agency of the Treasury on 1 April 1998. Its aim is 'to carry out the Government's debt management policy of minimising financing costs over the longer term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way'. Its operations are managed through the Debt Management Account (DMA), which is a bank account at the Bank of England, linked closely with the NLF. As the Government's debt manager, the DMO has a key role in the issue of gilt-edged securities on behalf of the Treasury. Gilt-edged securities, or gilts, are UK Government sterling-denominated listed bonds. There are two main types: conventional (i.e. fixed rate) gilts and index-linked gilts, on which the return is linked to movements in the Retail Price Index. They are issued from the NLF, sold initially to the DMA and then sold from the DMA by the DMO to the market. In addition, the DMO issues treasury bills on its own account and undertakes other money market operations to meet the Government's daily cash requirements. Further details on these operations can be found in the Debt and Reserves Management Report 2007-2008 published by the Treasury in March 2007 (ISBN: 978-1-84532-268-7).

The Exchange Equalisation Account (EEA) was established in 1932 to provide a fund that could be used, when necessary, to regulate the exchange value of sterling. It holds the UK's reserves of gold, foreign currency assets and International Monetary Fund (IMF) Special Drawing Rights. Combined with the UK's Reserve Tranche Position (RTP) with the IMF, these assets comprise the UK's official holdings of international reserves (the 'official reserves'). The RTP is an asset of the NLF. The Bank of England acts as the Treasury's agent in the day-to-day management of the EEA. It also acts as the Treasury's agent for foreign currency liability management, including the issuance of foreign currency debt to finance some of the reserves. This debt is issued by, and is an obligation of, the NLF under the National Loans Act 1968, since it is that Act (rather than the Exchange Equalisation Act 1979) which provides the powers for the Government to issue foreign currency securities. The foreign currency raised by issuing foreign currency debt is transferred from the NLF to the EEA in exchange for sterling. The Bank manages the foreign currency assets and liabilities associated with the official reserves of the NLF in conjunction with those of the EEA as the Treasury's agent. This allows the foreign currency assets and liabilities associated with the reserves, and the risk exposures therein, to be managed collectively in an efficient way.

Scope of the National Loans Fund Account

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

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

The NLF provides finance for both the DMA and the EEA. It also makes loans to various statutory public sector bodies and provides the finance needed by the Public Works Loan Board (PWLB) for its loans to Local Authorities. The profits of the Issue Department of the Bank of England are paid to the NLF. NS&I's savings products, other than the Ordinary Account, are liabilities of the NLF. Retained surpluses and deficits of the DMA are NLF assets or liabilities, respectively. The EEA's net assets are treated as an asset of the NLF.

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

Summary of Outturn for 2006-2007

The net operating cost of the Fund increased from £19.6 billion in 2005-2006 to £24.8 billion in 2006-2007. This was mainly due to a reduction of £2 billion in the net income of the EEA and a loss of £0.8 billion by the DMA, following a profit of £0.7 billion in 2005-2006. The main factors in these results were an exchange rate loss of £1.2 billion on the EEA (compared with a gain of £0.6 billion in the previous year) and a £0.8 billion unrealised valuation loss on the DMA's holdings of investment securities. During the year, NLF borrowing costs net of lending income increased by £2 billion.

Total gross liabilities increased by £35.1 billion from £567.1 billion to £602.2 billion. The main factor behind this rise was an increase of £31.4 billion in the Fund's liability in respect of marketable gilt-edged stock, but there was also a significant increase of £5.3 billion in NS&I liabilities due primarily to increased sales of Premium Bonds. The liquidation of CRND's[1] holdings of gilts on behalf of the National Insurance Fund contributed to a reduction of £24.4 billion in the Fund's liabilities in respect of non-marketable gilts and an increase of £25.6 billion in its liability to the DMA.

The NLF's total gross assets fell by £0.3 billion to £82.9 billion. The main changes were an increase of £1 billion in advances made to the PWLB for its loans to Local Authorities, and a reduction of £0.5 billion in the value of the UK's Quota Subscription to the IMF, due to exchange rate movements. The final repayments were made on the Second World War loans from the USA and Canada.

As a result of these changes, the net liabilities of the Fund increased from £483.8 billion to £519.3 billion. As explained above, this is matched by a corresponding claim on the CF.

Forward look

The Debt Management Remit for 2007-2008 was published by the Treasury with the Budget on 21 March 2007. On the basis of a Central Government Net Cash Requirement forecast of £37.6 billion for 2007-2008, the published gross financing requirement was £62.6 billion (after taking account of gilt redemptions of £29.2 billion and a short-term financing adjustment of – £4.2 billion). NS&I were forecast to contribute £2.8 billion to financing, leaving a forecast net financing requirement for the DMO of £59.8 billion. This is to be met by total gilt sales of £58.4 billion and Treasury bill sales of £1.4 billion.

Preparation of the Account

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

1 Commissioners for the Reduction of the National Debt.

Audit

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

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

Nicholas Macpherson 10 July 2007
Accounting Officer
HM Treasury

Statement of Accounting Officer's responsibilities

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

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

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

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

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in *Government Accounting*.

Statement on Internal Control

Scope of responsibility

As Accounting Officer for the National Loans Fund, I am responsible for maintaining a sound system of internal control to support the organisation's policies, aims and objectives and safeguard public funds and assets. I am also obliged to conduct a review of the effectiveness of the system of internal control. This review covers all controls, including financial, operational and compliance controls and risk management. The National Loans Fund is managed generally within the framework of the Treasury's system of internal control. This framework includes resource allocation and utilisation and the management of risks across the Treasury's business. In addition, there are further controls that are specific to the management of the National Loans Fund, as detailed below.

The purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance against material mis-statement or loss. The system of internal control has been in place in Exchequer Funds and Accounts Team (EFA) for the year ending 31 March 2007 and up to the date of the approval of the annual account, and accords with Treasury guidance. Within this overall departmental framework, the additional controls in place for the management of the National Loans Fund are set out below.

Capacity to handle risk

Risk management is key to all processes within EFA, including that of business continuity resilience planning for those public funds for which EFA is responsible.

EFA staff working on the National Loans Fund are trained and equipped to manage risk in a way appropriate to their authority and duties. Guidance on risk management is available to all staff on the intranet and individuals' objectives reflect the need to manage risks, particularly those related to business continuity. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes.

The risk and control framework

During the year, responsibility for supporting me as Accounting Officer in matters relating to oversight of the governance, internal control and risk management processes was brought under the supervision of the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds, which are the Debt Management Account, Public Works Loan Board, Commissioners for the Reduction of the National Debt, Exchange Equalisation Account, National Loans Fund, Consolidated Fund and the Contingencies Fund. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The Chair of the Committee reports directly to me. The current membership of the Committee is

- Colin Price, Chair, non-executive member of the Debt Management Office's Managing Board, until December 2006 Chair of the Lord Chancellor's Strategic Investment Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive member of the Debt Management Office's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke, Director General Finance and Strategy at the Department of Trade and Industry.

The Exchequer Funds Audit Committee met for the first time on 23 January 2007. It met again on 29 March 2007 and 26 June 2007. Going forward, it will meet four times a year.

The key risks in managing the National Loans Fund are

- incorrect accounting and irregularity of transactions;
- failure of IT systems;
- failure to provide an effective service in adverse circumstances, including disaster situations; and
- failure of principal counter-parties to provide agreed services.

Controls in 2006-2007

The risk management strategy includes periodic horizon scanning to update the risk register and identify any changes in risk exposure, to evaluate the change and identify appropriate mitigating actions.

The elements of the risk and control Assurance Framework are

- policy and procedures manuals as well as job instructions are regularly updated and reflect the functionality of the IT system. They are readily accessible to all operational staff;
- clear separation of duties within EFA and IT system controls within ACME that prevent those initiating transactions also authorising payment instructions to the Bank of England;
- clear separation of duties between EFA and National Audit Office (NAO), who are required by statute to authorise all payments from the National Loans Fund;
- computer-generated payment instructions derived from underlying transaction records, to minimise the risk of keying errors;
- the IT (ACME) system's clear and comprehensive audit trail, to which NAO have real time access;
- to ensure business continuity resilience in key areas, staff within EFA are trained to do a range of jobs and are required to swap jobs periodically to keep their knowledge up to date;
- well developed Service Level Agreements covering financial relationships, standards and requirements for the interchange of information with all principal counterparties;
- the existence of application controls within the IT system used to manage financial transactions and account for receipts and payments on the National Loans Fund;
- risks that impact upon EFA's key stakeholders are managed by their involvement in business continuity planning and testing;
- the maintenance of a Risk Register for operations relating to the National Loans Fund;
- measures that could enable essential payments business to continue in the event of the normal arrangements for granting credit being disrupted; and
- the regular review and maintenance of a consolidated business continuity plan and developing further business continuity arrangements within the framework of the Treasury's corporate Business Continuity Plan facilities.

Plans for 2007-2008

In addition to the controls mentioned above, in the coming year I have plans for

- continuing to focus on enhancing risk awareness within the team through risk exercises and training;
- a further joint test with the NAO at the back-up site simulating a complete loss of all computer systems;
- training recently recruited EFA staff to cover key tasks elsewhere in their branch in addition to their core duties;

- EFA participation in the implementation of the replacement for the Treasury's current contingency site, to ensure that it allows them to continue to deliver their objectives efficiently and effectively if and when required;
- using the opportunity to run Treasury applications at the Office of Government Commerce site at Norwich, which is part of the back-up site replacement strategy, to provide enhanced resilience; and
- implementation of recommendations made by the Public Finances Business Continuity (PFBC) project, including the development of enhanced plans to address the loss of services from and to key external counterparties, such as the Bank of England, NAO and Debt Management Office.

Review of effectiveness

As Accounting Officer, my review of the effectiveness of the system of internal control is informed by the work of executive managers within the Treasury, who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the internal and external auditors. I have been supported by the Audit Committee and risk owners in addressing weaknesses and ensuring that continuous improvement of the system is in place. The Exchequer Funds Audit Committee considered the 2006-2007 accounts in draft and provided me with its views before I formally signed the accounts.

Internal Audit

Internal Audit has provided reports to the Audit Committee on the effectiveness of the risk management, control and governance processes during the period of this Statement on Internal Control. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The Internal Audit work programme is approved by the Audit Committee at the start of the year.

Internal Audit attended meetings of each Audit Committee to report the results of audit work and report the results of follow-up work on management action to address audit recommendations.

Internal Audit's view was that assurance could be given over the risk management, control and governance arrangements relevant to the accounts. There are no matters arising from the work of Internal Audit in the period that would give rise to a separate comment in the Statement on Internal Control.

Nicholas Macpherson 10 July 2007
Accounting Officer
HM Treasury

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

I certify that I have audited the financial statements of the National Loans Fund for the year ended 31 March 2007 under the National Loans Act 1968. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

As described in the Foreword on pages 2 to 4, the Accounting Officer is responsible for the preparation of financial statements in accordance with Section 21 (1) of the National Loans Act 1968 and in the form prescribed by HM Treasury. The Accounting Officer is also responsible for ensuring the regularity of financial transactions and the preparation of the Foreword and the Statement on Internal Control. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury. I also report whether in all material respects the financial transactions of the National Loans Fund Account conform to the authorities which govern them.

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

I review whether the Statement on Internal Control reflects the National Loans Fund's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the HM Treasury's corporate governance procedures or its risk and control procedures.

I read the information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

Audit opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury, of the financial position of the National Loans Fund as at 31 March 2007 and of the net operating cost and cash flows for the year ended 31 March 2007; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and in the form prescribed by HM Treasury.

Audit opinion on regularity

In my opinion, in all material respects, the financial transactions of the National Loans Fund conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

12 July 2007

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Operating Cost Statement for the year ended 31 March 2007

	Notes	**2007 £m**	2006 £m
Finance costs of borrowing	2	**29,614**	28,070
Income from lending operations	3	**(3,704)**	(4,166)
(Gains)/losses on foreign exchange transactions	4	**(147)**	95
Other expenditure	5	**802**	6
Other income	5	**(1,744)**	(4,391)
Net operating cost		**24,821**	19,614

The notes on pages 14 to 29 form part of this Account.

Balance Sheet as at 31 March 2007

	Notes	**2007 £m**	2006 £m
Assets			
Advances	8	**49,916**	49,129
IMF Quota Subscription	7	**8,271**	8,814
Loans	6	**3,022**	2,964
Debtors	9	**804**	744
Other assets	10	**20,859**	21,577
Total assets		**82,872**	83,228
Liabilities			
Gilt-edged stock	15	**453,734**	446,790
National Savings and Investments products	14	**77,260**	71,981
Liabilities to the IMF	7	**7,651**	7,805
Creditors	11	**1,541**	1,240
Other debt payable in sterling	12	**60,468**	37,459
Other debt payable in foreign currencies	13	**1,530**	1,789
Total liabilities		**602,184**	567,064
Net liabilities		**519,312**	483,836
Liability of the Consolidated Fund to the National Loans Fund	16	**519,312**	483,836

The notes on pages 14 to 29 form part of this Account.

Nicholas Macpherson 10 July 2007
Accounting Officer
HM Treasury

Cash Flow Statement for the year ended 31 March 2007

	Notes	**2007 £m**	2006 £m
Net cash inflow/(outflow) from operating activities	17(i)	**0**	0
Net cash inflow/(outflow) from financial investment	17(ii)	**(845)**	13,830
Net cash inflow/(outflow) from financing	17(iii)	**845**	(13,830)
Net cashflow		**0**	0

The notes on pages 14 to 29 form part of this Account.

Notes to the Account

1 Accounting policies

i Accounting convention

The National Loans Fund Account has been prepared under the historical cost convention and in accordance with applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the National Loans Fund. The NLF has adopted FRS 26 'Financial Instruments: Recognition and Measurement' and early adopted FRS 29 'Financial Instruments: Disclosures' (with the exception of Appendix E 'Capital Disclosures'). The adoption of FRS 26 and 29 did not result in material alterations to the valuations of financial instruments and no restatements have been required. The NLF is the Government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing of these liabilities is mainly met by tax revenue receipts. For this reason, the Accounting Officer continues to adopt the going concern basis in preparing the Account.

ii Basis of presentation

This Account includes the results and transactions of the National Loans Fund and National Savings and Investments products with the exception of the Ordinary Savings Account, which is not a liability of the National Loans Fund.

iii Recognition of finance income and costs

Premium Bond prizes are recognised in the period to which they relate. Other interest income and costs of financing are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. The calculation takes into account premiums or discounts on acquisition or issue of financial assets and liabilities. The calculation takes into account all the contractual terms of the financial instrument. The majority of the NLF's financial assets and liabilities have a fixed return. For those products that have a variable return, the current rate applicable to that product is used in the calculation of the finance income or cost. Gilts with the same maturity and coupon rate are sometimes issued in separate tranches. Because of market conditions each tranche may be issued with a different premium or discount and therefore a different effective interest rate. However, once issued, gilts with the same maturity and coupon rate are indistinguishable from each other and so are accounted for as one issue using a weighted average effective interest rate.

iv Financial assets and liabilities

The assets and liabilities of the NLF are all accounted for as financial assets and liabilities except for assets arising from the net assets of the Exchange Equalisation Account and the Debt Management Account, which are accounted for as explained in accounting policy (vii). The NLF's financial assets are all designated as loans and receivables. Financial assets and liabilities are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method. There are no impairment losses. Directly related issue costs for assets and liabilities are negligible and are written-off as incurred.

The distinction between loans and advances derives from the legislation that governs the operation of the NLF. On loans interest must be charged at a rate that at least covers the cost that the Fund would have to bear if it were to borrow the same sum for the period of the loan, plus the Treasury's own administration costs. There is no such requirement for advances, although interest is charged on advances to the Debt Management Account.

v Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange applicable to the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Liabilities to the IMF are denominated in sterling, but are subject to a revaluation adjustment reflecting the SDR/£ sterling exchange rate movement.

vi Administration expenditure

These financial statements reflect the activity through, and the financial position of, the National Loans Fund. The costs of gilts registration, listing fees and foreign currency debt issuance are met by the National Loans Fund. Administration costs, such as departmental staff costs and bank charges, are borne by both National Savings and Investments and the Treasury and are accounted for through their respective resource accounts.

vii Exchange Equalisation Account and Debt Management Account

The net assets of the Exchange Equalisation Account (EEA) and the Debt Management Account (DMA) are assets of the NLF. Changes in the net assets are reported in Other Assets (Note 10) and recognised in the Income and Expenditure Account as Other Income (Note 5). The NLF's assets and income are the result of the activity in the EEA and DMA during the year and the various accounting policies applied by them to that activity.

2 Finance costs of borrowing

	2006-2007 £m	2005-2006 £m
Gilt-edged stock		
Marketable	**23,754**	21,914
Non marketable	**971**	1,026
Total	**24,725**	22,940
National Savings and Investments products	**2,843**	2,535
Other finance costs		
Payable in sterling	**2,012**	2,552
Payable in foreign currencies	**34**	43
Total	**2,046**	2,595
Total finance costs on borrowing	**29,614**	28,070

3 Income from lending operations

	2006-2007 £m	2005-2006 £m
Interest on loans advanced by the National Loans Fund to		
Public corporations	**90**	91
Central government bodies	**119**	121
	209	212
Interest on loans by the Public Works Loan Board financed by NLF advances	**3,081**	3,042
Interest on funding advanced to the Debt Management Account	**414**	912
Total income from lending operations	**3,704**	4,166

4 (Gains) and losses on foreign exchange transactions

	2006-2007 £m	2005-2006 £m
(Gains)/losses on foreign currency borrowing		
Canadian dollar	**(1)**	3
US dollar	**(205)**	153
	(206)	156
Loss/(gain) on Reserve Tranche Position at the IMF	**59**	(61)
Net (gain)/loss on foreign currency transactions	**(147)**	95

5 Other income and expenditure

	2006-2007 £m	2005-2006 £m
Other expenditure		
Debt management administration costs*	**4**	6
Deficit on the Debt Management Account	**798**	0
Total: Other expenditure	**802**	6
Other income		
EEA net income	**(20)**	(2,024)
Profits of the Bank of England Issue Department+	**(1,719)**	(1,661)
Surplus on the Debt Management Account	**0**	(699)
Written off gilt-edged stock	**0**	(1)
Miscellaneous receipts	**(5)**	(6)
Total: Other income	**(1,744)**	(4,391)
Net total	**(942)**	(4,385)

* Debt management administration costs mainly comprise amounts paid to the Gilts Registrar for administering the gilt-edged stock register. They also include the Bank of England's costs relating to the issue of foreign currency borrowing.

\+ Under section 9 of the National Loans Act 1968, the profits of the Issue Department are paid into the National Loans Fund. A sum of £1,719 million in respect of these profits was credited to the Operating Cost Statement in 2006-2007. (£1,1661 million in 2005-2006)

6 Loans and commitments

	2006-2007			2005-2006		
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Loans						
Outstanding at 1 April	**1,409**	**1,555**	**2,964**	1,416	1,494	2,910
Loans advanced	**218**	**217**	**435**	244	166	410
Loans repaid	**(263)**	**(114)**	**(377)**	(251)	(105)	(356)
Outstanding at 31 March	**1,364**	**1,658**	**3,022**	1,409	1,555	2,964

	2006-2007			2005-2006		
	Public Corporations	**Central Government**	**Total**	Public Corporations	Central Government	Total
	£m	**£m**	**£m**	£m	£m	£m
Commitments to lend						
Undrawn commitments to lend						
less than one year	**569**	**159**	**728**	596	159	755
one year and over	**600**	**0**	**600**	200	0	200
	1,169	**159**	**1,328**	796	159	955

7 IMF Reserve Tranche Position

The United Kingdom's relationship with the International Monetary Fund impacts on the National Loans Fund, the UK's Foreign Exchange Reserves and the Exchange Equalisation Account (EEA). The UK's Quota Subscription to the IMF, 10,738.5 million Special Drawing Rights (SDRs) (£8,271 million at 31 March 2007), was paid from the National Loans Fund and is recognised as a NLF asset. Part of the Subscription is deposited by the IMF in the NLF in return for sterling non-interest-bearing securities (NIBS). A small undrawn sterling cash balance is held in an IMF account at the Bank of England. The IMF's sterling holdings in the UK in the form of its NLF NIBS and its sterling balance at the Bank of England represent an NLF liability to the IMF.

The difference between the gross quota subscription and the NLF's sterling liability to the IMF is the UK's Reserve Tranche Position (RTP). Under the arrangements for membership of the Fund, valuation adjustments are made between the IMF and NLF annually to reflect any changes in value, in SDR terms, of the NLF's sterling liability to the IMF. An annual settlement payment is made between the NLF and the IMF, normally in May.

The table below sets out the composition of the RTP at 31 March 2006 and 31 March 2007, and shows the make-up of changes over the year.

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

Interest is payable by the IMF on the RTP balance in excess of SDR 700 million. This interest is retained in the EEA. The EEA also holds the UK's allocation of SDRs (SDR 1,913 million at 31 March 2007), as a liability to the IMF, and retains an asset in the form of the UK's holdings of SDRs (SDR 245 million at 31 March 2007). In 2006-2007, net interest of SDR 10.6 million (£8 million) was payable by the EEA in respect of the UK's overall SDR position.

NLF Assets and Liabilities: Composition of the Reserve Tranche Position

	Asset	Liabilities				Reserve Tranche Position
	IMF Quota Subscription securities	Non- interest - bearing securities	Sterling balances at Bank of England	Valuation adjustment	Total liabilities	
	£m	£m	£m	£m	£m	£m
Balances at 31 March 2006	8,814	(7,581)	(22)	(202)	(7,805)	1,009
Exchange rate gains/(losses) for the year on:						
Quota subscription	(543)	0	0	0	0	(543)
Change in year-end valuation adjustment	0			615	615	615
Change in loan notes as a result of the valuation settlement	0	(133)	0	0	(133)	(133)
Change in cash on No 1 account	0	0	2		2	2
Net (increase) in loan notes	0	(330)	0	0	(330)	(330)
Balances at 31 March 2007	**8,271**	**(8,044)**	**(20)**	**413**	**(7,651)**	**620**

8 Advances

	PWLB £m		DMA £m		EEA £m		Total £m	
	2006-07	2005-06	**2006-07**	2005-06	**2006-07**	2005-06	**2007-06**	2005-06
Outstanding at 1 April	**47,124**	42,103	**0**	20,000	**2,005**	910	**49,129**	63,013
Advances	**12,354**	8,952	**15,000**	0	**2,500**	3,245	**29,854**	12,197
Advances repaid	**(11,367)**	(3,931)	**(15,000)**	(20,000)	**(2,700)**	(2,150)	**(29,067)**	(26,081)
Outstanding at 31 March	**48,111**	47,124	**0**	0	**1,805**	2,005	**49,916**	49,129

9 Debtors

	At 31 March 2007 £m	At 31 March 2006 £m
Accrued interest on DMA funding advance	**0**	72
Accrued interest on loans made by PWLB	**772**	640
Accrued interest on loans made by NLF	**32**	32
Total debtors	**804**	744

10 Other assets

		At 31 March 2007 £m		At 31 March 2006 £m
Exchange Equalisation Account net assets		**20,213**		20,193
Debt Management Account net assets		**43**		842
National Savings and Investments' cash holdings				
from sale of investment products	**400**		338	
for repayment of principal	**137**		152	
for payment of interest and prizes	**46**		30	
NS&I Total		**583**		520
Reserve Tranche sterling balances at Bank of England		**20**		22
Total other assets		**20,859**		21,577

11 Creditors

	At 31 March 2007 £m	At 31 March 2006 £m
NS&I interest and prizes to be distributed	**155**	121
NS&I accrual of interest to be capitalised	**1,133**	903
Accrued interest on borrowing payable in sterling		
Debt Management Office	**134**	105
Bank of England	**60**	51
Accrued interest on Certificates of Tax Deposit	**21**	20
Other	**13**	11
Accrued interest on loans payable in foreign currency	**25**	29
Total creditors	**1,541**	1,240

12 Other debt payable in sterling

	At 31 March 2007 £m	At 31 March 2006 £m
Debt Management Account	**35,205**	9,609
Bank of England Issue Department	**13,370**	13,370
Balances from government accounts at the Bank of England	**11,215**	13,383
Temporary deposits from public sector bodies	**326**	788
Other	**352**	309
Total other debt payable in sterling	**60,468**	37,459

These items reflect cash borrowing by the NLF. The first two reflect deficit funding from the DMA and previously the Issue Department of the Bank of England. The third item reflects the transfer to the NLF of any temporary cash surpluses on other government accounts held at the Bank of England.

13 Other debt payable in foreign currencies

	At 31 March 2007 £m	At 31 March 2006 £m
US dollars		
HMG US $3 Billion 2.25 per cent Bond 2008	**1,530**	1,730
USA lend lease war loan	**0**	6
USA line of credit war loan	**0**	41
Total US dollar	**1,530**	1,777
Euros		
Sundry loans assigned to HMT	**0**	1
Total Euros	**0**	1
Canadian dollars		
Canada line of credit war loan	**0**	11
Total Canadian dollar	**0**	11
Total foreign currency debt	**1,530**	1,789

14 National Savings and Investments products

	2006-2007 £m	2005-2006 £m
Principal outstanding at 1 April	**71,981**	67,256
Cash repayments from the NLF	**(8,862)**	(7,713)
Principal cash received in the NLF	**13,012**	11,485
Interest and other returns accruing to savers capitalised	**1,083**	1,049
Change in cash holdings for principal	**46**	(96)
Principal outstanding at 31 March	**77,260**	71,981

15 Gilt-edged stock

	At 31 March 2007 Outstanding liability (including accrued interest) £m	At 31 March 2006 Outstanding liability (including accrued interest) £m
Marketable Securities		
Conventional	**328,932**	312,670
Index-Linked	**123,765**	108,634
	452,697	421,304
Non-Marketable Securities		
Conventional	**1,037**	24,602
Index-Linked	**0**	884
	1,037	25,486
Total Gilt-edged stock	**453,734**	446,790

16 Liability of the Consolidated Fund to the National Loans Fund

	2006-2007 £m	2005-2006 £m
Liability of the Consolidated Fund to the NLF at 1 April	**483,836**	436,346
Net cash paid to the Consolidated Fund	**30,552**	46,199
Payment from the Consolidated Fund to the NLF for the cost of debt servicing during the year	**(19,897)**	(18,323)
Net operating cost	**24,821**	19,614
Liability of the Consolidated Fund to the NLF at 31 March	**519,312**	483,836

17 Notes to the Cash Flow Statement

	2006-2007 £m	2005-2006 £m
i Net cash flow from operating activities		
Interest received	**3,644**	4,175
Other receipts	**1,718**	1,662
Finance costs on borrowing	**(25,128)**	(24,336)
Other flows	**(131)**	176
Transfer from the Consolidated Fund for the cost of debt servicing	**19,897**	18,323
Total net cash flow from operating activities	**0**	0
ii Net cash flow from financial investment		
Net change in advance to the Debt Management Account	**0**	20,000
Net change in advance to the Public Works Loan Board	**(987)**	(5,021)
Net change in loans	**(58)**	(54)
Net transfers to/from the EEA	**200**	(1,095)
Total net cash flow from investing activities	**(845)**	13,830
iii Financing		
Net issuance of government stock	**3,826**	63,212
Net issuance of National Savings instruments	**4,150**	3,772
Other net sterling borrowing	**23,010**	(36,153)
Net foreign currency borrowing	**411**	1,538
Net transfer to the Consolidated Fund	**(30,552)**	(46,199)
Total net cash flow from financing activities	**845**	(13,830)
Total net cashflow	**0**	0

18 Contingent liabilities

The NLF has a contingent liability to the Bank Of England Issue Department in respect of that part of the assets backing the note issue that is not represented by government securities. This contingent liability was £29,240 million at 31 March 2007 (£27,770 million at 31 March 2006).

The NLF also has a contingent liability in respect of unclaimed dividends. This stood at £47.2 million at 31 March 2007 (£45.8 million at 31 March 2006).

19 Fair values

Carrying Value and Fair Value of NLF assets and liabilities as at 31 March 2007

	Values at 31 March 2007 Carrying value £m	Fair value £m
Assets		
Loans		
Standard rate	2,507	2,823
Commercial rate	515	497
IMF Quota subscription	8,271	8,271
Advances		
PWLB	48,111	53,189
EEA	1,805	1,805
Debtors	804	804
Other assets	20,859	20,859
Total assets	82,872	88,248
Liabilities		
Creditors	1,541	1,512
Other Sterling debt		
DMA	35,205	35,205
Issue Department of Bank of England	13,370	13,370
Government balances	11,215	11,215
Temporary deposits	326	326
Other	352	352
Foreign debt		
US$ bond	1,530	1,505
National Savings and Investments	77,260	76,013
IMF liabilities	7,651	7,651
Gilts		
Marketable	452,697	469,951
Non-marketable	1,037	1,026
Total liabilities	602,184	618,126

Carrying Value and Fair Value of NLF assets and liabilities as at 31 March 2006

	Values at 31 March 2006 Carrying value £m	Fair value £m
Assets		
Loans		
Standard rate	2,455	2,917
Commercial rate	509	608
IMF Quota subscription	8,814	8,814
Advances		
PWLB	47,124	56,107
EEA	2,005	2,005
Debtors	744	744
Other assets	21,577	21,577
Total assets	83,228	92,772
Liabilities		
Creditors	1,240	1,265
Other Sterling debt		
DMA	9,609	9,609
Issue Department of Bank of England	13,370	13,370
Government balances	13,383	13,383
Temporary deposits	788	788
Other	309	309
Foreign debt		
US$ bond	1,730	1,654
US$ war loan	47	46
Canadian $ war loan	11	11
Assigned loan US$	1	1
National Savings and Investments	71,981	70,732
IMF liabilities	7,805	7,805
Gilts		
Marketable	421,304	456,273
Non-marketable	25,486	25,862
Total liabilities	567,064	601,108

The NLF's assets are financial assets except for the net assets of the EEA and DMA. The carrying value of financial assets (all of which are designated as loans and receivables) is £62,616 million (2006 - £62,193 million) and their fair value is £67,992 million (2006 - £71,737 million). All the NLF's liabilities are financial liabilities. In instances where the fair value differs from the carrying value, the fair value has been calculated by reference to active market prices or by discounting future cash flows to their present value.

20 Financial risks related to the NLF

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

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

Issues considered in pursuing this objective include

- pursuing a debt issuance policy that is open, transparent and predictable;
- adjusting the nature and maturity of the Government's debt portfolio, by means of the maturity and composition of debt issuance and other market operations including switch auctions, conversion offers and buy-backs;
- issuing gilts that achieve a benchmark premium and developing a liquid and efficient gilt market; and
- taking account of the Government's own appetite for risk, both nominal and real.

Through these means, the Government seeks to choose a strategy that minimises the expected average debt cost over the longer term, and ensures that the chosen one is robust against different economic outturns.

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

The National Loans Fund's liabilities include conventional and index-linked gilt-edged securities and a wide range of National Savings and Investments products. There is a wide spread of maturities. NLF liabilities also include some foreign currency debt and deposits from several other public sector accounts.

NLF assets include advances to the Public Works Loan Board and the Exchange Equalisation Account. The UK's gross subscription to the IMF is also an asset of the National Loans Fund, and is denominated in Special Drawing Rights (SDRs).

Set out are certain risk factors that could affect the National Loans Fund's operations.

Interest rate, inflation and foreign currency risks

The NLF's liabilities have a range of interest rate arrangements. Some borrowing and lending is at variable rate, while other assets and liabilities have fixed, or zero, interest rates. The interest paid (and redemption sums) on index-linked gilts vary in line with changes in the Retail Price Index since the initial issue of each stock. National Savings and Investments product liabilities and the assets represented by Public Works Loan Board lending can be at variable or fixed interest rates.

A small portion of the NLF's assets and liabilities is denominated in foreign currencies.

The following analyses set out the interest rate and foreign currency characteristics of NLF assets and liabilities.

Interest rate and foreign currency analysis as at 31 March 2007

Assets

Currency	Total liabilities	Variable rate	Fixed rate	Zero- rated	Fixed rate borrowing Weighted average interest rate	Fixed rate borrowing Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	%	Years
Loans	3,022	0	3,022	0	6.8	15.6
Advances	49,916	175	47,734	2,007	6.0	27.5
Debtors	804	0	0	804	0	0
Other assets	20,859	0	0	20,859	0	0
Sterling assets	74,601	175	50,756	23,670	6.0	26.8
IMF quota subscription (SDR)	8,271	0	0	8,271	0	0
Total assets	82,872	175	50,756	31,941	6.0	26.8

Liabilities

Currency	Total liabilities	Variable rate	Fixed rate	Zero- rated	Fixed rate borrowing Weighted average interest rate	Fixed rate borrowing Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	%	Years
Gilt edged stock	453,734	123,765	329,969	0	5.4	13.7
National Savings & Investments	77,260	63,703	13,499	58	3.5	2.1
Creditors	1,541	0	0	1,541	0	0
Other debt payable in sterling	60,468	50,589	326	9,553	5.2	17.6
IMF liabilities	7,651	0	0	7,651	0	0
Sterling debt	600,654	238,057	343,794	18,803	5.3	13.3
Debt in foreign currency						
US$	1,530	0	1,530	0	2.3	1.3
Total liabilities	602,184	238,057	345,324	18,803	5.3	13.2

Variable rate assets and liabilities all reprice within one month

Interest rate and foreign currency analysis as at 31 March 2006

Assets

Asset type	Total liabilities	Variable rate	Fixed rate	Zero- rated	Fixed rate borrowing Weighted average interest rate	Fixed rate borrowing Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	%	Years
Loans	2,964	0	2,964	0	7.0	15.4
Advances	49,129	218	46,867	2,044	6.2	22.2
Debtors	744	0	0	744	0	0
Other assets	21,577	0	0	21,577	0	0
Sterling assets	74,414	218	49,831	24,365	6.2	21.8
IMF quota subscription (SDR)	8,814	0	0	8,814	0	0
Total assets	83,228	218	49,831	33,179	6.2	21.8

Liabilities

Currency	Total liabilities	Variable rate	Fixed rate	Zero- rated	Fixed rate borrowing Weighted average interest rate	Fixed rate borrowing Weighted average time for which interest rate is fixed
	£m	£m	£m	£m	%	Years
Gilt edged stock	446,790	109,518	337,272	0	5.6	11.7
NS& I	71,981	57,811	14,112	58	3.8	2.3
Creditors	1,240	0	0	1,240	0	0
Other debt payable in sterling	37,459	24,332	788	12,339	4.4	16.5
IMF liabilities	7,805	0	0	7,805	0	0
Sterling debt	565,275	191,661	352,172	21,442	5.5	11.3
Debt in foreign currency						
US$	1,777	0	1,777	0	2.2	2.2
Euro	1	0	1	0	7.0	0.7
Candian $	11	0	11	0	2.0	0.8
Total liabilities	567,064	191,661	353,961	21,442	5.5	11.3

Variable rate assets and liabilities all reprice within one month

Liquidity risk

NLF liabilities carry a wide range of maturities, spreading funding requirements for redemption payments across a wide time period into the future. The longest stock in existence at 31 March 2007 matures in 2055. A small number of stocks are undated. Deposits in the NLF have a shorter maturity profile, since they can change on demand. However, in practice, balances change only slowly due to re-investment. The NLF is the government's main borrowing and lending account. By the nature of government financing, it is expected that the NLF will show a net liability. By virtue of section 19(1) of the National Loans Act 1968, the net liabilities of the NLF are a liability of the Consolidated Fund. The servicing of these liabilities is met by tax revenue receipts. For this reason, the Accounting Officer continues to adopt the going concern basis in preparing the Account.

The following table shows an analysis of the maturities of the NLF's assets and liabilities.

Maturity profile for assets and liabilities

At 31 March 2007

	Upto 1 Month £m	1-3 Months £m	3-12 Months £m	1-5 Years £m	Over 5 years £m	Undated £m	Total £m
Assets							
Advances	2,006	226	518	3,119	44,047	0	49,916
IMF Quota Subscription	8,271	0	0	0	0	0	8,271
Loans	8	1	192	615	2,206	0	3,022
Debtors	780	0	24	0	0	0	804
Other assets							
EEA	0	0	0	0	0	20,213	20,213
DMA net assets	0	0	0	0	0	43	43
NS&I cash	573	0	0	10	0	0	583
Reserve Tranch Position	20	0	0	0	0	0	20
	11,658	227	734	3,744	46,253	20,256	82,872
Liabilities							
Gilts	0	0	32,436	104,306	314,029	2,963	453,734
NS&I	76,323	0	0	930	7	0	77,260
IMF	7,651	0	0	0	0	0	7,651
Creditors	1,099	0	25	417	0	0	1,541
Other debt payable in Sterling	60,468	0	0	0	0	0	60,468
Other debt payable in foreign currencies	0	0	0	1,530	0	0	1,530
	145,541	0	32,461	107,183	314,036	2,963	602,184

The maturity of liabilities after five years is

	5-10 years £m	10-20 years £m	20-30 years £m	30-40 years £m	Over 40 years £m	Total £m
Gilts – Conventional	58,263	55,175	57,556	27,586	12,231	210,811
Gilts – Index Linked	34,919	35,375	26,492	1,010	5,422	103,218
NS&I	7	0	0	0	0	7
	93,189	90,550	84,048	28,596	17,653	314,036

As at 31 March 2006

	Upto 1 Month £m	1-3 Months £m	3-12 Months £m	1-5 Years £m	Over 5 years £m	Undated £m	Total £m
Assets							
Advances	2,044	237	670	3,601	42,577	0	49,129
IMF Quota Subscription	8,814	0	0	0	0	0	8,814
Loans	14	1	120	631	2,198	0	2,964
Debtors	720	0	24	0	0	0	744
Other assets							
EEA	0	0	0	0	0	20,193	20,193
DMA net assets	0	0	0	0	0	842	842
NS&I cash	515	0	0	5	0	0	520
RTP	22	0	0	0	0	0	22
	12,129	238	814	4,237	44,775	21,035	83,228
Liabilities							
Gilts	0	0	41,816	110,372	291,622	2,980	446,790
NS&I	71055	0	0	926	0	0	71,981
IMF	7,805	0	0	0	0	0	7,805
Creditors	910	0	29	301	0	0	1,240
Other debt payable in Sterling	37,435	14	10	0	0	0	37,459
Other debt payable in foreign currencies	0	0	59	1,730	0	0	1,789
	117,205	14	41,914	113,329	291,622	2,980	567,064

The maturity of liabilities after five years is

	5-10 years £m	10-20 years £m	20-30 years £m	30-40 years £m	Over 40 years £m	Total £m
Gilts – Conventional	66,224	58,423	46,296	15,456	10,084	196,483
Gilts – Index Linked	27,654	45,522	18,989	0	2,974	95,139
NS&I	0	0	0	0	0	0
	93,878	103,945	65,285	15,456	13,058	291,622

Credit risk

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

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

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

Ceilings on total lending from the NLF to specific bodies are prescribed in statute. The PWLB is allowed to lend up to an aggregate amount of £55 billion. For short-term lending to public bodies, the maximum exposure of the NLF is determined by prescribed credit ceilings appropriate for the circumstances of the body.

Derivatives and hedging

The NLF itself does not use derivatives or hedging. However, as explained in more detail below, some of the risks on the NLF are offset by hedging and other activities of the Debt Management Account and the Exchange Equalisation Account.

National Savings & Investments have issued a number of Guaranteed Equity Bonds that expose the NLF to equity index risk. The Debt Management Office have hedged this exposure through derivatives that are held on the DMA. For the government overall (and the NLF) this ensures that the risk is negated.

The Exchange Equalisation Account Act constrains how the Exchange Equalisation Account (EEA) may borrow from outside government. Where the EEA's foreign currency reserves are financed by foreign currency liabilities, the debt is issued by and is an obligation of the NLF. The foreign currency raised is sold to the EEA for sterling. While the NLF remains exposed to the interest rate and exchange rate risks from the foreign currency debt it has issued, in practice these risks are offset through the EEA's programme of asset management and swaps.

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