UK Export Finance

Export Credits Guarantee Department Annual Report and Accounts 2012–13

Export Credits Guarantee Department Annual Report and Accounts 2012–13

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

Accounts presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000.

Accounts presented to the House of Lords by Command of Her Majesty.

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This is part of a series of departmental publications which, along with the Main Estimates 2013-14, the document Public Expenditure: Statistical Analyses 2013, and the Supply Estimates 2012-13: Supplementary Budgetary Information, present the Government's outturn for 2012-13 and planned expenditure for 2013-14.

Any enquiries regarding this publication should be sent to us at enquiries@ecgd.gsi.gov.uk.

This document is also available from ECGD's website at www.gov.uk/uk-export-finance.

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www.gov.uk/uk-export-finance

INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

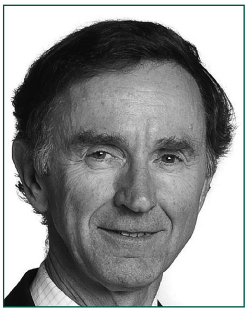
ECGD's name

UK Export
Finance

UK Export Finance is the operating name of the Export Credits Guarantee Department. The Export Credits Guarantee Department (ECGD) is the statutory name of the department.

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

Minister's Foreword



I am pleased to introduce UK Export Finance's Annual Report and Accounts for 2012-13, which have now been laid before Parliament.

In 2012-13 UK Export Finance (UKEF) supported its highest level of export business in over a decade, representing an important contribution to the government's export strategy. A large number of companies, including many SMEs, have benefited from UKEF support either directly or through the supply chains of the prime exporters. It is also noteworthy that the destinations of the exports supported by UKEF reflect the government's aim to increase exports outside the traditional markets of the EU and North America, with exports supported to 58 markets including the Middle-East and to all four of the "BRIC" countries.

Importantly too, UKEF has increased its support for exports conducted on short terms of payment. This is the second full year since UKEF widened its business domain and introduced new products for this purpose. Through the Export Insurance Policy, the Bond Support Scheme and the Export Working Capital Scheme, UKEF has supported significantly more exports sold on short terms of credit in 2012-13 than it did in 2011-12.

Demand for UKEF support is influenced by two factors: the capacity and capability of credit insurers and banks to support export orders, and, when this is lacking, the awareness among exporters of UKEF's ability to help. UKEF continues to raise awareness of its products and services among exporters. An important initiative in 2012-13 has been the establishment of a regional network of export finance advisers to engage locally with exporters to help make its products and services more widely known. These advisers will play a key role in UKEF's market awareness strategy for 2013-14.

The success of UKEF's support for a $1 billion line of credit issued in November 2011 for the Brazilian energy company Petrobras has been seen this year with significant drawdowns used to purchase UK supplies. This is a model that can be replicated elsewhere as UKEF continues to work closely with UKTI and major project sponsors on the High Value Opportunities programme. More resource is being devoted to this initiative and the pipeline of potential new business looks very encouraging.

In November 2012 David Havelock became Acting Chief Executive following the departure of Patrick Crawford, UKEF's Chief Executive between 2004 and 2012. I would like to record my appreciation for all Patrick's achievements during his tenure, which are best evidenced by UKEF's financial performance during his time.

Lord Green of Hurstpierpoint
Minister of State for Trade and Investment

Chief Executive's Foreword

I became Acting Chief Executive in November 2012, following the departure of Patrick Crawford, in a year that saw UKEF continue the excellent financial performance that marked Patrick's time as Chief Executive. UKEF continued to respond to increasing levels of demand across a wide range of export sectors and on transactions of all sizes in diverse markets. The department is currently supporting export contracts to over 85 countries.

In 2012-13 UKEF supported £4.3 billion of business through the issue of guarantees to banks and insurance policies to exporters, up from £2.3 billion last year. Premium income was £133 million, up from £85 million. The number of policies and guarantees issued increased from 204 in 2011-12 to 368. Claims paid were £7 million and recoveries were £136 million.

The department is proud of these results including the substantial increase in the number of exporters that were helped for the first time and importantly too with benefits that extended right through the SME supply chain relating to larger transactions. Further, the guarantees and insurance policies listed in this report show the increasing diversity of exports now being supported by UKEF.

As in previous years the largest proportion of UKEF's business in value terms was support for the export of capital and semi-capital goods and related services through the provision of guarantees on loans provided by commercial banks to overseas buyers on medium to long terms of credit. A significant defence export contract was supported by way of credit insurance and bond support in relation to the supply of Eurofighter Typhoon and Hawk aircraft to Oman, which alone has huge SME supply chain benefits.

Support for commercial aerospace exports remained stable compared to last year and still significant, with new business of £1.83 billion. Support was provided for a range of civil projects amounting to £445 million in the energy, mining, engineering, construction, healthcare and automotive sectors.

The value of UKEF support for exports sold on credit terms of less than two years also grew as did the number of exporters interested in support for this class of export to emerging markets. UKEF's Short-Term products supported export contracts with an aggregate value of over £500 million. UKEF's willingness to support Short-Term credit insurance for exports to Greece, following the removal of an EU ban on such support, demonstrated the department's ability to evaluate and meet market gaps in support of the exporting community. The Bond Support product was also valuable and helped to release exporters' working capital that might otherwise have been held as security for a bond. The Short-Term products have supported over 60 SMEs and this number is rapidly increasing as an awareness campaign takes shape, including direct telemarketing.

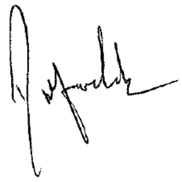
I am very encouraged to report too that UKEF's pipeline of new business remains the highest for many years and, although negotiation timetables more often than not are quite long, the current year is positioned strongly with support for a number of civil projects about to be finalised.

A number of major projects were targeted as High Value Opportunities by UK Trade & Investment (UKTI) as part of a programme to identify early opportunities to maximise UK supplies into priority emerging markets. UKEF worked closely with UKTI on these projects, which have considerable prospective UK content. In addition UKEF had other high profile transactions in various stages of negotiation with substantial contract values and prospective UK content. Further, there was increased engagement with major project sponsors overseas on a pro-active basis where there are opportunities for UK companies to benefit and, accordingly, a specific team has been created to handle market engagement activity. In support of this strategy, the recruitment of new international export finance advisers in major overseas centres has been started to cover potential new business opportunities in 20 or so priority markets. A review of country limits resulted in an increase in capacity in a broad range of markets in support of this export drive and cover is available in over 200 countries.

It is evident this was a busy year, not least in the context of the actual number of individual facilities negotiated and issued rising by 80 per cent on last year. The sheer number of such guarantees and insurance policies issued is a tribute to both front office and back office staff dealing with the processing of these enhanced volumes. Significant additions to staff resources were made, including the appointment of a new head of its Short-Term Products Division. Twelve regional export finance advisers were recruited, which has been an important initiative to support the new Short-Term product business and the benefits are already evident. UKEF intends to continue to recruit new staff this year to increase its capacity to meet demand across all sectors to ensure we continue to provide a high quality service with good operational controls and processes.

I am grateful to all staff for their valued contributions to the support provided to exporters in a busy year. A more pro-active strategy has been adopted to meet the objectives set by Ministers and whilst the current year and beyond will bring more challenges, including the relocation of our offices to 1 Horse Guards Road in July, we are positioning ourselves to meet these challenges. I am also grateful for the valuable contributions of the Management Board, chaired by Guy Beringer, and the Export Guarantees Advisory Council, chaired by Andrew Wiseman.

Finally, Katherine Letsinger stepped down as Chair of the Audit Committee and from the Management Board in December 2012. I would like to thank her for all the valuable expertise and advice she contributed during her six years with the department.



David Havelock
Acting Chief Executive

Management Team

Executive Directors

David Havelock
Acting Chief Executive and Director of Credit Risk Group

Nigel Addison Smith
Finance Director

Steve Dodgson
Director of Business Group

Sue Johnson
Head of Resources Division

Nicholas Ridley
General Counsel

Note:
Patrick Crawford Chief Executive (until 15 November 2012)

Non-Executive Directors

Guy Beringer QC
Non-executive Chairman

David Godfrey

Sir Eric Peacock

Note:
Katherine Letsinger Non-Executive Director (until 31 December 2012)

Mission and Principles

Who ECGD is

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

What ECGD does

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

How ECGD operates

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

The principles ECGD applies

On individual cases, ECGD aims to:

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

Generally, ECGD aims to:

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

Financial Overview

Figure 1: Financial overview – five year summary

	2012-13	2011-12	2010-11	2009-10	2008-09
	£m	£m	£m	£m	£m
Business supported[1]	4,295	2,318	2,924	2,206	1,460
Premium income	133	85	96	58	38
Claims paid	7	6	30	48	44
Net operating income	135	147	204	272	266

1 Net of amounts reinsured by another official export credit agency

Guarantees and Insurance Policies Issued

Figure 2: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact Category[1]	ECGD Max Liability, £s or equivalent
Abu Dhabi				
Airbus S.A.S.	Etihad	Airbus aircraft	–	18,111,320
Altek Europe Ltd	Emirates Aluminium Co	Dross presses	–	28,588
J&C Joel Ltd	Al-Futtaim Carillion	Theatre rigging	–	436,226
Algeria				
See note 2	See note 2	Port security booms	–	284,695
Australia				
JDR Cable Systems Ltd	Santos Ltd	Cables	–	2,000,000
Azerbaijan				
JCB Sales Ltd	Unileasing Leasing Co "CJSC"	Loaders and excavators	–	1,814,835
Bangladesh				
See note 2	See note 2	Design of a refuel rig	–	182,875
Barbados				
Oxford Policy Management Ltd	Ministry of Finance and Economic Affairs	Statistics and Management Consulting	–	246,701
Belgium				
Caley Ocean Systems Ltd	Dredging & Maritime Management SA	Ocean turntable system	–	1,862,800
Bermuda				
Airbus S.A.S.	Aircastle Ltd	Airbus aircraft	–	46,006,719
Brazil				
Airbus S.A.S.	TAM Linhas Aereas SA	Airbus aircraft	–	10,750,386
Dolphin Drilling Ltd	Petrobras	Oil and gas exploration	A	147,363,250
Rautomead Ltd	Metalgear Crystal Tecnologica De Metais Ltda	Casting machine	–	756,127
See note 2	Embrarad	Medical supplies	–	969,412
See note 2	See note 2	Support structure for stadium	–	495,900
Cayman Islands				
Airbus S.A.S.	JSA International Holdings LP	Airbus aircraft	–	15,255,942

Figure 2: List of Guarantees and Insurance Policies Issued				
Market/ Exporter/ Investor	**Buyer/Airline/ Operating Lessor**	**Project/Goods and Services**	**Case Impact Category[1]**	**ECGD Max Liability, £s or equivalent**
Chile				
Airbus S.A.S.	LATAM Airlines Group SA	Airbus aircraft	–	77,968,901
Apollo Sheeters Ltd	Faret SA	Paper cutting equipment	–	538,581
China				
Airbus S.A.S.	Air China Ltd	Airbus aircraft	–	98,325,327
Airbus S.A.S.	China Southern Airlines	Airbus aircraft	–	53,722,381
JDR Cable Systems Ltd	CNOOC Ltd	Cables	–	1,534,158
Metreel Ltd	Shanghai Waigaoqiao Shipbuilding Co Ltd	Dragchains	–	4,212
Stage Technologies Group Ltd	Wuhan Wanda East Lake	Theatre rigging	–	1,670,884
Cyprus				
Soil Machine Dynamics Ltd	Senaxell Shipping Ltd	Remote operated vehicles	–	3,167,015
Dubai				
Airbus S.A.S.	Emirates	Airbus aircraft	–	57,746,189
Egypt				
Pinnacle Re-Tec Ltd	Ministry of Electricity & Energy	Boiler feed pump cartridges	–	122,130
Fiji				
Airbus S.A.S.	Air Pacific	Airbus aircraft	–	26,340,534
France				
Airbus S.A.S.	Air France	Airbus aircraft	–	93,427,644
Altek Europe Ltd	Constellium France S.A.S.	Stirrer system	–	44,000
See note 2	See note 2	Metering equipment	–	255,781
Gambia				
I.T. Transport Ltd	Ministry of Finance and Economic Affairs	Transport consultancy	–	277,970
Georgia				
CNH UK Ltd	Meqanizatori LLC	Tractors	–	5,667,696

Figure 2: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact Category[1]	ECGD Max Liability, £s or equivalent
Germany				
Airbus S.A.S.	Deutsche Lufthansa AG	Airbus aircraft	–	92,903,095
Cube Precisions Eng'g Ltd	Westfalia Presstechnik GmbH	Press tools	–	100,000
JDR Cable Systems Ltd	WindMW GmbH	Cables	–	3,171,973
Viper Subsea LLP	Cameron GmbH	Oil & gas distribution connection plates	–	95,758
See note 2	See note 2	Tooling machines	–	607,084
Ghana				
BES (Europe) Ltd	Ghana Grid Co Ltd	Transmission line and substation refurbishment	–	4,714,537
International Hospitals Group Ltd	Ministry of Finance and Economic Planning	Redevelopment of a hospital	B	58,635,887
Greece				
See note 2	See note 2	Cheese	–	236,919
See note 2	See note 2	Animal health products	–	82,840
See note 2	See note 2	Gaskets	–	162,859
See note 2	See note 2	Automotive spare parts	–	90,245
See note 2	See note 2	Electrical appliances	–	158,730
See note 2	See note 2	Gas barrier resin	–	110,365
See note 2	See note 2	Stainless steel	–	7,429
See note 2	See note 2	Health remedies	–	130,863
See note 2	See note 2	Machinery	–	733,377
See note 2	See note 2	Security alarms	–	33,015
See note 2	See note 2	Medical packaging	–	69,637
Hong Kong				
Airbus S.A.S.	Cathay Pacific Aircraft Services Ltd	Airbus aircraft	–	45,533,551

Figure 2: List of Guarantees and Insurance Policies Issued				
Market/ Exporter/ Investor	**Buyer/Airline/ Operating Lessor**	**Project/Goods and Services**	**Case Impact Category**[1]	**ECGD Max Liability, £s or equivalent**
India				
Airbus S.A.S.	Interglobe Aviation Pte Ltd	Airbus aircraft	–	30,823,426
Flexal Springs UK Ltd	See note 2	Industrial springs	–	35,056
Griffon Hoverwork Ltd	Indian Coast Guard	Hovercraft	–	4,029,446
JDR Cable Systems Ltd	Dolphin Offshore Enterprises (India) Ltd	Fibre optic cables	–	182,540
Rolls-Royce Int'l Ltd	GAIL (India) Ltd	Centrifugal compressor	–	9,579,960
Zeeko Ltd	Instruments Research and Development Establishment	Grinding and polishing machines	–	628,800
See note 2	See note 2	Industrial springs	–	35,056
See note 2	See note 2	Laboratory equipment	–	1,484,670
Indonesia				
Chemring EOD Ltd	Indonesian National Police	Bomb disposal equipment	–	5,437,199
Gamma TSE Ltd	Ministry of Defence	Intelligence equipment	–	4,214,167
Van Tongeren International Ltd	GS E&C Corp	Cyclone separators	–	149,200
Iraq				
See note 2	See note 2	Vehicles	–	3,993,884
Ireland				
Airbus S.A.S.	Avolon	Airbus aircraft	–	54,053,391
Airbus S.A.S.	AWAS Aviation Capital Ltd	Airbus aircraft	–	59,105,456
Airbus S.A.S.	CIT Aerospace International	Airbus aircraft	–	49,798,106
Israel				
Clayton Engineering Ltd	Government of Israel	Tractors	–	300,000
Italy				
Altek Europe Ltd	Carcano Antonio SpA	Stirrer system	–	185,768
Stansted Fluid Power Ltd	Rosetti Marino SpA	Gas boosters	–	139,744
Japan				
See note 2	See note 2	Rubber expansion joints	–	50,554

Figure 2: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact Category[1]	ECGD Max Liability, £s or equivalent
Kazakhstan				
Airbus S.A.S.	Air Astana	Airbus aircraft	–	28,778,065
Kenya				
See note 2	See note 2	Ballot papers	–	12,270,788
Korea, Republic of				
Airbus S.A.S.	Korean Airlines Co Ltd	Airbus aircraft	–	30,445,826
Alderley Systems Ltd	Hyundai Heavy Industries Co Ltd	Slops water polishing unit	–	108,649
Alderley Systems Ltd	Hyundai Heavy Industries Co Ltd	Metering system	–	2,146,209
Griffon Hoverwork Ltd	Korea Coast Guard	Hovercraft	–	826,927
Griffon Hoverwork Ltd	Public Procurement Service	Hovercraft	–	992,382
Sensonics Ltd	Korea Electric Power Corp	Vibration monitoring equipment	–	43,630
Wozair Ltd	Samsung Heavy Industries	Air conditioning equipment	–	342,537
Wozair Ltd	Daewoo Shipbuilding and Marine Engineering Co Ltd	Air conditioning equipment	–	595,302
Wozair Ltd	Hyundai Heavy Industries Co Ltd	Air conditioning equipment	–	839,648
Kuwait				
Airbus S.A.S.	Jazeera Airways KSC	Airbus aircraft	–	4,229,818
Libya				
JCB Sales Ltd	The White Alnoras for Machinery and Heavy Equipment	Plant and machinery spares	–	482,859
See note 2	See note 2	Project management consultancy	–	10,171,323
See note 2	See note 2	Wallpaper	–	1,529,091
See note 2	See note 2	Thermal fluid heating	–	22,325
See note 2	See note 2	Channel head and shell for heat exchanger	–	212,402
Malaysia				
Airbus S.A.S.	Airasia Berhad	Airbus aircraft	–	45,815,296
Airbus S.A.S.	Malaysian Airline System Berhad	Airbus aircraft	–	63,287,005

Figure 2: List of Guarantees and Insurance Policies Issued				
Market/ Exporter/ Investor	**Buyer/Airline/ Operating Lessor**	**Project/Goods and Services**	**Case Impact Category**[1]	**ECGD Max Liability, £s or equivalent**
Malta				
Creative Education Ltd	The Archbishop's Delegate for Catholic Education	Education training	–	839,623
Mexico				
Airbus S.A.S.	ABC Aerolineas SA de C.V. (Interjet)	Airbus aircraft	–	11,980,459
William Hare Ltd	Braskem IDESA SAPI	Fabricated steelwork	–	606,710
Netherlands				
Airbus S.A.S.	AerCap Holdings N.V.	Airbus aircraft	–	45,858,323
JDR Cable Systems Ltd	Heerema Marine Contractors Nederland BV	Pilling hammer	–	840,000
Mitchell Dryers Ltd	Zeolyst CV	Ring dryer	–	290,000
New Zealand				
Alexander Dennis Ltd	Swift Transport Ltd	Buses	C	9,503,729
Norway				
Metreel Ltd	A S Nymo	Dragchains	–	74,970
Perry Slingsby Systems Ltd	DOF Subsea AS	Remote operated vehicles	B	18,892,768
Oman				
BAE Systems (Oman) Ltd	Ministry of Defence	Typhoon aircraft and spare parts	–	2,008,000,000
Lakesmere Ltd	Larsen & Toubro Ltd	Metal roof sheeting	–	853,703
Lakesmere Ltd	The Consolidated Contractors Co & TAV Tepe Akfen Yatirim Insaat ve Isletme JV	Roof cladding	–	297,233
Lakesmere Ltd	Towell Construction LLC	Roof cladding	–	338,435
Pakistan				
Griffon Hoverwork Ltd	The Director Procurement (Navy)	Hovercraft	–	1,127,493
Joseph Rhodes Ltd	Government of Pakistan	Forging plant	–	1,575,000
Panama				
Airbus S.A.S.	Avianca TACA Holdings SA (now Avianca Holdings SA)	Airbus aircraft	–	80,171,073

Figure 2: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact Category[1]	ECGD Max Liability, £s or equivalent
Philippines				
ABN Amro Bank	N/A	Gas Power Project[3]	–	15,017,473
Airbus S.A.S.	Cebu Air Inc	Airbus aircraft	–	16,170,759
Qatar				
Buro Harrold Ltd	Qatar Foundation	Hotel consultancy services	–	389,910
Cambridge Glasshouse Co Ltd	Pergola Contracting & Greenhouse WLL	Greenhouse	–	1,332,553
Russian Federation				
Airbus S.A.S.	Aeroflot Russian Airlines JSC	Airbus aircraft	–	124,303,728
Airbus S.A.S.	VEB Leasing	Airbus aircraft	–	5,996,866
EADS Astrium Ltd	Russia Space Communication Co	Satellites	–	26,442,426
Europa Crown Ltd	OOO Kubanskaya Kompaniya 'Elit Maslo'	Food processing equipment	–	6,201,287
Expert Tooling and Automation Ltd	Ford Sollers Elabuga LLC	Assembly equipment	–	350,000
Joy Mining Ltd	Siberian Coal & Energy Co	Mining equipment	–	53,627,280
See note 2	See note 2	Domestic appliances	–	514,141
See note 2	See note 2	Cooking appliances	–	96,000
Saudi Arabia				
KW Designed Solutions Ltd	Saudi Archirondon Ltd	Pressure test vessel	–	61,160
Lakesmere Ltd	Saudi Binladin Group	Metal roof sheeting	–	7,447,204
See note 2	See note 2	Automotive spare parts	–	38,533
Sierra Leone				
Dawnus Sierra Leone Ltd	London Mining Co Ltd	Iron ore mine	–	4,614,959
Singapore				
Airbus S.A.S.	BOC Aviation Pte Ltd	Airbus aircraft	–	62,906,663
Metreel Ltd	Jurong Shipyard Pte Ltd	Dragchains	–	43,228

Figure 2: List of Guarantees and Insurance Policies Issued				
Market/ Exporter/ Investor	**Buyer/Airline/ Operating Lessor**	**Project/Goods and Services**	**Case Impact Category**[1]	**ECGD Max Liability, £s or equivalent**
South Africa				
Deutsche Bank AG	N/A	Mozal Aluminium Smelter[3]	–	2,390,684
Tanzania				
Diak Technical Export Ltd	Tanzania Electric Supply Co Ltd	Hydro electric power station	–	38,388
Thailand				
Airbus S.A.S.	Thai Airways International Public Co Ltd	Airbus aircraft	–	166,644,600
Airbus S.A.S.	Thai Airasia	Airbus aircraft	–	4,252,364
See note 2	See note 2	TV studio camera	–	1,946,700
Turkey				
Airbus S.A.S.	Turkish Airlines Inc	Airbus aircraft	–	92,804,960
Refresh Eng Ltd	Fastener Technology Baglanti Elemenlari San. Ve Tic. AS	Grinding machines	–	100,800
See note 2	See note 2	Amphibious vehicle	–	488,157
Ukraine				
See note 2	See note 2	Vehicles	–	3,236,377
United Arab Emirates				
Airbus S.A.S.	Air Arabia PJSC	Airbus aircraft	–	21,879,312
Erebus UK Ltd	UAE Army	Bespoke equipment for locks	–	36,250
United States of America				
Applicable Ltd	Dell Financial Services LLC	Communication services	–	125,000
UTM Ltd	ADS	Training Equipment	–	500,000
Vietnam				
Airbus S.A.S.	Vietnam Aircraft Leasing JSC	Airbus aircraft	–	122,258,341
Airbus S.A.S.	Vietnam Airlines Corporation	Airbus aircraft	–	68,951,138
	Total			**£4,295 million**

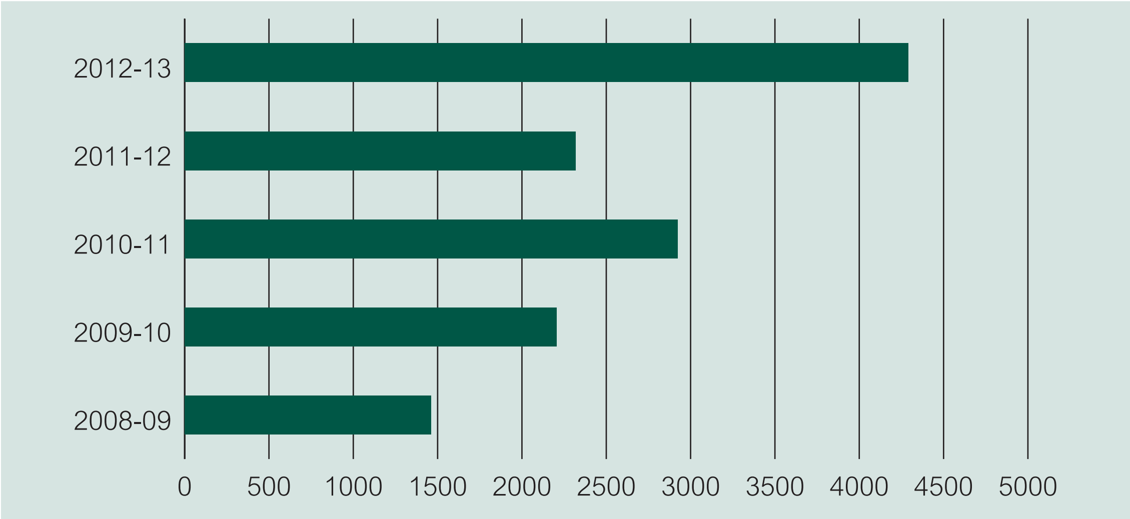
1 Indicates the category of environmental, social and/or human rights impacts that could potentially occur without the deployment of arrangements to mitigate such impacts as defined by the OECD *Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence*, available from www.oecd.org.

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

3 Overseas Investment Insurance policy renewals.

Business Commentary

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

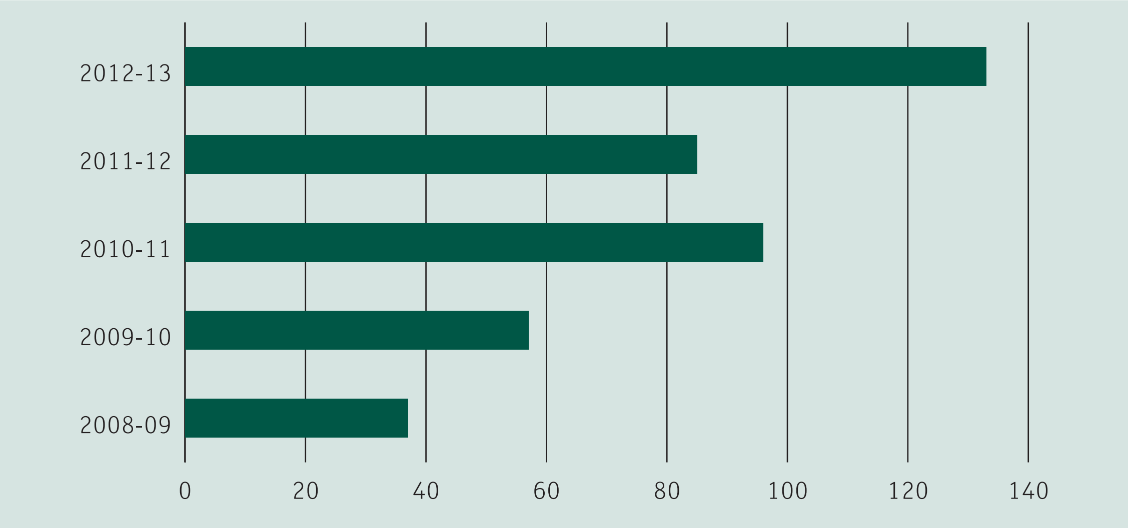


In 2012-13 ECGD supported exports and investments overseas through the issue or renewal of guarantees and insurance policies with an aggregate value of £4,295 million. Buyer Credit and Supplier Credit financing accounted for £2,184 million of support, Supplier Credit Insurance for £1,547 million, Overseas Investment Insurance (OII) business for £17 million, and Bond Support and Export Working Capital products for £547 million. The exports supported related to 58 countries. The total number of guarantees and insurance policies was 368. Net premium income was £133 million. There were claims paid of £3 million in respect of new defaults; claims payments of £4 million were made in respect of cases already distressed. Recoveries of paid claims were £136 million, including default interest.

Figure 4: Business supported by product type

	Facilities	Value (£ m)
Buyer and Supplier Credit Financing	175	2,184
Supplier Credit Insurance and OII	79	1,564
Bond Support and Export Working Capital Scheme	114	547

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



Civil Aerospace Business

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

ECGD support for the export of Airbus aircraft is provided alongside that of the French and German export credit agencies (ECAs), each in broad proportion to their respective work-shares. This is usually arranged on a reinsurance basis, whereby one of the three ECAs leads a transaction while the other two provide support to the lead ECA. This approach provides Airbus customers with a single portal through which they can obtain ECA support. In certain transactions, however, a co-insurance approach is taken under which each ECA provides direct support for its own work-share.

Through co-operation arrangements with US Ex-Im Bank (the export credit agency of the USA), ECGD can provide reinsurance when Rolls-Royce engines are fitted to aircraft manufactured by Boeing. ECGD is in advanced discussions with the Canadian ECA, Export Development Canada, to establish co-operation arrangements to support the future sale of Bombardier's C-Series aircraft (due to enter into service in 2014), which include exports from Northern Ireland.

In 2012-13 ECGD issued guarantees for civil aerospace business amounting to £1,827 million, generating premium of £82 million and supporting the delivery of 134 aircraft in total. The aircraft were delivered to 34 airlines and operating lessors around the world. The percentage of the financing cost of each aircraft supported by ECGD ranges from 18 to 38 per cent, depending on aircraft type and engine selection.

In 2012-13 support was provided for 23 per cent of the total aircraft delivered by Airbus. This was slightly down from the 26 per cent in 2011-12 but remains high in comparison with the levels supported before the 2008-09 economic downturn. This continuing high level of support by the ECAs reflected demand for new aircraft, such as the A380, and continuing constraints in the sufficiency of medium/long-term funding capacity in the commercial bank market, alongside political uncertainty in some countries.

ECGD issued a capital markets bond guarantee in respect of Airbus A320 aircraft operated by LATAM airlines in Chile. Capital markets bonds are becoming an increasingly important way of funding export credit transactions, with entities such as pension funds and insurance companies being a source of finance and replacing traditional commercial bank loans. There is a prospect of a number of similar guarantees being issued in respect of aircraft transactions over the coming years.

This higher level of demand for ECA support is expected to continue as banks need to strengthen their balance sheets and adjust to new regulatory requirements, including new capital requirements with the prospective introduction of the Basel III regulations. However, a new OECD agreement (the new Aircraft Sector Understanding) has come into force under which the premiums paid by airlines for ECA support have increased significantly in respect of aircraft deliveries from 1 January 2013. This may lead to a down-turn in demand for ECA support.

ECGD's aerospace portfolio now comprises almost 1,100 aircraft, involving over 80 different airlines and lessors. ECGD proactively monitors its portfolio. Annual surveys of aircraft insurance and compliance with financial ratings and ownership covenants were carried out with all Agent Banks, and aircraft inspections were carried out for 13 aircraft.

Civil (Non-Aerospace) Project and Defence Exports

In 2012-13 there was an increase in both the value and number of project related export contracts supported by ECGD across the civil and defence sectors, compared to the previous year. The pipeline of potential business under active consideration also increased markedly and contains a number of substantial projects with long lead times at different stages of consideration and negotiation.

Over the period the value of guarantees and insurance policies issued across these sectors rose from £486 million in 2011-12 to £2,403 million. The greatest part of this increase was to support the sale, by BAE Systems, of Eurofighter Typhoon aircraft to Oman.

ECGD supported business in the civil (non-aerospace) project and defence sectors to 45 export markets. The primary new business markets over the period were Brazil, Ghana, India, Indonesia, New Zealand, Norway, Oman and Russia. The most significant business sectors in value terms, after defence exports, were oil and gas, healthcare, automotive, coal mining equipment and electrical transmission.

Oil and gas business included the part-financing of a large rig leasing contract in Brazil between Petrobras and Dolphin Drilling Ltd under the US$1 billion line of credit ECGD signed with Petrobras. By the end of 2012-13 this line of credit was approximately 20 per cent drawn and 25 per cent committed. Further potentially financeable contracts with a total value of around US$500 million were under active discussion with Petrobras at year end. Other oil and gas related transactions included support for a US$32 million contract between Perry Slingsby Systems Ltd and a DOF Subsea subsidiary in Norway to supply six remotely operated vehicles (ROVs) for use in subsea oil and gas exploration work in Brazil and the Asia Pacific region. ECGD also provided support by way of reinsurance to US Ex-Im Bank for a contract between Rolls-Royce International Ltd and GAIL (India) Ltd to supply a gas turbine centrifugal compressor.

Ghana was a particularly active market in 2012-13 with a number of projects in negotiation across a variety of sectors. Transactions concluded in the year included the issue of a buyer credit guarantee valued at £59 million to the Ministry of the Interior for the construction of a police hospital in Accra by the International Hospitals Group (IHG). ECGD also provided buyer credit support in relation to a US$7.3 million contract between BES (Europe) Ltd and Ghana Grid Company Ltd for the supply of a new power transmission line and refurbishment of an electricity sub-station in Western Ghana.

Over the period ECGD supported several significant exports in the automotive sector, including guarantees to a total value of £9.5 million under a New Zealand Dollar supplier credit financing facility to help finance the supply of buses by Alexander Dennis to Swift Transport Ltd in New Zealand. This was the third such contract ECGD has supported for Alexander Dennis in this market over the past two financial years. Four supplier credit finance guarantees, with a total value of £53.6 million, were provided in support of the supply of longwall mining equipment by Joy Mining to Russia.

High Value Opportunities

For a number of years ECGD has engaged proactively with sponsors of major projects overseas, as well as with key UK exporters, their trade associations and UKTI Sector Advisory Groups (SAGs), to identify significant new export opportunities for British companies. During the course of 2012-13 ECGD undertook marketing visits overseas (some of which included representation at international industry conferences) to 26 countries including Azerbaijan, Brazil, Colombia, Dubai, Ghana, India, Indonesia, Malaysia, Mexico, Qatar, Romania, Russia, Saudi Arabia, South Africa, Sri Lanka, Turkey and the USA. In a number of instances this has influenced sponsors' procurement decisions in favour of the UK; a number of supported and prospective cases were first developed as a result of this type of activity.

ECGD also collaborated with UKTI in the development of its High Value Opportunities (HVO) Programme which similarly sets out to identify major overseas projects offering significant supply opportunities for UK companies, whether or not export credit support is needed. During the year ECGD further consolidated its close working relationship with UKTI and FCO in the UK and in overseas Posts with a view to maximising exporter awareness of, and UK participation in, such projects. It is hoped that this activity, augmented by ECGD-supported credit packages to the project sponsors where appropriate, will help to support a higher volume of UK exports. ECGD and UKTI also collaborated in support of specific exporter bids in a variety of markets and participated in a number of minister-led trade missions, in the company of UK exporting groups, to markets such as Brazil, Colombia, India and Mexico.

Figure 6: Percentage of business supported by sector – five year summary

	2012-13	2011-12	2010-11	2009-10	2008-09
Aerospace	43	79	62	90	73
Civil	10	21	34	9	26
Defence	47	<1	4	1	1
Total	100	100	100	100	100

Export Credit Financing

In recent years, because of the dislocation of the banking sector, some banks have become constrained in their ability to fund export credit loans, for example, because of a lack of US dollar liquidity (the principal loan currency of ECGD-backed export credits) from banks that have historically supported ECAs and/or funding for loans involving long repayment periods. This has had implications for the ability of banks to provide export credit loans in support of UK capital goods exports. In 2012-13 HM Treasury announced two schemes to help ease these problems: the Export Refinancing Facility and the Direct Lending Scheme. ECGD has been working with HM Treasury and the banks to design and develop these facilities. The Direct Lending Scheme will become operational in the autumn of 2013.

Short-Term Products

In March 2011 ECGD broadened its business domain, which had previously been confined to supporting the export of capital and semi-capital goods and related services, in order to support all types of exports, including exports sold on short terms of credit (i.e. typically under two years). In doing so, it provided products to meet gaps in the availability of support to exporters, especially SMEs, from the commercial market.

These products are a Bond Support Scheme, to increase the capacity of banks to offer contract bond facilities, and an Export Working Capital Scheme, which gives additional capacity to banks who are providing working capital finance to exporters to help them fulfil specific export orders. In addition, ECGD revamped and simplified its Export Insurance Policy (EXIP) which provides credit insurance against risks of non-payment. The Letter of Credit Guarantee Scheme launched in October 2009 in response to the economic downturn has now been made a permanent addition to ECGD's product range. The scheme will be reviewed in 2013 with a view to simplifying it. These products are collectively known as the 'Short-Term products'.

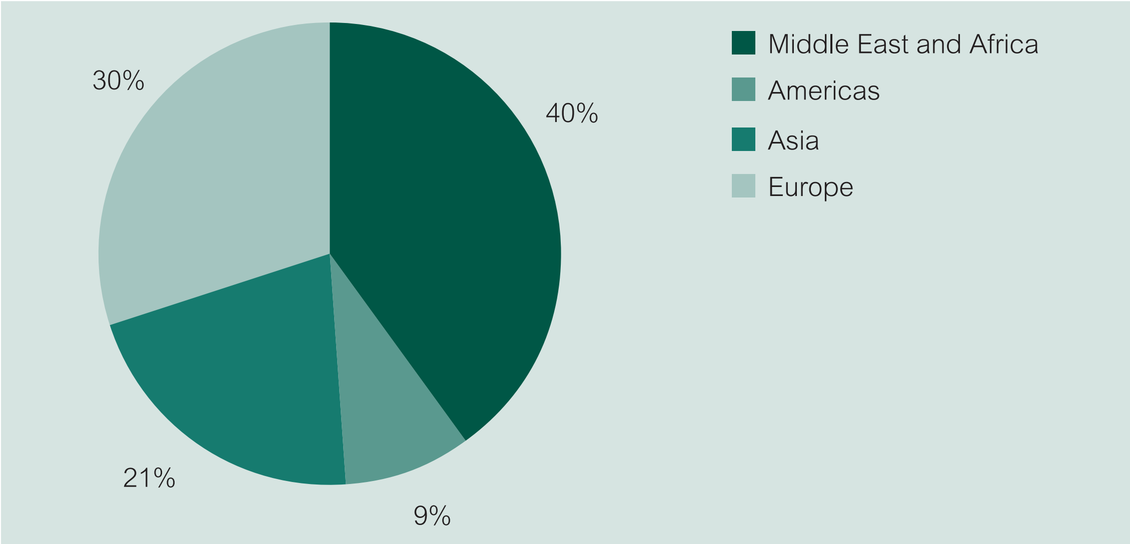
As awareness of the Short-Term products increased the pipeline grew. In 2012-13, 66 exporters were supported under ECGD's Short-Term products, of which 49 were SMEs. This relates to support with a total value of £65 million, to 89 buyers in 41 markets. The total contract value of the exports supported exceeded £500 million, more than four times the value supported in 2011-12.

ECGD has been principally focussing on raising awareness at all levels in the banks. All of the major UK banks have used the schemes. To improve awareness of the Short-Term products, twelve Export Finance Advisers (EFAs) based in the English regions and Northern Ireland, Scotland and Wales were recruited. The EFAs promote awareness of ECGD and its services, directly to exporters and also to banks and intermediaries (for example, Chambers of Commerce). The recruitment of EFAs facilitated closer collaboration with UKTI as they are based within UKTI offices alongside teams of UKTI International Trade Advisers. The promotional work of the EFAs will be further enhanced through specific awareness campaigns targeted to companies that could have a requirement for ECGD services.

Overseas Investment Insurance

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

Figure 7: Business supported by region (%) 2012-13



Claims and Recoveries

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

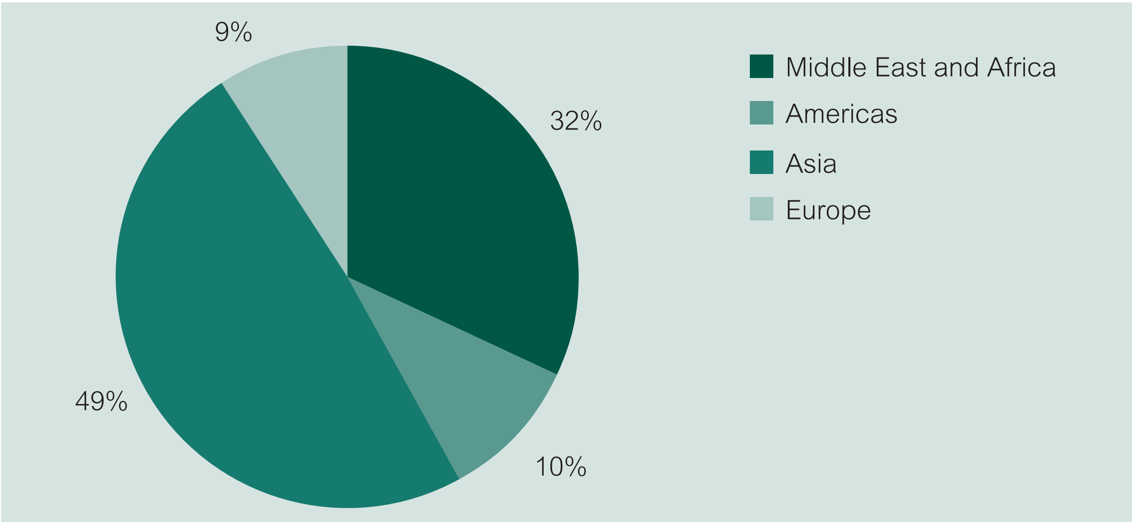
Claims

Payments authorised in 2012-13 totalled £7 million, as against £6 million in the previous year.

Recoveries

Total recoveries of principal and interest on claims paid were £136 million during 2012-13, as against £128 million in the previous year.

Figure 8: Recoveries by region (%) 2012-13



Paris Club Activity

The Paris Club is the informal group of official creditors that seeks to establish co-ordinated and sustainable solutions to debt service difficulties experienced by debtor countries. ECGD implements debt rescheduling and debt write-off agreed by the Paris Club in respect of its exposure to some of the world's poorest countries, reflecting the Government's commitment to addressing debt sustainability.

ECGD received £113 million in rescheduled debt and interest payments in 2012-13, compared to £100 million in 2011-12. It participated in negotiations through the Paris Club on debt owed by Burma, Côte d'Ivoire and Guinea. Bilateral agreements were concluded with Côte d'Ivoire and Guinea.

As a result of further debt reduction, the amount owed to ECGD under Paris Club arrangements was £1.8 billion at 31 March 2013, compared to £1.9 billion at 31 March 2012.

Non-Paris Club Recoveries

Recoveries of £23 million were made during the year, compared to £28 million in 2011-12.

ECGD's distressed airline portfolio, where aircraft have been repossessed or where the lease repayments have been restructured, consisted of 30 aircraft involving four airlines at 31 March 2013. Of these, 29 aircraft remain in operation with their original airlines on restructured leases. This compares to a portfolio of 33 aircraft at 31 March 2012.

Credit Risk Management

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

Financial Objectives

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

There are no specific financial objectives in respect of outstanding exposures on business supported before 1991 other than to recover amounts due in respect of claims paid in a manner that optimises the return to the Exchequer, while taking account of the Government's policy on debt sustainability.

Organisational Structure

ECGD's organisational structure is functionally-based and separates customer relationship management from the risk and control functions. The customer relationship function undertaken by the Business Group is separated from the financial risk assessment and pricing function carried out by the Credit Risk Group.

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

Management of Credit Risk

The main objective of ECGD's risk management framework is to identify, assess, price and manage defined risks in accordance with agreed policies and procedures. The Risk Committee regularly reviews credit risk management reports, including country risk reviews. In addition assessments of the corporate risks are carried out and adjustments made to internal risk ratings as and when appropriate. These are used to inform ECGD's risk appetite and pricing for new business and as a guide to setting Expected Loss (see definition on page 143) and provisions.

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

Changes to risk assessment and pricing processes to support new products

In 2012-13 ECGD saw a marked rise in the number and value of new guarantees and insurance policies issued under its Short-Term products. The ability to assess, rate and price the increased number of corporate risks (both UK and overseas enterprises) and deliver the necessary turnaround times was facilitated by the successful application of a streamlined approach, agreed in early 2012, to the risk assessment and evaluation processes for this high-volume, low-value class of exports, for which credit information can be difficult to obtain.

Arrangements for pricing Short-Term business so as to commit premium rates for 12 months for all orders (subject to an overall exposure ceiling) has facilitated the provision of cover for revolving export contracts. The addition of support for this class of exports also required changes to ECGD's systems for recording and reporting, which were successfully implemented with the adaptation of ECGD's main case recording systems.

ECGD's Exposure Management Framework (EMF), which is used to determine country limits, was refined and recalibrated enabling the department to deploy increased risk capacity across a range of markets. The expanded EMF should give ECGD more capacity to support exports to UKTI priority markets and projects arising from the HVO programme.

Use of Agency Ratings for Sovereign Risk

Early in 2012 ECGD moved to using Standard & Poor's ratings as a base for sovereign risk (subject to judgemental adjustments where this is considered to be appropriate) and Standard & Poor's data for quantifying and modelling such risks. This has proved successful and further consolidation of the regime took place in 2012-13. This brought ECGD's approach to classifying and scoring sovereign risk into line with that adopted for corporate credit risk, and into line with OECD pricing benchmarks for all countries where ECGD has risk appetite for new business. This work also facilitated the benchmarking (and scoring) of sovereign risks against agency ratings. Of the 125 countries rated by both Standard & Poor's and ECGD, ECGD's rating accords with theirs in 119 instances. ECGD rates a further 95 countries not rated by Standard & Poor's.

Work was also conducted to re-develop ECGD's portfolio risk modelling software and to improve the quality of portfolio risk parameters and correlation assumptions.

Pricing

For business subject to OECD Minimum Rates, ECGD applied the changes made by the OECD at the end of last year in order to charge the international minima, except in the few instances where those minima were insufficient to cover its assessment of the risk. In practice ECGD has applied the minima to all sovereign risks and, except for some higher risks, all corporate credit risks.

During 2012-13 ECGD has supported the application of the September 2011 OECD Pricing Regime, including an adherence to pricing by reference to agency ratings, where these exist. ECGD has also supported the extension of better disciplines to the pricing of business in EU and OECD Rich Countries which, unlike sovereign and corporate credit business with other countries, is not subject to any prescribed minima under the OECD Arrangement.

Risk Environment

The world economy continued to experience persistent economic weakness, growing well below potential. Global growth performance and prospects were shaped by numerous factors, including: tight fiscal policy stances in the developed countries in order to redress excessive government debt levels (albeit offset to some extent by unprecedented easing of monetary policy); unresolved fiscal uncertainties in the USA; Europe's sovereign debt crisis; and on-going fragile global consumer and business confidence. Instability in Europe's single-currency area was a continued source of financial market tensions, putting pressure on Europe's banking system. IMF forecasts indicated that the global economy will again grow well below its potential in 2013. In ECGD's primary business domain – emerging markets and developing economies – substantial momentum was maintained, although economic growth remained below the peak achieved in 2007. Supportive fiscal and monetary policies helped to sustain business investment and consumer spending in domestic markets, offsetting weaker external demand.

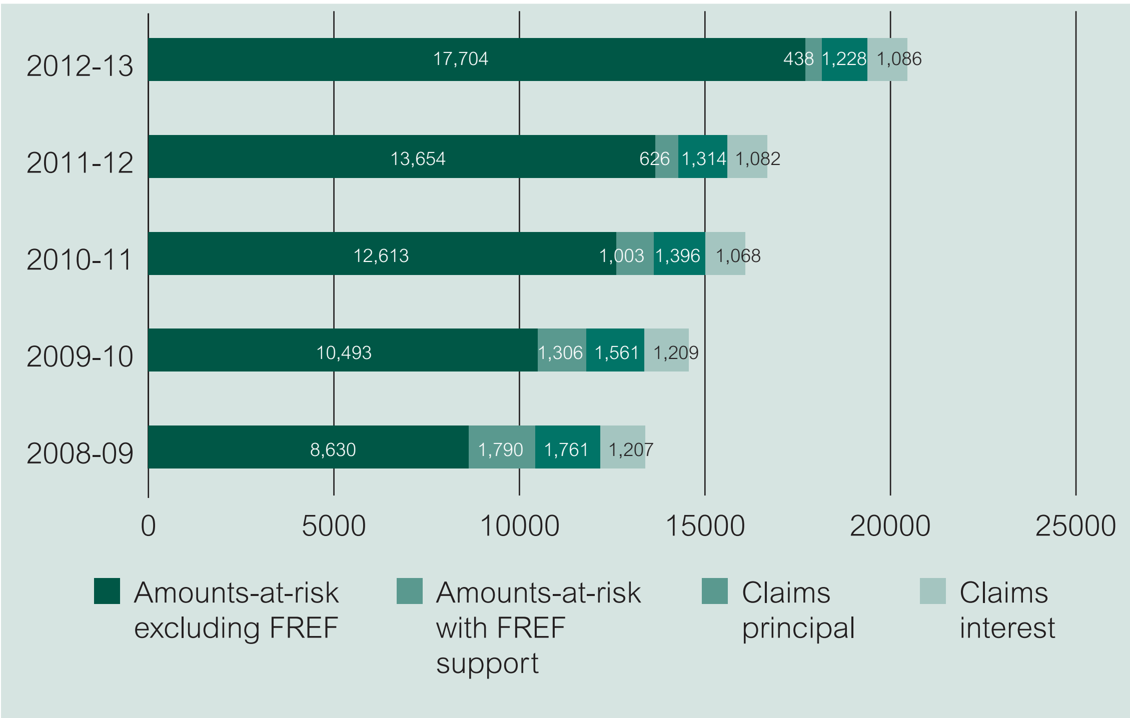
Risks that could impact on ECGD's operating environment include an abrupt slowdown of a critical emerging economy, geopolitical risks in the Middle East and North Africa potentially triggering an oil price shock due to supply disruptions, and the reduced availability of export finance linked to deleveraging by banks, resulting from increased regulation demanding higher capital and liquidity requirements. However, emerging markets are expected to maintain balanced growth over the next few years with inflation and balance of payments pressures not threatening to deflect them off course. Although certain "Arab Spring" countries remain a source of concern, country risk levels overall remain quite low. Moreover, in this economic environment, the risk of corporate failures in most sectors is projected to remain moderate to low.

Credit Risk Portfolio

Credit exposure increased in 2012-13 from £16.7 billion to £20.5 billion, partly attributable to the rising volume of exposure under reinsurance provided to ECGD by the Airbus partner ECAs, which increased from £4.4 billion at 31 March 2012 to £5.4 billion at 31 March 2013.

The overall risk quality of the credit risk portfolio has been maintained at an acceptable level, within ECGD's financial objectives. A significant element of the risk in the aerospace sector has the benefit of asset security thereby reducing potential risks of loss. Excluding claims and amounts reinsured by other ECAs, the percentage of the portfolio rated as BBB- or better increased from 58.3 to 58.8 per cent. The portfolio risk measure at the 99.1 percentile of the loss distribution remained materially below the specified risk appetite limit, increasing from £1.06 billion to £1.22 billion compared to the limit of £2.5 billion.

Figure 9: Credit risk exposure on (£m, excluding commitments)



International Developments

Officially supported export credits are regulated by a number of international agreements reached within the OECD. ECGD represents the UK at meetings of the OECD Export Credits Group and of the European Union Council Working Group (CWG) on Export Credits. The European Commission represents the EU at meetings of the Participants to the OECD Arrangement on Officially Supported Export Credits; hence the EU Member States and the European Commission meet at the CWG to develop a common EU position.

ECGD's international efforts continue to be guided by its objective to achieve fairer competition by seeking to establish a level playing field for UK exporters.

The main international developments of 2012-13 are set out below.

International Working Group on Export Credits

In the context of the growth of officially supported exports from non OECD countries, which are not party to the various OECD agreements, in 2012 the USA and China agreed to "establish an international working group (IWG) of major providers of export financing to make concrete progress towards a set of international guidelines on the provision of official export financing that, taking into account varying national interests and situations, are consistent with international best practices, with the goal of concluding an agreement by 2014." The first IWG meeting involving OECD and non-OECD countries was held in November 2012 with further meetings planned during 2013.

European Union

The European Commission completed its review of the European credit insurance market and of the EU ban on the provision of short-term (i.e. with a horizon of risk under two years) credit insurance by EU ECAs for exports within the EU and to most OECD countries, known as 'marketable risk' countries. The ban, first introduced by the Commission in 1997, was confirmed by the European Commission in its Short Term Communication, which came into force on 1 January 2013. ECGD contributed to both the public consultation and to meetings between the Commission and EU Member States. The Commission recognised that insurance cover may not be available in all parts of the EU for SMEs and for some single risk transactions and has accordingly included greater flexibility for Member States to apply to the Commission for permission to provide official support for exports to 'marketable risk' countries.

As a temporary measure the Commission has removed Greece from the list of 'marketable risk' countries until the end of 2013; the Commission will review this decision towards the end of 2013.

OECD

No new agreements were reached at the OECD since the last Annual Report. OECD members are considering a number of issues, including the appropriate credit terms for the railway sector and a possible extension of the Climate Change and Renewable Energy Sector Understanding to include climate adaptation projects. Following the adoption of the 2012 Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, the environmental practitioners group embarked upon a programme of work to consider how human rights impacts should be addressed by ECAs when they are asked to support projects. ECGD played a leading role in taking forward this initiative.

People and Infrastructure

During 2012-13 ECGD continued to respond to the challenges of meeting increased demand for support. ECGD further increased staff resources in its frontline operations and restructured customer-facing teams to ensure that the department could provide an efficient and responsive service. Given anticipated business levels for 2013-14 and beyond, ECGD is planning to increase staff headcount over the next financial year by over 15 per cent. In the next financial year, ECGD will be appointing a new Chief Executive, following the departure of Patrick Crawford in November 2012.

ECGD retained its Investor in People accreditation, and continued to invest in the development of its staff whether through functional training or skills development. The 2012 staff survey results show that staff engagement was slightly lower than in 2011, but work is already underway to respond to issues identified. The implementation of the Civil Service Reform agenda started during 2012-13 and will continue through the next financial year.

ECGD will be moving from London Docklands to central London in July 2013. This will realise a number of benefits, including savings for the taxpayer. The relocation has necessitated a substantial change to the IT infrastructure, with central servers and associated equipment being relocated to South Wales.

Process analysis and mapping has continued this financial year that facilitated improvements made in a number of areas, including ECGD's responsiveness to customers. Central IT systems were upgraded to support data recording for the Short-Term products and enhancements were made to ECGD's data warehouse in terms of coverage, data quality, performance and reporting accessibility. Staff were issued with new laptops during the year, which has enhanced ECGD's flexible working capabilities.

Sustainable Development

Sustainable Lending

Exports or investments that required further assessment in accordance with the application of OECD *Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries*	
Market/Exporter	**Overseas Project**
Ghana/International Hospitals Group Ltd	Hospital redevelopment

Environmental, Social and Human Rights Impacts

Information related to the application of the *Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence*	
Guarantees issued that were screened for environmental, social and human rights (ESHR) impacts	13
Guarantees issued for which an ESHR impact assessment was provided	1
Guarantees issued categorised as Category A (having high potential ESHR impacts), for which the project was expected to comply fully with the relevant international standards at the time of the guarantee being issued	0
Guarantees issued that were categorised as Category B (having medium potential ESHR impacts), for which the project was expected to comply fully with the relevant international standards at the time of the guarantee being issued	1
Guarantees issued categorised as Category A to which environmental conditions were attached	0
Guarantees issued categorised as Category B to which environmental conditions were attached	0
Transactions that ECGD declined to support on ESHR impact grounds	0
Projects reported by ECGD to the OECD under the terms of the Common Approaches for non-compliance with the relevant international standards	0

Environmental, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2012-13					
Market	**Exported goods/ services**	**Potential impact category**[1]	**Notes on category**	**Compliance with relevant international standards**	**Estimated GHG emissions**
Azerbaijan	Loaders and excavators	N/A	Contract value below £10 million and not close to any sensitive areas	N/A	N/A
Brazil	Casting machine	N/A	Contract value below £10 million and not close to any sensitive areas	N/A	N/A
Brazil	Medical supplies	N/A	Contract value below £10 million and not close to any sensitive areas	N/A	N/A
Chile	Paper cutting equipment	N/A	Contract value below £10 million and not close to any sensitive areas	N/A	N/A
Cyprus	Remotely operated vehicles	N/A	No categorisation required	N/A	N/A
Georgia	Tractors	N/A	Contract value below £10 million and not close to any sensitive areas	N/A	N/A
Ghana	Transmission line and substations refurbishment	N/A	Contract value below £10 million and not close to any sensitive areas	N/A	N/A
Ghana	Redevelopment of a hospital	B	Categorised as B	Relevant IFC Performance Standards and EHS Guidelines	Approx. 2,024 tonnes CO_2e per annum (24 tonnes direct, 2,000 tonnes indirect)
India	Centrifugal compressor	N/A	Contract value below £10 million and not close to any sensitive areas	N/A	N/A
New Zealand	Buses	C	Minimal/no adverse environmental impacts anticipated, more efficient and lower emission replacement vehicles for existing bus fleet	N/A	N/A
Norway	Remotely operated vehicles	N/A	No categorisation required	N/A	N/A

Environmental, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2012-13

Market	Exported goods/ services	Potential impact category[1]	Notes on category	Compliance with relevant international standards	Estimated GHG emissions
Russia	Mining equipment	N/A	No categorisation required. Replacement parts for an existing mine. Goods are new and more efficient.	N/A	N/A
Russia	Food processing equipment	N/A	Contract value below £10 million and not close to any sensitive areas	N/A	N/A

Notes:

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

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

[1]Indicates the category of environmental, social and/or human rights impacts that could potentially occur without the deployment of arrangements to mitigate such impacts as defined by the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, available from www.oecd.org.

Issued cases where ECGD has contingent liabilities designated as having high potential environmental, social and human rights impacts				
Year of issue/ Market/ Exporter	**Overseas project**	**Exported goods/ services**	**Compliance with relevant international standards**	**Comments**
2003-04 / Azerbaijan / BP Exploration (Caspian Sea) Ltd, CB&I John Brown Ltd	Baku-Tbilisi-Ceyhan (BTC) Pipeline	Range of goods and services	Compliant	Operation phase
2005-06 / Brazil / Rolls-Royce Power Engineering, InvSat Ltd (now Nessco Ltd), ETA Process, VWS Westgarth Ltd	P-52 Floating Oil Production Unit	Turbines, power generation modules, associated plant and oil production equipment	Compliant	Operation phase
2006-07 / Saudi Arabia / Foster Wheeler Energy, Fluor Ltd	Yanbu National Petrochemical Company (Yansab)	Project management, contract, engineering design and procurement services	Compliant	Operation phase
2008-09 / Saudi Arabia / Fluor Ltd and other UK exporters	Saudi Kayan Petrochemical Co.	Refinery and petrochemical plant	Compliant	Construction phase
2010-11 / Russia / Rolls-Royce Plc	Portovaya Gas Compressor Station	Steam compressor station and associated gas pipeline	Compliant at date of issue of support. Independent monitoring being carried out with regard to pipeline route re-instatement and community engagement to ensure on-going compliance.	Operation phase
2011-12 / Brazil / Various	Petrobras oil and gas exploration and production facilities in the South Atlantic	Various supplies under a line of credit	Compliant	Construction phase

Coalition Government's Programme for Government

The Coalition's Programme for Government stated: "we will ensure that UK Trade and Investment and the Export Credits Guarantee Department become champions for British companies that develop and export innovative green technologies around the world, instead of supporting investment in dirty fossil-fuel energy production." In July 2012 the Secretary of State for Business, Innovation and Skills set out how the Government would implement this commitment in a written ministerial statement to Parliament.

Anti-Bribery and Corruption

Annually ECGD produces a report on the applications received for support and its anti-bribery due diligence carried out in accordance with its obligations under the OECD *Council Recommendation on Bribery and Officially Supported Export Credits*. The report is published on its website.

Requests for Information

The Freedom of Information Act 2000 gave the public new rights of access to information held by public authorities. It came into force on 1 January 2005.

In 2012-13 ECGD received 64 requests for information under the Freedom of Information Act or the related Environmental Information Regulations, against 103 requests received in the previous year.

Requests for information

Issue	**2012-13**	2011-12
Anti-bribery and corruption procedures	0	0
Defence business	3	1
Environmental information	0	6
Project information and general business matters	21	27
International debt	16	26
Organisation/procurement	24	43
Total	64	103

ECGD responded to 76 per cent of cases within the statutory time limit.

Sustainability Reporting

ECGD has reported annually on sustainable development activities on its estate since 2006. The aim is to operate the estate efficiently and reduce the environmental impact of operations and their associated costs. ECGD's accommodation is part of a multi-tenanted office complex. ECGD's water consumption and waste volumes are not measured separately from other tenants. ECGD's figures are calculated based on its share of the floor space, which has fluctuated since 2009-10.

The Government has established a number of key outcomes to deliver its vision of being the greenest government ever. These aim to significantly reduce the Government's environmental impact by reducing emissions of greenhouse gases, reducing waste, reducing water usage and making procurement more sustainable. ECGD reports its performance through the Greening Government Commitments (GGC) (http://sd.defra.gov.uk/gov/green-government/commitments/). The GGC reporting period runs from 2011-12 to 2014-15 with performance measured against the baseline year of 2009-10. The report is prepared in accordance with the HM Treasury Public Sector Guidance for Sustainability Reporting (www.financial–reporting.gov.uk).

Summary of Performance

With the exception of waste, ECGD's performance against the GGC targets is on track to achieve the reductions required.

Area		2009-10 Baseline	2012-13 Performance	% Change
Estate Energy	Consumption (kWh)	1,090,137	799,560	-27%
	Expenditure	£135,067	£80,004	-41%
Greenhouse gas emissions from UK estate and domestic travel	tonnes of CO_2 equivalent (tCO_2e)	494.62	355.25	-28%
Estate Waste	Amount (Tonnes)	78	86	+10%
Estate Water	Consumption (m^3)	2,762	1,582	-43%

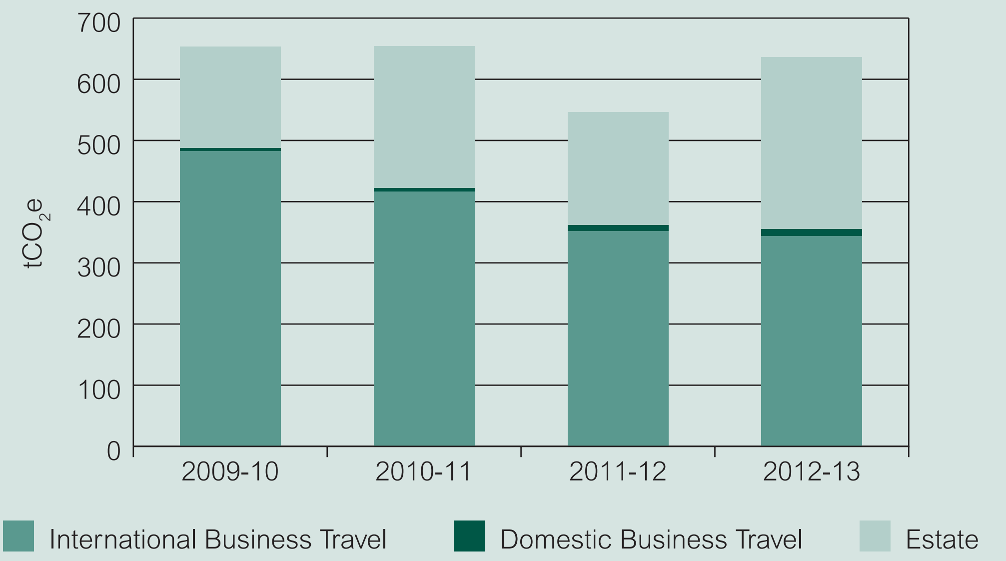
In 2012-13, there was further increase in the amount of estate waste as ECGD sought to reduce by 50 per cent the amount of paper documents held at the London office ahead of a relocation to a new office in July 2013.

Governance

ECGD's sustainable operations and performance reporting is led by its Resources Division.

Emissions

Figure 10: Gross emissions – four-year summary



		2009-10	2010-11	2011-12	2012-13
Non-Financial Indicators (tCO_2e)	Total gross emissions	653.49	654.07	545.98	636.13
	Gross emissions Scope 1 & 2 (direct)	482.78	416.02	351.47	343.62
	Gross emissions attributable to Scope 3 – domestic business travel	4.36	6.52	10.36	11.62
	Gross emissions Scope 3 – international business travel	166.35	231.53	184.15	280.89
Related Energy Consumption (kWh)	Electricity: Non Renewable	0	0	0	0
	Electricity: Renewable	820,476	712,844	606,986	583,349
	Gas	285,080	229,027	194,892	216,211
Financial Indicators	Expenditure on Energy	£135,067	£79,318	£65,360	£78,862
	CRC Licence Expenditure (2010 onwards)	£0	£950	£1,290	£1,290
	Expenditure on GCOF II	£0	£2,439	£1,139	£0
	Expenditure on official business travel	£157,994	£232,647	£212,477	£358,805

Definition of terms:

Scope 1 – Direct Greenhouse Gas (GHG) Emissions: fugitive emissions from air conditioning units.

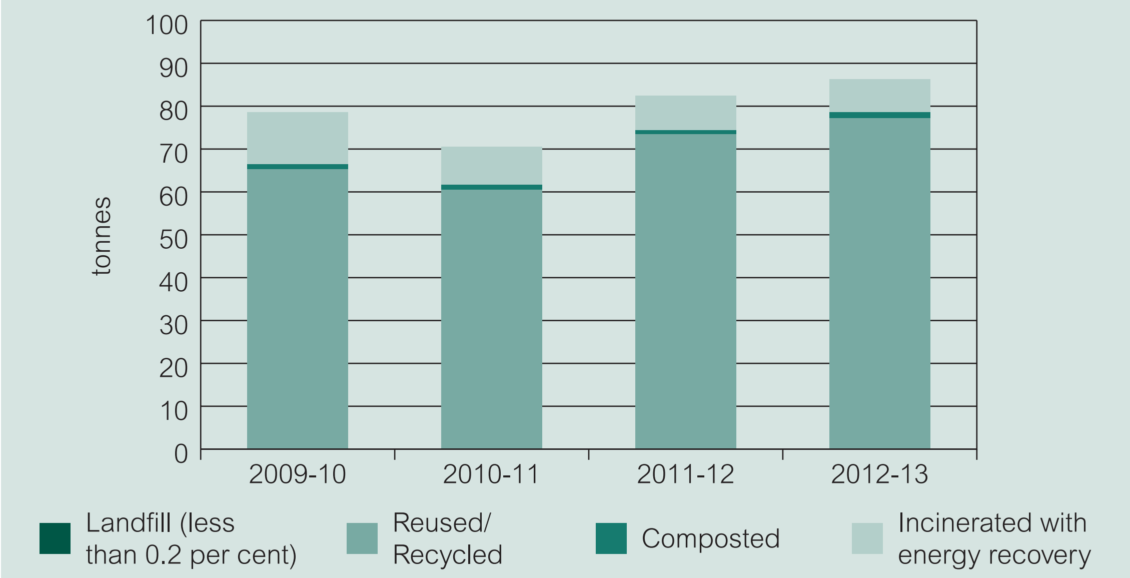
Scope 2 – Indirect Energy Emissions – electricity consumed supplied by another party. ECGD does not purchase heat, steam and cooling sources.

Scope 3 – Other Indirect Emissions –emissions relating to official business travel directly paid for (i.e. not business travel re-charged by contractors). Minimum requirements do not include international air or rail travel in line with GGC, but these have been included in ECGD's GHG figures.

Performance Commentary (inc Measures)
ECGD has a target to reduce its GHG emissions from its estate and UK business-related transport by 25 per cent from a 2009-10 baseline. Through 2012-13, ECGD continued to reduce its total in-scope gross GHG emissions, achieving a total 28 per cent reduction against the 2009-10 baseline. The table above includes international air travel, which is not in scope under the GGC targets for GHG reduction. Due to increased air travel related to the High Value Opportunities initiative (see page 25), there was an increase in ECGD's gross emissions compared to 2011-12, but a 3 per cent reduction against the 2009-10 baseline. Domestic business travel continued to increase, following the appointment of Export Finance Advisers based in the English Regions plus Scotland, Wales and Northern Ireland (see page 26). Staff are encouraged to use rail travel whenever possible.
Controllable Impacts Commentary
Energy saving initiatives implemented continued to reduce energy consumption at ECGD's London office. The voltage optimisation programme resulted in approximately 5 per cent of energy saving over the period. Gas is no longer used at the London office following the closure of the staff canteen in 2011. However, it is the main source of heating in the Cardiff file repository, where gas consumption increased over the period, mainly due to cold weather in the 4th quarter of the year. A review of the heating strategy will be carried out to identify opportunities to reduce consumption within the building if similar conditions occur again.
Overview of Influenced Impacts
ECGD's landlord, Cushman & Wakefield (C&W), manages the energy contracts for the building. ECGD is currently in a three year contract under flexible purchasing arrangements. The contract is selected according to C&W's risk management strategy. Purchase of new IT and other energy equipment is through existing framework agreements negotiated by Government Procurement Services and meet energy efficiency requirements.

Waste

Figure 11: Waste disposal – four-year summary



			2009-10	2010-11	2011-12	2012-13
Non-Financial Indicators (tonnes)	Total Waste		78.62	70.55	82.49	86.25
	Hazardous Waste	Total	N/A	N/A	N/A	N/A
	Non-Hazardous Waste	Landfill	0.1	0.1	0.1	0.1
		Reused/ Recycled	65.23	60.41	73.33	77.15
		Composted	1.06	1.08	1.01	1.4
		Incinerated with energy recovery	12.23	8.96	8.05	7.6
Financial Indicators	Total Disposal Cost		£22,130	£19,790	£21,928	£21,620

Performance Commentary (inc Measures)

ECGD has a target to reduce the amount of waste it generates by 25 per cent against the 2009-10 baseline and, in the London office, a zero landfill target. There is not a recycling target within the GGCs, but ECGD encourages recycling.

ECGD's waste arisings increased by 10 per cent against the 2009-10 baseline. However, during this same period, the recycling rate increased by 18 per cent, with less than 1 per cent of all waste going to landfill.

Controllable Impacts Commentary

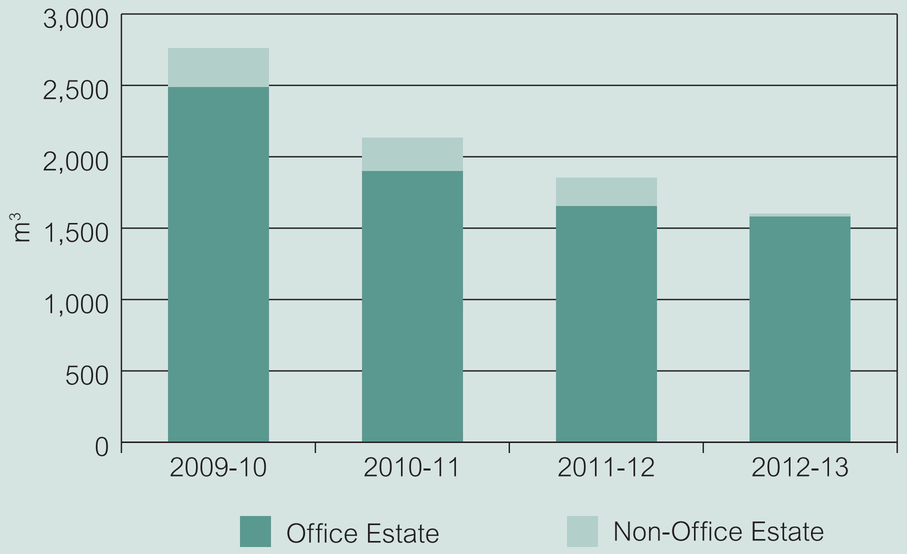
The majority of waste arising within ECGD is due to office waste in the form of paper. In preparation for the relocation of its London, existing filing and storage space was reduced through a combination of archiving and disposal (through recycling) of documents. This led to an increase in the recycled waste and will also do so in the next financial year.

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

Overview of Influenced Impacts
ECGD is reviewing options to reduce its use of paper and is embarking on a project to adopt an electronic case management system. Additionally, through the relocation of its London office, ECGD will move to a 'binless' environment. Staff awareness on the segregation of food and packaging waste continued, with composting bins and recycling units available in each tea-point area within the London office.

Water Consumption

Figure 12: Water consumption – four-year summary



			2009-10	2010-11	2011-12	2012-13
Non-Financial Indicators (m^3)	Water Consumption (Office Estate)	Supplied	2,488	1,901	1,654	1,582
		Abstract	N/A	N/A	N/A	N/A
		Per FTE	281	262	231	210
	Water Consumption (Non-Office Estate)	Supplied	273.98	231.63	201.12	18.43
		Abstract	N/A	N/A	N/A	N/A
Financial Indicators	Water Supply Costs (Office Estate)		£2,848	£5,155	£3,041	£3,228
	Water Supply Costs (Non-Office Estate)		£824	£697	£710	£156

Performance Commentary (including Measures)
The GGC target is to reduce water consumption from a 2009-10 baseline, measured against best practice benchmarks: a. ≥6 m^3 water consumption per FTE: poor practice b. $4m^3$ to $6m^3$ per FTE: good practice c. ≤$4m^3$ per FTE: best practice As with waste measurement, ECGD's water is not measured separately from other tenants in the London office and ECGD reports water consumption as being its 'share' for the whole office complex.
Controllable Impacts Commentary
ECGD's primary water consumption is from tea points and toilets. Further reductions continued due to reduced water flow in taps and urinals with an overall reduction of 42 per cent. Despite the significant reduction, ECGD did not meet the good practice benchmark; its consumption is >$6m^3$ per FTE.
Overview of Influenced Impacts
At the Cardiff location the water meter is monitored on a monthly basis.

Sustainable Procurement

ECGD uses existing framework agreements which have been centrally procured through the Government Procurement Service. Additionally, ECGD's key FM suppliers have sustainable objectives and environmental policies in place committing to sustainable development. Annual spend on contracts is relatively small and does not necessitate liaison with other government departments to develop pan-government contracts. ECGD no longer procures catering services.

Biodiversity and Natural Environment

ECGD's London office (based on a number of floors in a commercial building) and its Cardiff file repository (based on an industrial estate) have no access to or control over external land. Therefore, ECGD does not have a Biodiversity Plan.

Climate Change Adaptation

Given its small size, ECGD does not have an adaptation plan.

Notes:

1 ECGD pays for water and waste services through an annual service charge at its London office. The figures used above have been provided as whole building costs and apportioned to departmental costs based on a floor occupancy of 18.64 per cent.

2 A resale contract is in place for IT disposal. While the volumes are classed and treated as waste arising and recycling within this report, the income generated from the re-sale of IT items has been subtracted from the total disposal costs for each financial period.

3 Business travel cost figures exclude travel not purchased through ECGD's travel contract.

4 Business travel gross emissions do not include journeys made by bus or taxi.

Export Guarantees Advisory Council Annual Report 2012-13

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

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

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

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

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

Chair

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

Members

Gillian Arthur (Head of Philanthropy Services, Sanne Group)

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

Alexandra Elson (Policy Manager, Shell Plc)

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

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

John Newgas (Consultant, Sagwen Computer Consultancy)

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

The Council met four times during 2012-13. Separately, it met with the Minister for Trade and Investment.

At each of its meetings ECGD's Chief Executive informed the Council of ECGD's business activities, new initiatives and other developments that were relevant to its remit and which informed the issues upon which it could provide advice to Ministers. The Council also met interested parties to understand their issues of interest in ECGD to help shape the Council's agenda.

During 2012, the OECD revised its *Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* (the Common Approaches) which informs the way in which member Export Credit Agencies (ECAs) should address the environmental, social and human rights (ESHR) impacts of the projects they are asked to support. This was the culmination of work by the OECD over a number of years and followed the revisions made by the International Finance Corporation (IFC) of the World Bank Group to its Performance Standards which are used by ECAs to benchmark the ESHR impacts of projects. The Council monitored the work carried out by ECGD to help shape the new OECD Common Approaches and also its contribution to the IFC's review of its Performance Standards.

The revised OECD Common Approaches includes a commitment to give further consideration to the issue of human rights, particularly to establish how project-related human rights impacts should be addressed in relation to the provision of officially supported export credits. This will take into account the UN Guiding Principles on Business and Human Rights (the 'Ruggie framework') which specifically identifies ECAs as agents that can affect the business and human rights agenda. The OECD has mandated the Environmental Practitioners Group to consider this commitment and report back to its Export Credits Group within two years. The Council has been briefed on the work of this Group in which ECGD is playing a leading role.

During the year the Council met Amnesty International. Amnesty has a particular interest in the application by ECGD of human rights issues in its policy-making and also its support for export transactions. It has called for ECGD to apply the OECD Common Approaches to all the business put to it for support, not solely for projects that fall within the ambit of the OECD Common Approaches.

The All Party Parliamentary Group (APPG) on International Corporate Responsibility conducted an inquiry into ECGD. I gave oral evidence on the role and work of the Advisory Council. The Group's report made a number of recommendations including that ECGD should extend the application of the OECD Common Approaches to all its business, introduce a mediation mechanism and make public its ESHR reviews. The Council advised on each of these recommendations. The Council advised that consideration should be given by ECGD to publishing a document to communicate the process for screening, reviewing and assessing projects for their potential ESHR impacts as there appears to be some misunderstanding about the application of the OECD Common Approaches to projects that ECAs are asked to support.

The Council's advice in relation to extending the scope of the OECD Common Approaches was to fulfil the remit from the Government for the Council to consider the outcome of the change to ECGD's policy, adopted in April 2010 following a Public Consultation, to follow international agreements related to ethical policies which apply to the operation of ECAs and not additionally create, and separately operate, its own policies which go beyond those agreements. The change of policy meant that certain export transactions, normally supported under ECGD's Export Insurance Policy, and projects under £10 million not near a sensitive site, for which ECGD support was sought, were no longer normally reviewed by ECGD for their ESHR impacts. The Council considered the outturn of the change of policy in 2011-12 and advised that it did not consider a review of the change of policy was warranted, but requested to be consulted again in 2012-13 so that it could assess the impact further, taking account of the widening of ECGD's business domain and demand for support under the newly introduced Short-Term products. The Council remained of the view that no change of policy was warranted. The revised OECD Common Approaches now specifically excludes from its scope some of the new Short-Term products of the type that ECGD has introduced.

The Council routinely examines new projects that ECGD has supported to understand how its ethical policies have been applied. In 2011-12, it reviewed the support it had provided for a line of credit of up to US$1 billion for the development by Petrobras of offshore oil and gas fields off the coast of Brazil. It was classified 'Category A' by ECGD, i.e. as a project having potentially high ESHR impacts, as defined by the OECD Common Approaches. The Council reviewed the process by which the project had been screened, classified and assessed by ECGD's Environmental Advisory Unit (EAU) and the conclusion that the project would meet international ESHR standards. The Council was satisfied that ECGD had properly categorised the project and benchmarked it against the IFC Performance Standards. ECGD's review of the project, which has been made public, demonstrated the comprehensiveness of its ESHR due diligence. The Council had confidence in ECGD's ESHR due diligence practices.

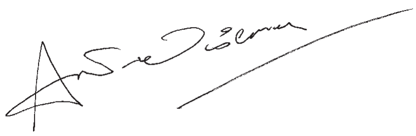
The Council also considered the arrangements ECGD puts in place to monitor projects it has supported during their construction and operating phases where ECGD has extant liability. The purpose of this monitoring is to track performance against international standards, identify any areas where performance has been deficient and ensure remedial action is taken where necessary. ECGD normally requires post-issue monitoring arrangements to be put in place for Category A prospects and sometimes for Category B, i.e. projects having medium potential ESHR impacts, depending upon the nature of the project. Having examined the arrangements, the Council was satisfied that ECGD is tracking performance of projects against relevant international standards.

The Council carried out a review of the application of ECGD's anti-bribery and corruption policies taking account of ECGD's obligations under the *OECD Recommendation on Bribery and Officially Supported Export Credits*. The Council will be monitoring how ECGD's anti-bribery due diligence practices operate in relation to business conducted under the Short-Term products given the materially shorter commercial deadlines to decide support for this class of exports as compared to project exports.

The Council reviewed ECGD's handling of information requests made under the Freedom of Information Act and the Environmental Information Regulations. The Council noted that in 2011-12 ECGD had received its highest number of information requests since the FOI regulations came fully into force in 2005. There was a significant number of requests seeking information about sovereign debts owed to ECGD. The Council welcomed the publication by ECGD of sovereign debt data in respect of those countries which defaulted on their debt obligations because of balance of payments difficulties, including those guaranteed and insured by ECGD, which resulted in them being rescheduled and where repayments to ECGD are still outstanding. While recognising the complexity of some of the information requests made, and the need to consult external parties, the Council encouraged ECGD to improve its timeliness in handling requests.

The Council reviewed the activities of the Environmental Analysis Unit (EAU) during 2012. The Council noted that the workload of the EAU had continued to increase as a result of rising demand for ECGD support and also the increase in the number of projects that are now subject to monitoring following the provision of support. The EAU has arrangements in place to obtain advice where specialist ESHR knowledge is required and to provide additional resource to manage peaks in workload. These arrangements had worked effectively.

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



Andrew Wiseman
Chair

Performance against Financial Objectives

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

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

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

Financial Objectives on guarantee and insurance business issued since 1991	
Objective and Description	**Results**
Maximum Commitment This measure places a cap on the maximum amount of nominal risk exposure (that is, the total amount of taxpayers' money that may be put at risk by ECGD).	**Met** The highest recorded maximum exposure in the year was £20.6 billion, against a notional maximum commitment of £25 billion (unadjusted for foreign-exchange movements).
Risk Appetite Limit This limit places a constraint on ECGD's appetite for risk at the 99.1 percentile of ECGD's estimated ten-year Loss Distribution.	**Met** ECGD's 99.1 percentile of the ten-year Loss Distribution did not exceed £1.3 billion, against a notional Risk Appetite Limit of £2.5 billion (unadjusted for foreign-exchange movement).
Reserve Index This index ensures that ECGD has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5 per cent level of confidence.	**Met** The reserve index did not fall below 4.28 in the year, against a target of 1.00.
Pricing Adequacy Index This index tests whether over time ECGD earns sufficient 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 2012-13 was 1.67, against a target of 1.00.
(ii) Previous, Present and Next Year:	**Met** This index did not fall below 1.55, against a monthly target of 1.00.

Financial Objectives on guarantee and insurance business issued since 1991	
(iii) Present Year and Next Two Years:	**Met** This index did not fall below 1.53, 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 2.16, against a target of 1.35

Financial Objectives on the provision of Fixed Rate Export Financing (FREF)	
Objective and Description	**Results**
All FREF Portfolios The interest rate risks arising from the FREF portfolios (other than risks arising from Prepayment Optionality) must e contained within agreed sensitivity limits.	**Met** There were no breaches of the sensitivity limits.

Statutory Limits

The Export and Investment Guarantees Act 1991 sets limits on the commitments that ECGD may have in both pounds sterling and foreign currency.

The latter is expressed in Special Drawing Rights (SDR). The Act requires reporting of commitments against these limits.

The table shows the Statutory Limits at 31 March 2013 and 31 March 2012 and the outstanding commitments against them:

	At 31 Mar 2013				At 31 Mar 2012			
	Sterling	**Foreign Currency**	**Sterling Equivalent**	**Sterling Total**	**Sterling**	**Foreign Currency**	**Sterling Equivalent**	**Sterling Total**
	£m	SDRm	£m	£m	£m	SDRm	£m	£m
Section 6(1) amounts								
Statutory Limit	**35,000**	**30,000**	**29,719**	**64,719**	**35,000**	**30,000**	**29,029**	**64,029**
Assets (see Note below)	-	-	-	-	-	-	-	-
Liabilities	1,985	18,650	18,475	20,460	830	17,037	16,485	17,315
Total Commitments	**1,985**	**18,650**	**18,475**	**20,460**	**830**	**17,037**	**16,485**	**17,315**
Section 6(3) amounts								
Statutory Limit	**15,000**	**10,000**	**9,906**	**24,906**	**15,000**	**10,000**	**9,676**	**24,676**
Assets (see Note below)	–	–	–	–	–	–	–	–
Liabilities	15	17	17	32	16	26	25	42
Total Commitments	**15**	**17**	**17**	**32**	**16**	**26**	**25**	**42**

Note: Interest Equalisation Arrangements, cross currency swaps and hedge swaps which are "in the money" constitute assets and as such are not scored against the Statutory Limits. The value of these assets at the dates of the return is detailed in the following table.

	At 31 Mar 2013				At 31 Mar 2012			
	Sterling	**Foreign Currency**	**Sterling Equivalent**	**Sterling Total**	**Sterling**	**Foreign Currency**	**Sterling Equivalent**	**Sterling Total**
	£m	SDRm	£m	£m	£m	SDRm	£m	£m
Section 6(1) amounts								
Assets	**7**	**21**	**21**	**28**	**9**	**27**	**26**	**35**
Section 6(3) amounts								
Assets	**138**	–	–	**138**	**179**	–	–	**179**

Export Credits Guarantee Department

Accounts 2012-13

At 31 March 2013

The Accounting Officer authorised these financial statements for issue on 19 June 2013

LONDON: The Stationery Office
HC7

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Annual Report

Accounts: Export Credits Guarantee Department

Overall Results

The Export Credits Guarantee Department (ECGD) issues guarantees and insurance against loss for or on behalf of exporters of goods and services and overseas investors from the UK, and supports the provision of Fixed Rate Export Finance (FREF) (which closed for new business on 31 March 2011). ECGD achieved an operating surplus for the year ended 31 March 2013 of £135 million, as compared to £147 million for the year to 31 March 2012. The reduction in net operating income for the year was largely caused by:

- a reduction in the release from the underwriting funds closed in the current year to £34 million in 2012-13, compared to £50 million in 2011-12;
- lower gains to provisions for Recoverable Claims with a gain of £38 million in 2012-13, compared to a gain of £53 million in 2011-12;
- offset by an increase in net investment return to £49 million in 2012-13, compared to £44 million in 2011-12 largely resulting from increased interest income from underwriting activities of £38 million in 2012-13 compared to £35 million in 2011-12; and
- A foreign exchange gain of £18 million for 2012-13 compared to a gain of £1 million in 2011-12.

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

Statutory Powers

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

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

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

Ministers

The Ministers who had responsibility in relation to ECGD during the year ended 31 March 2013 and up to the date of these Accounts were:

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

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

Norman Lamb MP, Minister for Employment Relations, Consumer and Postal Affairs to 4 September 2012.

Michael Fallon MP, Minister of State for Business and Enterprise from 4 September 2012.

Accounting Officer of ECGD and the Management Board

ECGD's Accounting Officer is Mr David Havelock.

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 David Havelock, Acting Chief Executive (from 16 November 2012) and Credit Risk Director
Mr Patrick Crawford, Chief Executive (up to 15 November 2012)
Mr Nigel Addison Smith, Finance Director
Mr Steve Dodgson, Business Director
Ms Sue Johnson, Head of Resources Division
Mr Nicholas Ridley, General Counsel

Non-Executive Members:

Mr Guy Beringer, Chairman
Mr David Godfrey
Mr David Harrison (retired from the Management Board on 31 March 2012 but continues to be a member of the Audit Committee)
Ms Katherine Letsinger (up to 31 December 2012)
Sir Eric Peacock

UK Trade & Investment representative:

Ms Susan Haird (up to August 2012)
Mr Jon Harding (from September 2012)

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 recoveries of claims related to the discontinued short-term credit insurance facilities issued by the former Insurance Services Group of ECGD (the main part of which was privatised on 1 December 1991). These activities are referred to in these Accounts as Underwriting Activities.

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

There are no other entities included within the Accounting boundary. Guaranteed Export Finance Corporation PLC (GEFCO), a special purpose company which refinances certain of ECGD's export finance loans, is not consolidated. In accordance with the Government Financial Reporting Manual (FReM) (see Note 28).

Accounts 1, 2, 3 and 4

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

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

Account 2 - relates to the credit risk arising from products issued for business since April 1991.

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

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

Foreign Content

The amount of foreign content supported by ECGD during the period was £273 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. For the year to 31 March 2013 ECGD paid 99.5 per cent of invoices within the policy requirement, compared to 99.4% for the year to 31 March 2012. In addition, ECGD follows guidance issued during the year that all government departments should plan to make payments within five working days. At 31 March 2013 the creditor days outstanding were 6.8 days, compared to 2.1 days at 31 March 2012.

Days Lost Due to Absence

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

Over the period 1 April 2012 to 31 March 2013, the average working days lost per full time employee was 7.0 days. This is a slight increase to the previous year's figure of 5.6 days but compares favourably with the most recently published Civil Service average figure of 7.6 days.

Further Information on ECGD Activities

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

Audit

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

Management Commentary

Five Year Summary

	2012-13 £m	2011-12 £m	2010-11 £m	2009-10 £m	2008-09 £m
Overall Value of Guarantees and Insurance Policies:					
Issued - Net of Reinsurance	**4,295**	**2,318**	**2,924**	**2,206**	**1,460**
Amounts at Risk - Gross of Reinsurance	**18,142**	**14,280**	**13,616**	**11,799**	**10,420**
Non-FREF	17,704	13,654	12,613	10,493	8,630
FREF	438	626	1,003	1,306	1,790
Statement of Comprehensive Net Income:					
Premium Income Net of Reinsurance	**133**	**85**	**96**	**58**	**38**
Staff, other administration and operating costs	**20**	**20**	**22**	**26**	**23**
Net Operating Income – total	**135**	**147**	**204**	**272**	**266**
– Account 1	66	53	56	103	91
– Account 2	59	85	130	140	169
– Account 3	-	-	-	-	-
– Account 4	10	9	18	29	6
Statement of Cash Flows:					
Claims Recoveries – total	**98**	**90**	**123**	**151**	**110**
– Account 1	36	32	46	31	11
– Account 2	62	58	77	120	99
Interest Recoveries in the year – total	**38**	**38**	**66**	**54**	**146**
– Account 1	30	29	44	23	93
– Account 2	8	9	22	31	53
Claims Paid – total	**7**	**6**	**30**	**48**	**44**
– Account 1	-	-	-	-	-
– Account 2	7	6	30	48	44
Net Cash Flow from Operating Activities – total	**274**	**194**	**269**	**215**	**239**
– Account 1	66	56	84	44	59
– Account 2	198	126	152	140	139
– Account 4	10	12	33	31	41
Statement of Financial Position:					
Recoverable Claims before provisioning	**1,228**	**1,314**	**1,396**	**1,561**	**1,762**
– Account 1	675	716	748	853	910
– Account 2	553	598	648	708	852
Recoverable Claims after provisioning	**711**	**750**	**780**	**833**	**872**
– Account 1	317	321	324	344	328
– Account 2	394	429	456	489	544
Interest on Unrecovered Claims after provisioning	**155**	**151**	**154**	**169**	**148**
– Account 1	153	148	152	163	128
– Account 2	2	3	2	6	20
Underwriting Funds - Net of Reinsurance	**478**	**396**	**380**	**406**	**506**
– Account 1	-	-	1	1	3
– Account 2	478	396	379	405	503
Direct Funding balance	**138**	**178**	**230**	**330**	**492**

Management Commentary

Account 1

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

- In the recent past, the majority of Net Operating Income for Account 1 was generated when recoveries of claims and interest exceeded the book value net of provisions. During 2012-13 Operating Income increased to £66 million from £53 million (2011-12).

- Recoveries of claims paid were £36 million (including Egypt £12 million, Iraq £10 million, Indonesia £6 million, Serbia £4m, and Cote D'Ivoire £2 million), compared to £32 million in 2011-12.

- Recoveries of interest on claims paid were £30 million (including Iraq £12 million, Serbia £7 million, Cote D'Ivoire £4m and Egypt £3 million), compared to £29 million in 2011-12.

- Recoverable Claims have reduced significantly over the last few years and continued to do so during the year. The balances for gross claims decreased from £716 million (2011-12) to £675 million during the year, while those for net claims decreased from £321 million (2011-12) to £317 million during the same period.

- Interest on net Unrecovered Claims has increased from £148 million (2011-12) to £153 million. The increase has been driven by provision decreases.

Account 2

Account 2 relates to the credit risk arising from products issued for business since April 1991. The key results are:

- The total of guarantees and insurance policies issued during the year was £4,295 million, compared to £2,318 million in 2011-12.

- Net Premium Income was £133 million, compared to £85 million in 2011-12. The increase in premium for the year was largely due to support for the supply of Typhoon and Hawk aircraft by BAE Systems to Oman.

- Net Operating Income was £59 million, compared to £85 million in 2011-12. The reduction in net operating income was caused largely by a smaller release from funds closing in the current year of £34 million in 2012-13, compared to £50 million in 2011-12 in addition to reduced claims credit of £12 million, compared to £25 million in 2011-12, offset by a foreign exchange gain in 2012-13 of £8 million.

- Claims authorised and paid or payable during the year increased to £7 million from £6 million in 2011-12.

- Claim Recoveries for the year were £62 million (of which Indonesia represented £51 million and Canada £8 million), compared to £58 million in 2011-12.

- Gross Claims balances were £553 million, as against £598 million in 2011-12. Net Claims balances were £394 million, compared to £429 million in the previous year.

Account 3

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

There were no new guarantees issued or claims made on this Account during the year. There was no income for the year, as was the case for 2011-12 and all exposure on this Account has run off.

Account 4

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

- The Direct Funding balance represents the funds loaned by HM Treasury to reduce the cost of FREF. The balance continued to reduce during the year to £138 million from £178 million in 2011-12, as regular instalments were made.

- Net Operating Income increased to £10 million in 2012-13 from £9 million in 2011-12.

All Accounts

Operating expenses remain unchanged at £20 million.

For the reasons set out above (see Account 1 and 2), the major asset of ECGD, being Net Recoverable Claims, decreased from £750 million (2011-12) to £711 million during the year. Gross claims also reduced from £1.3 billion to £1.2 billion.

Future Developments

ECGD is expanding its capability to deliver services to exporters through its Short-Term Products and support for the High Value Opportunities initiative in conjunction with UKTI. This capability requires staff to be recruited to be based regionally around the UK and internationally to raise awareness of ECGD. Short Term Products involve higher volumes of transactions with faster turn-around which requires changes in operational structure, systems and processes to adapt to these new enlarged requirements including a 20% increase in staff numbers. Also, ECGD is relocating its London office to Whitehall.

ECGD has a mechanism in place with HM Treasury for funding the related cost increase from premium income, linked to its Financial Objectives.

Financial Risk Management

The objectives and policies of ECGD for the management of financial risks and its exposure to those risks, where material, are disclosed within Note 27 to these Accounts entitled ‘Risk Management: Financial Instruments and Insurance Contracts’.

Explanation of Variances between Estimate and Outturn Summary

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

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

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

Summary:

	Note	2012-13 Estimate £'000	2012-13 Outturn £'000	2012-13 Variance £'000
Budget spending:				
Departmental Expenditure Limit (DEL)	2(a)	22,858	22,858	0
Annually Managed Expenditure (AME)	2(a)	(584)	(157,813)	157,229
Net Resource Outturn & Net Operating Cost / (Income)		**22,274**	**(134,955)**	**157,229**
Budget spending:				
Departmental Expenditure Limit (DEL)	2(b)	700	640	60
Annually Managed Expenditure (AME)	2(b)	(31,935)	(40,488)	8,553
Capital Total Payments / (Receipts)		**(31,235)**	**(39,848)**	**8,613**

Significant highlights:

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

Resource - Note 2(a);

AME £157.2 million - This variance is largely due to provision movements, interest, and underwriting fund movements which are difficult to forecast. In terms of provision movements, volatile economic conditions during the year especially around uncertainties in the Middle East presented significant challenges in forecasting likely year end provision rates.

Capital - Note 2(b);

AME £8.6 million – GEFCO loans - this variance represents a timing difference.

D Havelock

Accounting Officer
Export Credits Guarantee Department
10 June 2013

Statement of Accounting Officer's Responsibilities

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

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

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- Make judgements and estimates on a reasonable basis;

- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and

- Prepare the accounts on a going concern basis.

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

Departmental Remuneration Report

Remuneration Policy

The remuneration arrangements for Senior Civil Servants are set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB).

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

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

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

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

Remuneration Committee

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 2012-13 was:

- Guy Beringer – Chair
- David Godfrey – Non-Executive Director
- Katherine Letsinger – Non-Executive Director (up to 31 December 2012)

The Chief Executive attends meetings, other than discussion of his own performance. The Deputy Director, Resources Division (RD) acts as Secretary.

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

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

- communicates and monitors pay outcomes, including the publication of an annual report of the operation of the system; and
- ensures succession management for executive positions on the Management Board.

Service Contracts

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

Unless otherwise stated below, the Executive Directors covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. No such compensation payments were made to Executive Directors during the year.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Independent Non-Executive members of the ECGD Board are recruited through fair and open competition and are appointed for an initial period of three years with an option to extend for a further agreed period. These appointments can be terminated with one month's notice period. There is no provision for compensation for early termination.

Salary and Pension entitlements for Executive Directors

The salary and pension entitlements of the Executive Directors of ECGD are set out in the table below. As well as the current members of the ECGD Management Board, this table also includes the former members who left the department during the year or ceased to be a member.

Remuneration (Audited Information)

	2012 13		2011 12	
	Salary £'000	Bonus Payments £'000	Salary £'000	Bonus Payments £'000
Patrick Crawford *Chief Executive* [1]	130 - 135 (205-210 Full year equivalent)	10-15	205-210	10-15
Nigel Addison Smith *Finance Director*	110-115	-	110-115	-
Steve Dodgson *Director, Business Group*	105-110	-	105-110	-
David Havelock *Acting Chief Executive and Director, Credit Risk Group* [2]	130 – 135	10-15	130-135	10-15
Nicholas Ridley *General Counsel*	130-135	-	130-135	-
Sue Johnson OBE *Head of Resources Division*	80-85	-	50-55 (80-85 Full year equivalent)	5-10

Notes:

- 'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance or emolument to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these accounts.
- Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2012-13 relate to performance in 2011-12 and the comparative bonuses reported for 2011-12 relate to the performance in 2010-11.
- None of the Executive Directors of ECGD received any benefits in kind during the year.

[1] Patrick Crawford resigned with effect from 15/11/12.
[2] David Havelock was appointed as Acting CEO from 15/11/12.

Pensions (Audited Information)

	Accrued pension at pension age as at 31/3/13 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/13	CETV at 31/3/12[3]	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Patrick Crawford *Chief Executive*	15-20	0-2.5	379	321	39
Nigel Addison Smith *Finance Director*	15-20	0-2.5	217	199	1
Steve Dodgson *Director, Business Group*	50-55 Plus lump sum of 155-160	0-2.5 Plus lump sum of 0 – 2.5	1,069	1,011	1
David Havelock *Acting Chief Executive and Director, Credit Risk Group*	10 -15	0-2.5	274	230	37
Nicholas Ridley *General Counsel*	20-25 Plus lump sum of 65-70	0-2.5 Plus lump sum of 2.5 - 5	508	457	21
Sue Johnson OBE *Head of Resources Division*	40-45 Plus lump sum 125-130	0-2.5 Plus lump sum of 0 – 2.5	941	934	0

Civil Service Pensions

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

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for **classic** and 3.5% and 5.9% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2013. 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

[3] The actuarial factors used to calculate CETVs were changed in 2012/13. The CETVs at 31/3/12 and 31/3/13 have been calculated using the new factors for consistency. The CETV at 31/3/12 therefore differs from the corresponding figure in last year's report.

of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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).

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**.

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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.

Fees paid to Non-Executive Directors

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

The level of fees paid to the Non-Executive Directors is decided by the Shareholder Executive[4], on the advice of the Chair of the Management Board. The Shareholder Executive, in consultation with the Chief Executive, decides the remuneration of the Chair of the Management Board. The fees payable take account of:

- the going rate amongst other public bodies;
- the need to give a fair reflection of the time, including preparation for meetings, to invest in the role; and
- the role being advisory; as they do not carry the same legal responsibilities as Non-Executive Directors in the private sector.

Below are the fees paid to Non-Executive Directors for their role on the Department's Management Board. The total payments for the year were in the following ranges:

Non executive member	Fees for 2012 13 £000	Fees for 2011 12 £000
Guy Beringer *Chair of Management Board*	45-50	45-50
Katherine Letsinger *Member of Management Board and Chair of Audit Committee*[5]	5-10 (10-15 Full year equivalent)	10-15
David Godfrey	10-15	10-15
Sir Eric Peacock[6]	10-15	5-10 (10-15 Full year equivalent)

As a Director at UK Trade and Investment, Jon Harding does not receive a fee for his attendance at ECGD Management Board meetings.

Pay Multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid Executive Director in their organisation and the median remuneration of the organisation's workforce. The median is the mid-point of the remuneration of the organisation's workforce.

	2012 13	2011 12
Band of Higher Paid Director's[7] Remuneration	150-155	220-225
Median Total[8]	36,864	35,581
Remuneration Ratio[9]	4.1	6.3

The banded remuneration of the highest-paid Executive Director in ECGD in the financial year 2012-13 was £150,000-£155,000 (2011-12, £220,000-£225,000). This was 4.1 times (2011-12, 6.3) the median remuneration of the workforce, which was £36,864 (2011-12, £35,581).

In 2012-13, nil (2011-12, nil) employees received remuneration in excess of the highest-paid Executive Director.

[4] The Shareholder Executive is a body that reports to the Cabinet Secretary and is responsible for the oversight of Government-owned businesses.
[5] Katherine Letsinger resigned as Non-Executive Director with effect from 01/01/2013
[6] Sir Eric Peacock was appointed on a three year contract commencing 01/09/11
[7] the banded, full time equivalent, annualised, total remuneration of the highest paid director as at 31 March
[8] the median, full time equivalent total remuneration of the staff, excluding the highest paid director as at 31 March
[9] the pay multiple (ratio) between the highest paid director and all other staff.

Total remuneration of the highest-paid Executive Director includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions or the cash equivalent transfer value of pensions.

The ratio is calculated by taking the midpoint of the total remuneration of the highest paid Executive Director divided by the midpoint of the remuneration (median) of the organisation's workforce. This is based on the remuneration of the highest paid Executive Director and remuneration of the full-time equivalent staff of the ECGD at the reporting period end date on an annualised basis. The purpose of this calculation is to allow some comparability over time and across the public sector and private sector, where similar disclosures are made. However, the comparison should be treated with caution given the different services provided, workforce skills, geographical locations and organisational structures. A balance is therefore considered in analysing and supporting narrative to give sufficient explanation and justification to ensure users can understand the intricacies of the ECGD's pay policy.

There has been a decrease in the year on year variance of the pay multiple from 6.3 in 2011-12 to 4.1 in 2012-13. This is mainly attributable to the highest paid Executive Director from 2011-12 resigning as at 15 November 2012 and the highest paid Executive Director as at 31 March 2013 having a lower total remuneration.

Reporting of Civil Service and other compensation schemes – exit packages (the following table is subject to Audit)

From 2010-11, Government Departments have been required to report the use of exit packages for all staff in their resource accounts.

	2012-13			**2011-12**		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Less than £10,000	-	-	-	-	-	-
£10,000 - £25,000	-	1	1	-	1	1
£25,000 - £50,000	-	-	-	-	-	-
£50,000 - £100,000	-	-	-	-	-	-
£100,000 - £150,000	-	-	-	-	1	1
£150,000 - £200,000	-	-	-	-	-	-
Greater than £200,000	-	-	-	-	-	-
Total number of exit packages	-	1	1	-	2	2
Total resource cost £'000	-	12	12	-	136	136

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

D Havelock

Accounting Officer
Export Credits Guarantee Department
10 June 2013

Governance Statement

Introduction

1. Accounting Officers are responsible to Ministers and Parliament for the management of their operations including the stewardship of financial resources and assets. This statement is for Export Credits Guarantee Department (ECGD), operating as UK Export Finance (UKEF), and covers two main components:
   - the organisational arrangements for managing operations, constituting corporate governance; and
   - the nature of ECGD's business and its vulnerabilities and resilience to challenges, requiring risk management and controls.

2. I was appointed Acting Chief Executive and Accounting Officer on 16 November 2012 following the resignation of Patrick Crawford. This Governance Statement includes information from the interim statement made by the outgoing Accounting Officer and sets out how the responsibility has been fulfilled for the entire period from 1 April 2012 to 31 March 2013.

Background

3. ECGD plays a small but important role in supporting exports. ECGD's role is to provide support for exports where there is a lack of risk appetite from the commercial market acting as an insurer/guarantor of last resort. In doing so, it takes account of the Government's export strategy which includes specific goals to:
   - double the amount of exports;
   - increase the number of SMEs that export; and
   - expand the destination of exports beyond the more traditional markets into high growth areas.

   The Strategy aims to achieve these by 2020.

4. The key areas for delivery by ECGD are as follows:
   - respond to increasing demand for support in an environment of global economic uncertainty and funding constraints;
   - increase awareness and improve processes and delivery of its Short-Term products;
   - more pro-actively engage with buyers and project sponsors in the pursuit of project exports including working with UKTI on its High Value Opportunities (HVOs) initiative;
   - implement the Direct Lending Scheme and the Export Refinancing Facility to help ensure the availability of funding for export credit loans;

- implement organisational restructuring and increase staff resources to meet these demands;
- enhance operational efficiency through improvements to systems to cope with the increasing business volumes including an Electronic Case Management System;
- relocate to 1 Horse Guards Road; and
- implement the Civil Service Reform Plan.

Scope of responsibility

5. ECGD is a Department of the Secretary of State for Business, Innovation and Skills.

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

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

Governance Framework

Ministers

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

HM Treasury

8. Under the Consent, HM Treasury gives authority to ECGD to carry out its functions under the Act and requires ECGD to comply with specified financial objectives. As necessary, it also requires ECGD to obtain authority from HM Treasury to support export contracts for which it does not have delegated authority. A process, operated by the Chief Executive's Office, exists to manage the Department's compliance with the Consent.

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

Shareholder Executive

10. The Shareholder Executive is responsible for providing independent advice to the Secretary of State in the exercise of his responsibilities for ECGD. I have met Shareholder Executive officials as necessary to brief them about issues related to ECGD, so they could provide informed advice to Ministers if and when required.

Executive Committee

11. I am advised on the management of ECGD by the Executive Committee which I chair. Its membership comprises the Executive Directors who are all members of the Senior Civil Service.

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

    - Risk Committee, which advises on the effective management of ECGD's credit risk exposures at the transaction and portfolio level and for compliance with credit risk policies;

    - Business Systems and Infrastructure Committee, which advises on whether ECGD's investment in systems, processes and infrastructure is appropriate and effectively targeted and managed, and represents value for money; and

    - Information Security and Assurance Committee, which advises on the security of ECGD information in accordance with legal, regulatory and government requirements.

13. The Executive Committee met most weeks throughout the year. The minutes of its meetings are published on ECGD's website.

Executive Directors

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

15. The Director of the Business Group is responsible for delivery of products to exporters, banks and investors.

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

17. The General Counsel is responsible for managing legal risk.

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

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

Management Board

20. In discharging my responsibilities, I am also advised by ECGD's Management Board of which I am a member. Its membership consists of the members of the Executive Committee (see paragraphs 14 - 18 above) and Non-Executive Directors. It is led by a Non-Executive Chairman.

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

22. Subjects considered by the Management Board during the period in question included:

- Activity to promote support for exports;
- ECGD's stance on OECD and other international agreements that relate to export credit agencies;
- credit risk policy, practices and scenarios, including revisions to the existing credit risk exposure management framework and credit risks in the civil aerospace sector;
- management of enterprise risk;
- ECGD's operating plan for 2013-14 financial performance, including compliance with ECGD's 2012-13 budget;
- approval of the Annual Report and Accounts for 2011-12;
- staff resources, succession planning and staff engagement;
- management of legal issues; and
- Effectiveness of the Management Board.

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

- Audit Committee, which examines and reviews the adequacy of the arrangements for accounting, enterprise risk management and control. I attend the meetings, as do the Finance Director, the Head of Internal Audit and Assurance and an official from the National Audit Office. The Chair formally reports the outcome of each meeting to the Management Board; and
- Remuneration Committee, which deals with the remuneration of those staff who are in the Senior Civil Service.

24. The Management Board met seven times in the period in question. The minutes of its meetings are published on ECGD's website. The Audit Committee met five times and the Remuneration Committee met once. Katherine Letsinger, a Non-Executive Director and Chair of the Audit Committee, resigned in December 2012. She has been replaced temporarily by David Godfrey, a Non-Executive Director of the Management Board. A permanent appointment is expected to be made in the autumn of 2013.

25. Attendance by members was as follows: Management Board – 85 percent; Audit Committee – 100 percent; and Remuneration Committee – 100 percent.

26. Through the maintenance of a register of interests, potential conflicts of interest are identified and, as necessary, addressed.

Risk management and Control

Credit risk associated with support for exports and investment overseas

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

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

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

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

31. By means of a system of delegated authority, individual staff are empowered to underwrite support for individual export contracts, thus creating contingent liabilities. This is reviewed annually.

Operational risk

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

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

Scope of risk management

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

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

36. The Executive Committee reviews the risk register quarterly. The Audit Committee reviews the register twice a year.

Programmes and projects

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

Information risks

38. The Senior Information Risk Officer is responsible for information risk and, acting as the Department's Security Officer, for security policy and practices. Information Asset Owners are appointed, who are responsible for the identification of information assets, their location, use and protection. Access to sensitive information is restricted. Staff are trained in information security so that they understand the risks associated with handling information within, and outside, ECGD. Procedures are in place to respond to requests for information under freedom of information legislation which gives the public the right to access information that is not restricted.

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

40. Information security risk is regularly reviewed. The last review was in June 2012; it found that security risk was being appropriately managed.

41. ECGD has not identified any data losses, corruption or breaches of information security during the period.

Risk Mitigation

42. Specific actions were taken during the period to mitigate particular risks, including:

Information technology

- the successful deployment of the increased use of laptops and remote working to support business continuity during the Olympics period;

- improving IT disaster recovery arrangements in order to secure data replication for core services;

Mapping of key processes

- continuing a programme of work to document, improve and clarify key internal processes and controls, particularly where a change to operations is planned;

Staff

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

Training

- undertaking specialist training for staff on a wide range of topics including legal risk awareness, project finance, PRINCE 2 project methodology and 'Protect' security.

Review of effectiveness

43. The system of internal control has been in place throughout the period. Effectiveness has been reviewed on the basis of:
    - reports on the enterprise risk management process from the Chief Executive's Office to determine whether the management of risks at a strategic and operational level is being addressed effectively by the Department;
    - reports on the adequacy and effectiveness of ECGD's enterprise risk management, control and governance systems, by Internal Audit and Assurance, which included the Head of Internal Audit and Assurance's independent mid-year opinion, together with recommendations to address areas of weakness;
    - reports on programmes and projects from the Business Systems and Infrastructure Committee;
    - reports on information security management from the Information Security Assurance Committee;
    - reports of actual or potential legal risk by the General Counsel;
    - reports on security risks by the Departmental Security Officer; and
    - reports from the external auditors.

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

Sufficiency of staff resources

- The widening of ECGD's business domain, the launch of new products, the need to raise market awareness at home and overseas, and the continuing caution to certain credit risks and funding constraints on the part of banks has caused demand for ECGD support for exports to increase significantly. This has increased the pace associated with change and increased the workload. Pressure on staff resources, particularly in respect of certain key skills is apparent. Given the small size of the Department and the technical nature of its activities, there are also key person dependencies. A recruitment exercise is underway to increase the permanent staff by up to 20% and to engage staff on short term contracts and call-off contracts to meet particular needs and provide protection against risks associated with staff turnover, skills shortage and address succession planning.

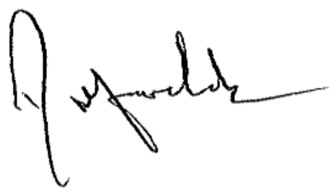
- The expansion of ECGD's business domain, the introduction of new products, changes in practices mean that its policies, processes and procedures need to be up-to-date and adequately documented and that staff are trained to apply them. A programme of work is in place to review manuals and train and develop staff to ensure there is compliance with policies.

Relocation

- ECGD will move from its premises in London Docklands to Whitehall in July 2013. A project has been established to manage this relocation and to minimise business disruption and mitigate risks to operational effectiveness given that the new premises will represent a significant change to the operating environment.

Compliance with the Principles of the Corporate Governance in Central Government Departments Code of Good Practice, 2011

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



D Havelock
Accounting Officer
Export Credits Guarantee Department
10 June 2013

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 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2013 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2013 and of its net resource outturn and net operating income for the year then ended; and

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

Emphasis of Matter – Significant Uncertainty

In forming my opinion, which is not qualified, I have also considered the disclosures made in Note 1 to the financial statements concerning the considerable uncertainty attaching to the final outcome of the underwriting activities. As explained in the section of Note 1 headed "Significant uncertainty arising from the nature of ECGD's Underwriting Activity (Accounts 1 – 3)", the nature of these activities means that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts in future years.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

Date

Statement of Parliamentary Supply

For the year ended 31 March 2013

Summary of Resource and Capital Outturn 2012-13

		2012-13							2011-12
		Estimate			Outturn				Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: savings/ (excess)	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Departmental Expenditure Limit									
- Resource	2(a)	22,858	-	22,858	22,858	-	22,858	-	21,858
- Capital	2(b)	700	-	700	640	-	640	60	327
Annually Managed Expenditure									
- Resource	2(a)	(584)	-	(584)	(157,813)	-	(157,813)	157,229	(169,276)
- Capital	2(b)	(31,935)	-	(31,935)	(40,488)	-	(40,488)	8,553	(51,886)
Total Budget		**(8,961)**	**-**	**(8,961)**	**(174,803)**	**-**	**(174,803)**	**165,842**	**(198,977)**
Total Resource		22,274	-	22,274	(134,955)	-	(134,955)	157,229	(147,418)
Total Capital		(31,235)	-	(31,235)	(39,848)	-	(39,848)	8,613	(51,559)
Total		**(8,961)**	**-**	**(8,961)**	**(174,803)**	**-**	**(174,803)**	**165,842**	**(198,977)**

Net cash requirement 2012-13

	Note	2012-13 Estimate £'000	2012-13 Outturn £'000	2012-13 Outturn compared with Estimate: savings/ (excess) £'000	2011-12 Outturn £'000
Total	4	**(193,215)**	**(312,374)**	**119,159**	**(243,163)**

Administration Costs 2012-13

	Note	2012-13 Estimate £'000	2012-13 Outturn £'000	2011-12 Outturn £'000
Total		**22,858**	**22,858**	**21,858**
Of which:				
Staff costs	*11*		*11,601*	*11,881*
Other costs	*12*		*11,257*	*9,977*

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

The notes on pages 90 to 141 form part of these accounts.

Statement of Comprehensive Net Income

For the year ended 31 March 2013

	Note	2012-13 £'000	2011-12 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		209,728	120,008
Less ceded to reinsurers		(76,623)	(35,216)
Net premium income	5	**133,105**	**84,792**
Net investment return	8	38,089	33,759
Claims credit for the year	10	38,213	52,672
Net foreign exchange gain	13	17,892	1,088
Total income		**227,299**	**172,311**
Expenses			
Changes in insurance liabilities (net of reinsurance)	25	(82,816)	(15,679)
Staff costs	11	(10,599)	(9,901)
Other administration and operating costs	12	(8,738)	(7,817)
Total expenses		**(102,153)**	**(33,397)**
Net income arising from Export Credit Guarantees and Insurance Activities		**125,146**	**138,914**
Export Finance Assistance			
Income			
Net investment return	8	10,827	10,694
Expenses			
Staff costs	11	(558)	(1,224)
Other administration and operating costs	12	(460)	(966)
Total expenses		**(1,018)**	**(2,190)**
Net Income arising from Export Finance Assistance Activities		**9,809**	**8,504**
Net operating income for the year		**134,955**	**147,418**

All income and expenditure is derived from continuing operations.

The notes on pages 90 to 141 form part of these accounts.

Statement of Financial Position

As at 31 March 2013

	Note	31 March 2013 £'000	31 March 2012 £'000
Non-current assets:			
Plant and equipment	15(a)	750	855
Intangibles	15(b)	321	629
Financial assets			
Fair value through profit or loss	16(a)	16,604	23,345
Loans and receivables	16(b)	104,170	137,755
Insurance contracts			
Insurance assets	17	791,375	827,945
Reinsurers' share of insurance liabilities	18	237,425	158,996
Insurance and other receivables	19	10,189	1,588
Total non-current assets		**1,160,834**	**1,151,113**
Current assets:			
Financial assets			
Fair value through profit or loss	16(a)	10,352	11,389
Loans and receivables	16(b)	35,202	42,841
Insurance contracts			
Insurance assets	17	74,992	72,953
Insurance and other receivables	19	10,448	7,555
Cash and cash equivalents	20	305,103	233,616
Total current assets		**436,097**	**368,354**
Total assets		**1,596,931**	**1,519,467**
Current liabilities:			
Financial liabilities			
Fair value through profit or loss	22	(9,321)	(12,528)
Payable to Consolidated Fund	23	(305,103)	(233,616)
Provisions	24(b)	(2,610)	(1,610)
Insurance and other payables	24(a)	(41,417)	(6,690)
Total current liabilities		**(358,451)**	**(254,444)**
Non-current assets plus net current assets		**1,238,480**	**1,265,023**
Non-current liabilities			
Financial liabilities			
Fair value through profit or loss	22	(24,578)	(31,197)
Insurance contracts			
Insurance liabilities	25	(715,905)	(554,660)
Provisions	24(b)	(848)	(4,818)
Total non-current liabilities		**(741,331)**	**(590,675)**
Assets less liabilities		**497,149**	**674,348**
Taxpayers' equity			
Exchequer Financing		(2,642,127)	(2,340,186)
Cumulative Trading Surplus		3,144,711	3,019,565
General Fund		(5,435)	(5,031)
Total taxpayers' equity		**497,149**	**674,348**

The notes on pages 90 to 141 form part of these accounts.

D Havelock

Accounting Officer
Export Credits Guarantee Department
10 June 2013

Statement of Cash Flows

For the year ended 31 March 2013

	Note	2012-13 £'000	2011-12 £'000
Cash flows from operating activities			
Net operating income		134,955	147,418
Less: net investment return	8	(48,916)	(44,453)
Adjustments for other non-cash transactions:			
Depreciation of fixed assets	12	661	277
Amortisation of intangible assets	12	392	342
Claims credit for the year	10	(38,213)	(52,672)
Audit fees	12	220	233
Unrealised foreign exchange (gain) / loss	13	(17,732)	(1,796)
Movement in provisions	24(b)	(1,816)	(1,068)
Early retirement and dilapidation payments	24(b)	(1,154)	(882)
Interest received		48,081	50,775
Increase / (decrease) in insurance liabilities net of reinsurance	25	82,816	15,679
Movements in working capital other than financial assets	14	114,291	78,664
Movement in financial assets		838	1,077
Net cash inflow from operating activities		274,423	193,594
Cash flows from investing activities			
Purchase of plant, equipment and intangibles	15	(640)	(327)
Purchase of financial instruments		(1,897)	(1,990)
Export Finance Loans:			
Recoveries	28	40,488	51,886
Net cash inflow from investing activities		37,951	49,569
Net cash inflow total	4	312,374	243,163
Net increase in cash and cash equivalents in the year before adjusting for receipts and payments to the Consolidated Fund not related to supply	4	312,374	243,163
Payments of amounts due to the Consolidated Fund of amounts:			
relating to the prior year	20	(233,616)	(296,848)
relating to current year	20	(7,271)	(9,547)
Net decrease in cash and cash equivalents in the year after adjusting for receipts from and payments to the Consolidated Fund not relating to supply		71,487	(63,232)
Cash and cash equivalents at the beginning of the year	20	233,616	296,848
Cash and cash equivalents at the end of the year	**20**	**305,103**	**233,616**

The notes on pages 90 to 141 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2013

	Note	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2011		(2,108,899)	2,880,651	(1,892)	769,860
Changes in taxpayers' equity for 2011-12					
Non-Cash Adjustments:					
Auditors' remuneration	12	233	-	-	233
Movements in Reserves:					
Transfers between reserves		11,643	-	(11,643)	-
Recognised in Statement of Comprehensive Net Income		-	138,914	8,504	147,418
Total recognised income and expense for 2011-12		11,876	138,914	(3,139)	147,651
CFER arising in year payable to the consolidated fund and transferred into current liabilities		(243,163)	-	-	(243,163)
Balance at 31 March 2012		(2,340,186)	3,019,565	(5,031)	674,348
Changes in taxpayers' equity for 2012-13					
Non-Cash Adjustments:					
Auditors' remuneration	12	220	-	-	220
Movements in Reserves:					
Transfers between reserves		10,213	-	(10,213)	-
Recognised in Statement of Comprehensive Net Income		-	125,146	9,809	134,955
Total recognised income and expense for 2012-13		10,433	125,146	(404)	135,175
CFER arising in year payable to the consolidated fund and transferred into current liabilities	4	(312,374)	-	-	(312,374)
Balance at 31 March 2013		**(2,642,127)**	**3,144,711**	**(5,435)**	**497,149**

The notes on pages 90 to 141 form part of these accounts.

Notes to the Departmental Accounts

1 Accounting policies

(A) Basis of preparation

The financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

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

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

Future accounting developments

The 2012-13 FReM applies financial reporting standards that are effective for the financial year.

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

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

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

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

Amendments to IFRSs

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

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

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

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

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

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

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

Major FReM changes for 2013-14

ECGD has reviewed the major FReM changes for 2013-14 and determined there are no changes that will have a significant impact on the Department's 2013-14 financial statements.

(B) Use of estimates

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

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

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

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

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

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

(C) Summary of significant accounting policies

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

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

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

(D) Insurance contracts

<u>Product classification</u>

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

Fund Basis of Accounting for insurance contracts

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

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

Liability adequacy test

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

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

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

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

Premium income

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

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

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

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

Interest receivable – underwriting activities

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

Insurance assets – recoverable claims

Claims: these are recognised when authorised.

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

Reinsurance assets

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

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

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

(E) Net investment return

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

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

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

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

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

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

ECGD receives the following types of interest:

- Moratorium Interest – interest on Paris Club sovereign country rescheduled balances: this includes interest on both Original Debt and Capitalised Interest;
- Late (Penalty) Interest – interest on arrears of the above;
- Interest from GEFCO on direct funded loans;
- Default Interest – interest on non-Paris Club balances; and
- Bank Interest – interest on balances held with commercial banks. The majority of ECGD funds are deposited with the Government Banking Service and do not earn interest for ECGD.

ECGD pays the following type of interest:

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

(F) Operating expenses

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

(G) Foreign exchange

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

(H) Plant and equipment and intangible assets

i. Plant and equipment

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

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

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

ii. Intangible assets

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

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

iii. Impairment review

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

(I) Leases

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

(J) Consolidated Fund

Amounts payable

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

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

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

(K) Exchequer financing

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

(L) Pension costs

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

(M) Financial assets

Recognition

Financial assets are recognised and derecognised on the trade date and are classified into the following specified categories: financial assets held 'at fair value through profit or loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 'Fair value through profit or loss' financial assets include derivative instruments that are not designated as effective hedging instruments. Insurance receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. All financial assets classified as 'fair value through profit or loss' are carried at fair value, with any change in the fair value recognised in the Statement of Comprehensive Net Income. Fair value is determined in the manner described in Note 16. 'Loans and receivables' are measured at 'amortised cost' using the 'effective interest rate', except for short-term receivables where the recognition of interest would be immaterial and which are hence carried at their estimated net recoverable amount. 'Amortised cost' is the amount at which a financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation (using the effective interest method) of any difference between the initial amount and the maturity amount minus any reduction for impairment.

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

Impairment of financial assets

Financial assets, other than those at 'fair value through profit or loss', are regularly assessed for indicators of impairment. If the carrying value of a financial asset is greater than the recoverable amount, the carrying value is reduced through a charge to the Statement of Comprehensive Net Income in the period of impairment. For 'loans and receivables', the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original 'effective interest rate'. Interest income on impaired loans is recognised based on the estimated recoverable amount. Reversals of impairments are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down, such as an improvement in the debtor's credit rating.

Derivative financial instruments

ECGD uses derivative financial instruments to manage its exposure to credit default and interest rate risk, including credit default swaps, and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 16. All derivatives are initially recognised in the Statement of Financial Position at their fair value, which usually represents their costs on the date on which a derivative contract is entered into. They are subsequently remeasured at their fair value at each reporting date. The resulting gain or loss is recognised in the Statement of Comprehensive Net Income immediately. For interest rate derivatives, fair values are determined using valuation techniques and pricing models commonly employed by market participants and market-observable inputs. All derivatives are carried as assets when the fair values are positive, or as liabilities when the fair values are negative. Credit default swaps are valued using market observable inputs.

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

Interest rate swaps and credit default swaps

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

(N) Financial liabilities

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

(O) Provisions

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

Provisions are in respect of (i) onerous leases and (ii) early staff departures as follows:

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

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

(P) Contingent liabilities

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

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

(Q) Financial guarantee contracts

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

(R) Cash and cash equivalents

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

2 Analysis of net outturn by section

2(a) Resource

									2012-13	2011-12
							Outturn	Estimate	Outturn compared with Estimate: savings/ (excess)	Outturn
	Administration			Programme			Total	Total		Total
	Gross	Income	Net	Gross	Income	Net	Net	Net		Net
	Note 6	Note 5		Note 6	Note 5					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)										
A Export Credit Guarantees and Investments	24,461	1,603	22,858	-	-	-	22,858	22,858	-	21,858
Total	24,461	1,603	22,858	-	-	-	22,858	22,858	-	21,858
Voted spending in Annually Managed Expenditure (AME)										
B Export Credits	-	-	-	80,003	226,989	(146,986)	(146,986)	3,432	150,418	(158,582)
C Fixed Rate Export Finance Assistance	-	-	-	14,689	15,517	(828)	(828)	6,304	7,132	155
D GEFCO Loans and interest equalisation	-	-	-	1,604	11,603	(9,999)	(9,999)	(10,320)	(321)	(10,849)
Total	-	-	-	96,296	254,109	(157,813)	(157,813)	(584)	157,229	(169,276)
Total Resource	24,461	1,603	22,858	96,296	254,109	(157,813)	(134,955)	22,274	157,229	(147,418)

Explanation of variances between estimate and outturn:

A The Spending Review 2010 Settlement enables ECGD to transfer some premium income from Revenue AME to Revenue DEL up to a Voted limit to cover operating cost increases arising from high levels of business activity. The 2012-13 Main Estimate set that limit at £5m. Of that, £0.5m has been utilised in 2012-13. The above figures are shown net.

B Export Credits £150.4 million – the variance largely relates to a change in economic outlook with regard to the recoverability of insurance assets.

C Fixed Rate Export Finance Assistance £7.1 million – this relates to changes in fair value of financial instruments.

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

3.1 Reconciliation of net resource outturn to net operating income

	Note	2012-13 Outturn £'000	2011-12 Outturn £'000
Total resource outturn in Statement of Parliamentary Supply:			
Budget		134,955	147,418
Non-Budget		-	-
Resource outturn	2(a)	134,955	147,418
Net Operating Income in Consolidated Statement of Comprehensive Net Income		134,955	147,418

3.2 Outturn against final Administration Budget and Administration net operating costs

	Note	2012-13 Outturn £'000	2011-12 Outturn £'000
Estimate - Administration costs limit		**22,858**	**24,025**
Outturn - Gross administration costs	2(a) & 6	24,461	22,913
Outturn - Income relating to administration costs	2(a) & 5	(1,603)	(1,055)
Outturn - Net administration costs		**22,858**	**21,858**
Reconciliation to net operating income:			
Less provisions utilised & adjustments (transfer from Programme - AME):			
Staff Early Retirement	11	(444)	(756)
Onerous Lease & Dilapidations	12	(2,526)	(1,194)
Premium income offset	12	467	-
Staff & Other Administration net operating costs		**20,355**	**19,908**
Of which:			
Staff costs	*11*	*11,157*	*11,125*
Other costs	*12*	*9,198*	*8,783*

2(b) Capital

					2012-13	2011-12
			Outturn		Estimate	Outturn
	Gross Note 15	Income Note 28	Net	Net	Net total compared with Estimate	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)						
A Export Credit Guarantees and Investments	640	-	640	700	60	327
Total	640	-	640	700	60	327
Voted spending in Annually Managed Expenditure (AME)						
D GEFCO Loans and interest equalisation	-	40,488	(40,488)	(31,935)	8,553	(51,886)
Total	-	40,488	(40,488)	(31,935)	8,553	(51,886)
Total Capital	640	40,488	(39,848)	(31,235)	8,613	(51,559)

Explanation of variances between estimate and outturn:

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

D GEFCO Loans and interest equalisation £8.6 million – this reflects an earlier than expected settlement.

4 Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate	Outturn	Net total outturn compared with Estimate: saving/(excess)
		£'000	£'000	£'000
Resource Outturn	2(a)	22,574	(134,955)	157,529
Capital Outturn	2(b)	(31,535)	(39,848)	8,313
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation	15	(800)	(1,053)	253
New provisions and adjustments to previous provisions		(73,273)	(130,367)	57,094
Other non-cash items		(37,673)	17,512	(55,185)
Adjustments to reflect movements in working balances:				
Increase/(decrease) in debtors	14	19,949	11,064	8,885
Increase/(decrease) in payables	14	(92,457)	(34,727)	(57,730)
Net cash requirement		(193,215)	(312,374)	119,159

5 Income

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

	Note	2012-13 Total £'000	2011-12 Total £'000
Rent and premium administration income	12	1,136	1,055
Premium income offset	12	467	-
Total Departmental Expenditure Limits (DEL) Income		**1,603**	**1,055**
Net premium income		133,105	84,792
Interest receivable	9	38,246	35,229
Claims credit for the year	10	38,213	52,672
Foreign exchange gain	13	17,892	1,088
Interest equalisation support income	8	1,922	164
Interest income from GEFCO loans	8	9,681	12,429
Movement in fair value of FREF derivatives	8	15,517	17,877
Premium income offset	12	(467)	-
Total Annually Managed Expenditure (AME) Income		**254,109**	**204,251**
Total Income for the year		**255,712**	**205,306**

6 Gross costs

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

	Note	2012-13 Total £'000	2011-12 Total £'000
Staff excluding changes in provision	11	11,601	11,881
Other Costs excluding changes in provision	12	12,860	11,032
Total Departmental Expenditure Limits (DEL) Gross Costs		**24,461**	**22,913**
Changes in insurance liabilities (net of reinsurance)	25	82,816	15,679
Movement in fair value of credit default swap derivatives	8	157	1,470
Interest equalisation support costs	8	1,604	1,744
Movement in fair value of FREF derivatives	8	14,689	18,032
Staff early retirement provision movement	11	(444)	(756)
Other onerous lease & dilapidation provision movement	12	(2,526)	(1,194)
Total Annually Managed Expenditure (AME) Gross Costs		**96,296**	**34,975**
Total Gross Costs for the year		**120,757**	**57,888**

7 Segmental information

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

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

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

- **Account 2** – relates to the credit risk arising from products issued for business since April 1991.

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

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

i. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2013

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Income					
Gross premium income	-	209,728	-	-	209,728
Less ceded to reinsurers	-	(76,623)	-	-	(76,623)
Net premium income	**-**	**133,105**	**-**	**-**	**133,105**
Net investment return income	31,221	6,868	-	10,827	48,916
Claims credit for the year	26,125	12,088	-	-	38,213
Changes in insurance liabilities net of reinsurance	50	-	-	-	50
Net foreign exchange gain	9,590	8,302	-	-	17,892
Total income	**66,986**	**160,363**	**-**	**10,827**	**238,176**
Expenses					
Changes in insurance liabilities net of reinsurance	-	(82,866)	-	-	(82,866)
Staff costs	(558)	(10,041)	-	(558)	(11,157)
Other administration and operating costs	(460)	(8,278)	-	(460)	(9,198)
Total expenses	**(1,018)**	**(101,185)**	**-**	**(1,018)**	**(103,221)**
Net income	**65,968**	**59,178**	**-**	**9,809**	**134,955**

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

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

iii. Additional segmental information

For the year ended 31 March 2013, there was one customer (the party paying the premium) who accounted for more than 10% of the total premium revenue, net of amounts ceded to reinsurers. The customer accounted for net premium income of £32.7 million. In 2011-12 there was one customer who accounted for more than 10% of the total premium revenue.

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

iv. Segmental Statement of Financial Position at 31 March 2013

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	750	-	-	750
Intangible assets	-	321	-	-	321
Financial assets					
Fair value through income	-	-	-	16,604	16,604
Loans and receivables	-	-	-	104,170	104,170
Insurance contracts					
Insurance assets	442,012	349,363	-	-	791,375
Reinsurers' share of insurance liabilities	-	237,425	-	-	237,425
Insurance and other receivables	-	10,189	-	-	10,189
Total non-current assets	**442,012**	**598,048**	**-**	**120,774**	**1,160,834**
Current assets:					
Financial assets					
Fair value through income	-	-	-	10,352	10,352
Loans and receivables	-	-	-	35,202	35,202
Insurance contracts					
Insurance assets	28,629	46,363	-	-	74,992
Insurance and other receivables	-	10,448	-	-	10,448
Cash and cash equivalents	66,474	195,199	-	43,430	305,103
Total current assets	**95,103**	**252,010**	**-**	**88,984**	**436,097**
Total assets	**537,115**	**850,058**	**-**	**209,758**	**1,596,931**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	-	-	(9,321)	(9,321)
Payable to Consolidated Fund	(66,474)	(195,199)	-	(43,430)	(305,103)
Provisions	-	(2,610)	-	-	(2,610)
Insurance and other payables	(1,323)	(39,985)	-	(109)	(41,417)
Total current liabilities	**(67,797)**	**(237,794)**	**-**	**(52,860)**	**(358,451)**
Non-current assets plus net current assets	**469,318**	**612,264**	**-**	**156,898**	**1,238,480**
Non-current liabilities					
Financial liabilities					
Financial liabilities held at fair value	-	-	-	(24,578)	(24,578)
Insurance liabilities	(60)	(715,845)	-	-	(715,905)
Provisions	-	(848)	-	-	(848)
Total non-current liabilities	**(60)**	**(716,693)**	**-**	**(24,578)**	**(741,331)**
Assets less liabilities	**469,258**	**(104,429)**	**-**	**132,320**	**497,149**
Taxpayers' equity					
Exchequer Financing	(978,830)	(1,699,370)	(101,682)	137,755	(2,642,127)
Cumulative Trading Surplus	1,448,088	1,594,941	101,682	-	3,144,711
General Fund	-	-	-	(5,435)	(5,435)
Total taxpayers' equity	**469,258**	**(104,429)**	**-**	**132,320**	**497,149**

v. Segmental Statement of Financial Position at 31 March 2012

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

8 Net investment return

	Note	Account 1 £'000	Account 2 £'000	2012-13 Total £'000	2011-12 Total £'000
Export Credit Guarantees and Insurance					
Interest income	9	31,221	7,025	38,246	35,229
Total Income		**31,221**	**7,025**	**38,246**	**35,229**
Loss in fair value of Credit Default Swaps derivatives		-	(157)	(157)	(1,470)
Total Costs		**-**	**(157)**	**(157)**	**(1,470)**
Net Income		**31,221**	**6,868**	**38,089**	**33,759**

	Note	2012-13 Total £'000	2011-12 Total £'000
Export Finance Assistance			
Interest equalisation support income		1,922	164
Interest income on GEFCO loans	28	9,681	12,429
GEFCO loans and interest equalisation income		11,603	12,593
Gain in fair value of derivatives		15,517	17,877
Total Income		**27,120**	**30,470**
GEFCO loans and interest equalisation costs		(1,604)	(1,744)
Loss in fair value of derivatives		(14,689)	(18,032)
Total Costs		**(16,293)**	**(19,776)**
Net Income		**10,827**	**10,694**

9 Interest receivable

	Note	Account 1 £'000	Account 2 £'000	2012-13 Total £'000	2011-12 Total £'000
Interest arising from claims					
- interest charged in the year	17(b)	36,131	16,023	52,154	53,914
- net increase in provisions for unrecovered interest	17(b)	(4,957)	(8,998)	(13,955)	(18,717)
Interest arising from claims net of provisions		31,174	7,025	38,199	35,197
Other Interest		47	-	47	32
Interest credit for the year		31,221	7,025	38,246	35,229

Other Interest includes bank interest on balances with commercial banks.

10 Claims credit for the year

	Note	Account 1 £'000	Account 2 £'000	2012-13 Total £'000	2011-12 Total £'000
Claims authorised and paid in the year	17(a)	-	(6,968)	(6,968)	(6,025)
Expected recoveries on claims authorised and paid in the year		-	4,023	4,023	5,540
Provision on claims authorised and paid in the year		-	(2,945)	(2,945)	(485)
Net decrease in provisions for claims authorised and paid in previous years		26,125	15,033	41,158	53,157
Claims credit for the year	17(a)	**26,125**	**12,088**	**38,213**	**52,672**

There is no reinsurance element included within the figures above.

11 Staff numbers and costs

A. Staff costs consist of:

	2012-13 £'000	2011-12 £'000
Departmental Expenditure Limit (Outturn - DEL / Administration)		
Gross Costs:		
Salaries and Wages	8,439	8,580
Social Security Costs	785	800
Early Retirement Payments	734	882
Other Pension Costs	1,643	1,619
Total DEL / Administration Gross Costs	11,601	11,881
Annually Managed Expenditure (Outturn - AME / Programme)		
Gross Costs:		
Early Retirement Provision utilisation & adjustment	(444)	(756)
Total AME / Programme Gross Costs	**(444)**	**(756)**
Total Staff Administrative Gross & Net Costs	**11,157**	**11,125**
Of which:		
Departmental Expenditure Limit (DEL)	11,601	11,881
Annually Managed Expenditure (AME)	(444)	(756)
Of which:		
Export Credit Guarantees and Insurance	10,599	9,901
Export Finance Assistance	558	1,224

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

For 2012-13, employers' contributions of £1,652,386 were payable to the PCSPS (2011-12: £1,590,570) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012-13 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £20,350 (2011-12: £2,132) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,457 (2011-12: £2,132), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £Nil (2011-12: £130).

B. The average number of full-time equivalent persons employed (including senior management) was 188 (2011-12: 187) and the full time equivalent of temporary agency, interim, specialist contractor and consultant workers during the year was 13 (2011-12: 12).

12 Other administrative and operating costs

	2012-13 £'000	2011-12 £'000
Departmental Expenditure Limit (Outturn - DEL / Administration)		
Gross Costs:		
IT	2,648	2,643
Indirect staff and personnel expenses	1,306	1,058
Business promotion	28	42
Rent, Onerous Lease and Dilapidations Payments	3,550	2,831
Other establishment costs	1,463	1,386
Underwriting expenses	170	99
Claims and recovery expenses	259	340
Other administration costs	1,626	1,424
Audit fees	220	233
Depreciation	661	277
Amortisation	392	342
Travel, subsistence and hospitality	537	357
Total DEL / Administration Gross Costs	**12,860**	**11,032**
Income:		
Rent and premium administration income	(1,136)	(1,055)
Premium income offset	(467)	-
Total DEL / Administration Income	**(1,603)**	**(1,055)**
Total DEL / Administration Net Costs	**11,257**	**9,977**
Annually Managed Expenditure (Outturn - AME / Programme)		
Gross Costs:		
Onerous Lease and Dilapidations Provisions utilisation & adjustment	(2,526)	(1,194)
Total AME / Programme Gross	**(2,526)**	**(1,194)**
Income:		
Premium income offset	467	-
Total AME / Programme Income	**467**	**-**
Total AME / Programme Net Costs	**(2,059)**	**(1,194)**
Total Other Administrative Net Costs	**9,198**	**8,783**
Of which:		
Departmental Expenditure Limit (DEL)	11,257	9,977
Annually Managed Expenditure (AME)	(2,059)	(1,194)
Of which:		
Export Credit Guarantees and Insurance	8,738	7,817
Export Finance Assistance	460	966
Included in the above figures:		
Minimum lease payments under operating leases recognised as expense in the year	5,519	2,529

13 Foreign exchange (loss)/gain

	Account 1 £'000	Account 2 £'000	2012-13 Total £'000	2011-12 Total £'000
Unrealised foreign exchange gain/(loss) arising on:				
- recoverable claims after provisions	5,909	8,139	14,048	1,292
- recoverable interest on claims after provisions	3,630	38	3,668	369
- insurance premium receivables	-	16	16	135
Net unrealised foreign exchange gain for year	9,539	8,193	17,732	1,796
Realised foreign exchange gain/(loss)	51	109	160	(708)
Net foreign exchange gain for year	**9,590**	**8,302**	**17,892**	**1,088**

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

Currency	**Currency equivalent to £ 1** 31 March 2013	31 March 2012
Euro	1.18	1.20
Japanese Yen	142.76	131.49
US Dollars	1.52	1.60

14 Movements in working capital other than financial assets

	Note	2012-13 £'000	2011-12 £'000
The movements in working capital other than cash and cash equivalents used in the Statement of Cash Flows and in the Reconciliation of resources to cash requirement comprise:			
Recoverable claims	17(a)	90,628	84,085
Receivables, other debtors and prepayments		(11,064)	(1,762)
Payables, insurance liabilities and accruals		34,727	(3,659)
Net decrease in working capital other than cash and cash equivalents		**114,291**	**78,664**

15 Plant and equipment, and intangible assets

(a) Plant and equipment

	IT equipment £'000	Leasehold improvements £'000	Total £'000
Cost:			
at 1 April 2012	**4,686**	**3,023**	**7,709**
Additions	453	103	556
Balance at 31 March 2013	**5,139**	**3,126**	**8,265**
Accumulated Depreciation:			
at 1 April 2012	**4,420**	**2,434**	**6,854**
Charge for the Year	194	467	661
Balance at 31 March 2013	**4,614**	**2,901**	**7,515**
Carrying amount:			
31 March 2013	**525**	**225**	**750**
31 March 2012	266	589	855

(b) Intangible assets

	Software £'000
Cost	
at 1 April 2012	**1,079**
Additions	84
Balance at 31 March 2013	**1,163**
Accumulated Depreciation	
at 1 April 2012	**450**
Charge for the Year	392
Balance at 31 March 2013	**842**
Carrying amount:	
31 March 2013	**321**
31 March 2012	629

16 Financial assets

(a) Fair value through profit or loss

	31 March 2013 £'000	31 March 2012 £'000
Export Finance Assistance		
Interest rate derivatives in relation to Export Finance Loan Guarantees	26,956	34,734
Total	**26,956**	**34,734**
Falling due:		
- within one year	10,352	11,389
- after more than one year	16,604	23,345

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

(b) Loans and receivables

	Note	31 March 2013 £'000	31 March 2012 £'000
Export Finance Loans due from GEFCO	28	137,755	178,243
Export Finance Interest due from GEFCO	28	1,211	1,533
Export Finance Interest on FREF loans due from DFID		333	717
Other Export Finance Receivables		73	103
Total		**139,372**	**180,596**
Falling due:			
- within one year		35,202	42,841
- after more than one year		104,170	137,755

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

The fair value of Export Finance Loans due from GEFCO is £ 159,706,000 (2011-12: £204,676,000).

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

17 Insurance assets

	31 March 2013 £'000	31 March 2012 £'000
Recoverable claims	711,145	749,512
Interest on unrecovered claims	155,222	151,386
Total	**866,367**	**900,898**
Falling due:		
- within one year	74,992	72,953
- after more than one year	791,375	827,945

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

(a) Recoverable claims

	Account 1 £'000	Account 2 £'000	Total £'000
Recoverable claims - gross			
Balance at 1 April 2011	747,648	648,386	1,396,034
Claims approved in the year	-	6,025	6,025
Recoveries made in the year	(31,552)	(58,558)	(90,110)
Recoveries abandoned in the year	(369)	533	164
Foreign exchange movements	453	1,000	1,453
Balance at 31 March 2012	**716,180**	**597,386**	**1,313,566**
Claims approved in the year	-	6,968	6,968
Recoveries made in the year	(35,982)	(61,614)	(97,596)
Recoveries abandoned in the year	(13,687)	-	(13,687)
Foreign exchange movements	8,879	9,954	18,833
Balance at 31 March 2013	**675,390**	**552,694**	**1,228,084**
Recoverable claims - provisions			
Balance at 1 April 2011	423,241	193,160	616,401
Release of provisions in the year	(27,863)	(24,809)	(52,672)
Recoveries abandoned in the year	(369)	533	164
Foreign exchange movements	24	137	161
Balance at 31 March 2012	**395,033**	**169,021**	**564,054**
Release of provisions in the year	(26,125)	(12,088)	(38,213)
Recoveries abandoned in the year	(13,687)	-	(13,687)
Foreign exchange movements	2,970	1,815	4,785
Balance at 31 March 2013	**358,191**	**158,748**	**516,939**
Net recoverable claims as at:			
- 31 March 2013	**317,199**	**393,946**	**711,145**
- 31 March 2012	321,147	428,365	749,512
- 31 March 2011	324,407	455,226	779,633

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 2011	990,610	77,645	1,068,255
Interest charged in the year	36,308	17,606	53,914
Interest received in the year	(28,874)	(8,923)	(37,797)
Recoveries abandoned in the year	(2,304)	(176)	(2,480)
Foreign exchange movements	82	52	134
Balance at 31 March 2012	995,822	86,204	1,082,026
Interest charged in the year	36,131	16,023	52,154
Interest received in the year	(30,242)	(7,789)	(38,031)
Recoveries abandoned in the year	(21,544)	-	(21,544)
Foreign exchange movements	11,149	138	11,287
Balance at 31 March 2013	**991,316**	**94,576**	**1,085,892**
Interest on unrecovered claims - provisions			
Balance at 1 April 2011	839,492	75,146	914,638
Increase in provisions in the year	10,019	8,698	18,717
Recoveries abandoned in the year	(2,304)	(176)	(2,480)
Foreign exchange movements	(265)	30	(235)
Balance at 31 March 2012	846,942	83,698	930,640
Increase in provisions in the year	4,957	8,998	13,955
Recoveries abandoned in the year	(21,544)	-	(21,544)
Foreign exchange movements	7,519	100	7,619
Balance at 31 March 2013	**837,874**	**92,796**	**930,670**
Net interest on unrecovered claims as at:			
- 31 March 2013	**153,442**	**1,780**	**155,222**
- 31 March 2012	148,880	2,506	151,386
- 31 March 2011	151,118	2,499	153,617

18 Reinsurers’ share of insurance liabilities

	£’000
Balance at 1 April 2011	123,038
Movements summary:	
Addition to the underwriting funds in the year	35,217
Net decrease in open cash funds	-
Net decrease in open credit funds	586
Other fund movements	1,443
Net decrease in insurance liabilities on closed funds	(1,288)
Total Movements	*35,958*
Balance at 31 March 2012	158,996
Movements summary:	
Addition to the underwriting funds in the year	76,623
Net decrease in open cash funds	(694)
Net decrease in open credit funds	3,350
Other fund movements	22
Net decrease in insurance liabilities on closed funds	(872)
Total Movements	*78,429*
Balance at 31 March 2013	**237,425**

Movements are summarised within Note 25.

19 Insurance and other receivables

	31 March 2013 £'000	31 March 2012 £'000
Insurance premium receivables	19,324	7,145
Prepayments and accrued income	1,313	1,998
	20,637	**9,143**
Falling due:		
- within one year	10,448	7,555
- after more than one year	10,189	1,588

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

20 Cash and cash equivalents

	Note	£'000
Balance at 1 April 2011		296,848
Net cash inflow to ECGD		243,163
Payments to the Consolidated Fund:		
in respect of amounts received in the previous year		(296,848)
in respect of amounts received in the current year		(9,547)
Balance at 31 March 2012		**233,616**
Net cash inflow to ECGD	4	312,374
Payments to the Consolidated Fund:		
in respect of amounts received in the previous year		(233,616)
in respect of amounts received in the current year		(7,271)
Balance at 31 March 2013		**305,103**

Cash and cash equivalents comprise:	31 March 2013 £'000	31 March 2012 £'000
Government Banking Service	287,797	218,819
Commercial banks and cash in hand	17,306	14,797
Total	**305,103**	**233,616**

21 Reconciliation of Net Cash Requirement to decrease in cash

	Note	2012-13 £'000	2011-12 £'000
Net cash requirement due to the Consolidated Fund	4	312,374	243,163
Total payable to the Consolidated Fund		312,374	243,163
Payments to the Consolidated Fund - current year		(7,271)	(9,547)
Amounts due to the Consolidated Fund received and not paid over		305,103	233,616
Payments to the Consolidated Fund - prior year		(233,616)	(296,848)
Increase/(Decrease) in cash		**71,487**	**(63,232)**

22 Financial liabilities at fair value

	31 March 2013 £'000	31 March 2012 £'000
Export Credit Guarantees and Insurance		
Credit default swaps	-	1,740
Export Finance Assistance		
Interest rate derivatives in relation to Export Finance Loan Guarantees	404	13,369
Interest rate derivative contracts entered into for hedging purposes	33,495	28,616
Total	**33,899**	**43,725**
Falling due:		
- within one year	9,321	12,528
- after more than one year	24,578	31,197

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

23 Payable to the Consolidated Fund

	31 March 2013 £'000	31 March 2012 £'000
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	305,103	233,616
Total	**305,103**	**233,616**
Falling due:		
- within one year	305,103	233,616

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

24 Insurance and other payables, and provisions

(a) Insurance and other payables

	31 March 2013 £'000	31 March 2012 £'000
Insurance payables - amounts due to policyholders	166	165
Income tax and National Insurance	231	281
Other payables	22,503	5,924
Accruals	18,517	320
Total	**41,417**	**6,690**
Falling due:		
- within one year	41,417	6,690
Of which:		
- other central government bodies	1,438	719
- bodies external to government	39,979	5,971

(b) Provisions

	31 March 2013 £'000	31 March 2012 £'000
Dilapidations Provision	0	875
Onerous Lease Provision	2,099	3,750
Early Departure Provision	1,359	1,803
Total	**3,458**	**6,428**
Falling due:		
- within one year	2,610	1,610
- after more than one year	848	4,818

	Dilapidations Provision £'000	Onerous Lease Provision £'000	Early Departure Provision £'000	Total £'000
Balance at 31 March 2011	875	4,944	2,559	8,378
Additions	-	-	126	126
Utilisation	-	(1,194)	-	(1,194)
Cash paid	-	-	(882)	(882)
Balance at 31 March 2012	875	3,750	1,803	6,428
Additions	-	-	290	290
Utilisation	(455)	(1,651)	-	(2,106)
Cash paid	(420)	-	(734)	(1,154)
Balance at 31 March 2013	**-**	**2,099**	**1,359**	**3,458**

Please refer to Note 1 (O) for further details.

25 Insurance liabilities

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

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

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

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

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Total £'000
Insurance liabilities - Gross of reinsurance				
Balance at 1 April 2011	641	502,377	5	503,023
Movements:				
Addition to the underwriting funds in the year	-	103,195	-	103,195
Release of excess funds - cash	-	(4,359)	-	(4,359)
Release of excess funds - credit	-	(45,378)	-	(45,378)
Other fund movements	-	347	-	347
Change in insurance liabilities on closed funds	(531)	(1,632)	(5)	(2,168)
Total Movements	*(531)*	*52,173*	*(5)*	*51,637*
Balance at 31 March 2012	110	554,550	-	554,660
Movements:				
Addition to the underwriting funds in the year	-	190,703	-	190,703
Release of excess funds - cash	-	(694)	-	(694)
Release of excess funds - credit	-	(30,286)	-	(30,286)
Other fund movements	-	47	-	47
Change in insurance liabilities on closed funds	(50)	1,525	-	1,475
Total Movements	*(50)*	*161,295*	*-*	*161,245*
Balance at 31 March 2013	**60**	**715,845**	**-**	**715,905**
Insurance liabilities - Net of reinsurance				
Balance at 1 April 2011	641	379,339	5	379,985
Movements:				
Addition to the underwriting funds in the year	-	67,978	-	67,978
Release of excess funds - cash	-	(4,359)	-	(4,359)
Release of excess funds - credit	-	(45,964)	-	(45,964)
Other fund movements	-	(1,096)	-	(1,096)
Change in insurance liabilities on closed funds	(531)	(344)	(5)	(880)
Total Movements	*(531)*	*16,215*	*(5)*	*15,679*
Balance at 31 March 2012	110	395,554	-	395,664
Movements:				
Addition to the underwriting funds in the year	-	114,080	-	114,080
Release of excess funds - cash	-	-	-	-
Release of excess funds - credit	-	(33,636)	-	(33,636)
Other fund movements	-	25	-	25
Change in insurance liabilities on closed funds	(50)	2,397	-	2,347
Total Movements	*(50)*	*82,866*	*-*	*82,816*
Balance at 31 March 2013	**60**	**478,420**	**-**	**478,480**
Summary of movements:				
2011-12				
Gross changes in insurance liabilities	*(531)*	*52,173*	*(5)*	*51,637*
Reinsurers' share of changes in insurance liabilities	*-*	*(35,958)*	*-*	*(35,958)*
Changes in insurance liabilities (net of reinsurance)	***(531)***	***16,215***	***(5)***	***15,679***
2012-13				
Gross changes in insurance liabilities	*(50)*	*161,295*	*-*	*161,245*
Reinsurers' share of changes in insurance liabilities	*-*	*(78,429)*	*-*	*(78,429)*
Changes in insurance liabilities (net of reinsurance)	***(50)***	***82,866***	***-***	***82,816***

Movements in reinsurance are analysed within Note 18.

Claims development tables

The tables below present the development of the underwriting funds balances for fund years 2004-05 to 2012-13.

The tables show the development of the carrying value of the insurance liabilities (underwriting funds) in the Statement of Financial Position.

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

Table 1: Development of insurance liabilities, gross of reinsurance

	Prior fund years Closed 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	2010-11 fund year £'000	2011-12 fund year £'000	2012-13 fund year £'000	Grand Total £'000
Account 2											
Credit funds	28,904										
At end of year		19,512	53,095	24,845	23,265	28,485	79,484	124,015	102,375	162,261	
One year later		17,232	53,521	25,178	23,265	29,123	79,483	124,110	102,493		
Two years later		13,033	54,141	25,178	20,003	29,123	79,481	124,150			
Three years later		13,476	54,141	22,476	20,003	29,123	79,481				
Four years later		13,476	83,609	22,476	20,042	29,123					
Five years later		14,531	83,601	22,734	20,003						
Six years later		14,531	83,677	22,734							
Seven years later		14,531	83,604								
Eight years later		14,533									
Cash funds	17,874										
At end of year		12,902	22,935	21,255	20,423	7,963	693	1,242	819	28,441	
One year later		13,554	23,131	21,684	16,901	7,120	693	1,175	819		
Two years later		14,004	23,416	21,684	20,371	4,590	694	1,175			
Three years later		280	266	73	6	232	-				
Four years later		120	-	53	1	244					
Five years later		-	230	-	-						
Six years later		1	9	-							
Seven years later		-	6								
Eight years later		-									
Account 2 - credit fund total	28,904	14,533	83,604	22,734	20,003	29,123	79,481	124,150	102,493	162,261	667,286
Account 2 - cash fund total	17,874	-	6	-	-	244	-	1,175	819	28,441	48,559
Account 1 total	60										60
Gross fund before paid claims	**46,838**	**14,533**	**83,610**	**22,734**	**20,003**	**29,367**	**79,481**	**125,325**	**103,312**	**190,702**	**715,905**
Cumulative paid claims - Account 2		-	-	-	-	-	-	-	-	-	-
Gross fund total	**46,838**	**14,533**	**83,610**	**22,734**	**20,003**	**29,367**	**79,481**	**125,325**	**103,312**	**190,702**	**715,905**

Table 2: Development of insurance liabilities, net of reinsurance

	Prior fund years Closed 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	2010-11 fund year £'000	2011-12 fund year £'000	2012-13 fund year £'000	Grand Total £'000
Account 2											
Credit funds	22,402										
At end of year		15,937	49,916	16,468	20,086	25,798	34,653	76,308	67,158	85,638	
One year later		13,657	50,342	16,801	20,086	26,433	35,363	76,399	67,275		
Two years later		9,458	50,962	16,801	20,003	26,433	35,262	76,412			
Three years later		9,901	50,962	17,278	20,003	26,433	35,362				
Four years later		9,901	65,011	17,278	20,042	26,433					
Five years later		14,531	65,003	17,536	20,003						
Six years later		14,531	65,079	17,536							
Seven years later		14,531	65,006								
Eight years later		14,533									
Cash funds	17,874										
At end of year		12,902	22,935	21,255	20,423	7,963	693	1,242	819	28,441	
One year later		13,554	23,131	21,684	16,901	7,120	693	431	819		
Two years later		14,004	23,416	21,684	16,001	4,590	-	436			
Three years later		280	266	73	6	232	-				
Four years later		120	-	53	-	244					
Five years later		-	230	-	-						
Six years later		1	10	-							
Seven years later		-	6								
Eight years later		-									
Account 2 - credit fund total	22,402	14,533	65,006	17,536	20,003	26,433	35,362	76,412	67,275	85,638	430,600
Account 2 - cash fund total	17,874	-	6	-	-	244	-	436	819	28,441	47,820
Account 1 total	60										60
Net fund before paid claims	**40,336**	**14,533**	**65,012**	**17,536**	**20,003**	**26,677**	**35,362**	**76,848**	**68,094**	**114,079**	**478,480**
Cumulative paid claims - Account 2		-	-	-	-	-	-	-	-	-	-
Net fund total	**40,336**	**14,533**	**65,012**	**17,536**	**20,003**	**26,677**	**35,362**	**76,848**	**68,094**	**114,079**	**478,480**

Table 3: Schedule of Expected Loss

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

	Prior fund years	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	
	Closed years £'000	**fund year £'000**	**fund year £'000**	**fund year £'000**	**fund year £'000**	**fund year £'000**	**fund year £'000**	**fund year £'000**	**fund year £'000**	**fund year £'000**	**Grand Total £'000**
Account 2											
Expected Loss - credit funds	22,402										
At end of year		15,937	30,697	9,322	12,203	14,077	29,302	34,350	32,460	33,987	
One year later		13,657	19,534	12,143	14,080	14,549	26,329	28,410	28,421		
Two years later		8,354	21,915	12,812	19,337	11,946	20,725	24,153			
Three years later		8,771	21,910	7,061	17,415	10,156	14,483				
Four years later		6,853	27,686	5,326	8,934	8,491					
Five years later		4,150	16,157	2,919	6,252						
Six years later		2,915	18,974	1,883							
Seven years later		8,022	24,991								
Eight years later		3,105									
Expected Loss - cash funds	17,874										
At end of year		11,008	4,955	20,718	20,423	7,963	544	311	71	8,860	
One year later		1,089	851	1,841	21	7,120	109	1	12		
Two years later		516	622	173	6	4,590	-	1			
Three years later		280	266	73	6	232	-				
Four years later		120	-	53	-	244					
Five years later		-	230	-	-						
Six years later		1	10	-							
Seven years later		-	6								
Eight years later		-									
Account 2 total	40,276	3,105	24,997	1,883	6,252	8,735	14,483	24,154	28,433	42,847	195,165
Account 1 total	60										60
Expected Loss total	**40,336**	**3,105**	**24,997**	**1,883**	**6,252**	**8,735**	**14,483**	**24,154**	**28,433**	**42,847**	**195,225**

26 Movement in exchequer financing

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

27 Risk management: financial instruments and insurance contracts

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

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

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

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

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

d) **Liquidity risk;** and

e) **Risk measurement.**

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

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

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

(a) Market risk

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

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

(a)(i) Interest rate risk

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

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

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

The profit or loss performance of the FREF portfolio is monitored by the Business Change and Financial Operations division (BCFOD) on a daily basis. Movements in excess of defined limits are reported to the Deputy Director of BCFOD 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, Executive Committee and Management Board. This report is also submitted to HM Treasury within a month of the end of the reporting period.

Sensitivities to movements in interest rates were:

	1% increase in interest rates £'000	1% decrease in interest rates £'000
As at 31 March 2013		
Interest rate swap arrangements on Export Finance Loan Guarantees	(1,328)	1,226
Interest rate derivative contracts entered into for hedging purposes	4,549	(4,740)
Net impact on profit or loss	**3,221**	**(3,514)**
As at 31 March 2012		
Interest rate swap arrangements on Export Finance Loan Guarantees	(4,446)	3,371
Interest rate derivative contracts entered into for hedging purposes	7,795	(8,179)
Net impact on profit or loss	**3,349**	**(4,808)**

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 2013		
Interest rate swap arrangements on Export Finance Loan Guarantees	-	-
Net impact on profit or loss	**-**	**-**
As at 31 March 2012		
Interest rate swap arrangements on Export Finance Loan Guarantees	(50)	30
Net impact on profit or loss	**(50)**	**30**

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 2013				
Interest rate swap arrangements on Export Finance Loan Guarantees	77,532	147,747	27,648	252,927
Interest rate derivative contracts entered into for hedging purposes	80,278	148,108	24,545	252,931
As at 31 March 2012				
Interest rate swap arrangements on Export Finance Loan Guarantees	88,273	217,020	49,833	355,126
Interest rate derivative contracts entered into for hedging purposes	114,939	211,236	40,034	366,209

(a)(ii) Foreign currency risk

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

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

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

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
As at 31 March 2013				
Financial assets:				
Fair value through profit or loss	6,751	15,068	5,137	26,956
Loans and receivables	139,372	-	-	139,372
Insurance and other receivables	11,227	8,454	956	20,637
Financial liabilities:				
Fair value through profit or loss	(16,419)	(13,356)	(4,124)	(33,899)
Insurance and other payables	(13,313)	(17,747)	(10,357)	(41,417)
As at 31 March 2012				
Financial assets:				
Fair value through profit or loss	8,522	19,417	6,795	34,734
Loans and receivables	180,596	-	-	180,596
Insurance and other receivables	2,120	4,390	2,633	9,143
Financial liabilities:				
Fair value through profit or loss	(19,135)	(19,241)	(5,349)	(43,725)
Insurance and other payables	(6,690)	-	-	(6,690)

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

(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 interest rate derivatives, which is also referred to as 'counterparty' risk. Credit risk related to ECGD's insurance contracts, including financial guarantees, is discussed within Insurance risk below.

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

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

Credit concentration risk (financial counterparty)

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

(c) Insurance risk

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

(c)(i) Credit risk

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

Underwriting funds

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

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

The following table provides information regarding the credit exposure of amounts at risk and Expected Loss on Account 2 as at 31 March 2013:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at risk, gross of reinsurance			
Account 2			
Asset-backed	8,113,254	4,239,964	12,353,218
Other	4,653,941	576,902	5,230,843
	12,767,195	**4,816,866**	**17,584,061**
Amounts at risk, net of reinsurance			
Account 2			
Asset-backed	3,444,487	4,239,963	7,684,450
Other	3,919,990	576,902	4,496,892
	7,364,477	**4,816,865**	**12,181,342**
Expected Loss, gross of reinsurance			
Account 2			
Asset-backed	29,537	121,028	150,565
Other	17,006	120,013	137,019
	46,543	**241,041**	**287,584**
Expected Loss, net of reinsurance			
Account 2			
Asset-backed	26,499	63,765	90,264
Other	43,603	61,298	104,901
	70,102	**125,063**	**195,165**

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

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

Amounts at risk on Accounts 1 and 3 were £18,224,000 and £Nil respectively at 31 March 2013 (31 March 2012: £26,811,000 and £Nil respectively)

Expected Loss on Accounts 1 and 3 were £60,000 and £Nil respectively at 31 March 2013 (31 March 2012: £110,000 and £NIL respectively).

There is no reinsurance on Accounts 1 and 3.

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

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

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

The table below provides information regarding the credit exposure of the recoverable claims and related interest as at 31 March 2013.

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims at 31 March 2013 - gross			
Account 1	46,794	628,597	675,391
Account 2	320,635	232,058	552,693
	367,429	**860,655**	**1,228,084**
Recoverable claims at 31 March 2013 - net of provisions			
Account 1	45,390	271,809	317,199
Account 2	310,807	83,139	393,946
	356,197	**354,948**	**711,145**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Interest on unrecovered claims at 31 March 2013 - gross			
Account 1	182	991,134	991,316
Account 2	1,287	93,289	94,576
	1,469	**1,084,423**	**1,085,892**
Interest on unrecovered claims at 31 March 2013 - net of provisions			
Account 1	177	153,265	153,442
Account 2	1,222	558	1,780
	1,399	**153,823**	**155,222**

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

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

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

(c)(ii) Credit concentration risk

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

The table below provides an indication of the concentration of credit risk within the ECGD Account 2 portfolio as at 31 March 2013. The values have been presented based upon the geographical location of the ultimate obligor.

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2					
Asset-backed	6,582,466	1,776,652	1,265,423	2,728,677	12,353,218
Other	1,195,469	397,401	3,144,101	493,872	5,230,843
	7,777,935	**2,174,053**	**4,409,524**	**3,222,549**	**17,584,061**
Amounts at Risk, net of reinsurance					
Account 2					
Asset-backed	1,913,698	1,776,652	1,265,423	2,728,677	7,684,450
Other	461,518	397,401	3,144,101	493,872	4,496,892
	2,375,216	**2,174,053**	**4,409,524**	**3,222,549**	**12,181,342**
Expected Loss, gross of reinsurance					
Account 2					
Asset-backed	82,105	15,242	16,201	37,017	150,565
Other	40,628	15,893	72,604	7,894	137,019
	122,733	**31,135**	**88,805**	**44,911**	**287,584**
Expected Loss, net of reinsurance					
Account 2					
Asset-backed	21,804	15,242	16,201	37,017	90,264
Other	8,510	15,893	72,604	7,894	104,901
	30,314	**31,135**	**88,805**	**44,911**	**195,165**

The following table provides an indication of the concentration of credit risk within the ECGD Account 2 portfolio as at 31 March 2012:

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

(c)(iii) Foreign currency risk

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

The following table sets out the underlying currency of ECGD's insurance assets at 31 March 2013:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	856,151	367,975	3,958	1,228,084
- Provisions	(420,258)	(93,469)	(3,212)	(516,939)
Interest on unrecovered claims				
- Gross	857,249	215,579	13,064	1,085,892
- Provisions	(773,908)	(143,766)	(12,996)	(930,670)
Net insurance assets at 31 March 2013	**519,234**	**346,319**	**814**	**866,367**

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2013 is as follows:

- 10% movement would increase / decrease the carrying value by £31,484,000 (31 March 2012 by £33,473,000).

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

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

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

(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	2,152,716	8,422,035	6,460,097	567,436	17,602,284
Less: Amounts at Risk ceded to reinsurers	(589,905)	(2,321,326)	(2,241,975)	(249,513)	(5,402,719)
Net amounts at risk at 31 March 2013	**1,562,811**	**6,100,709**	**4,218,122**	**317,923**	**12,199,565**

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

By the nature of some of ECGD's products significant payments could be required within a few days in the event of default. The necessary arrangements for this have been pre-agreed with HM Treasury.

(e) Risk measurement

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

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

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

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

The table below sets out the impact of the movements indicated on: (i) total Expected Loss on Account 2 insurance contracts in issue and current as at 31 March 2013, and (ii) on the Statement of Comprehensive Net Income after taking into account utilisation of the underwriting fund.

	Across the board ratings downgrade by		Increased persistence	Reduced recovery rates
	1 notch £'000	2 notches £'000	+ 2 years £'000	-20% £'000
As at 31 March 2013:				
- Increase in Expected Loss	64,150	146,045	2,430	31,845
- Impact on net income for the year	3,189	6,564	212	6,305

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

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

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

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

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

28 Related party transactions

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

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

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

GEFCO is incorporated in Great Britain and registered in England and Wales and is domiciled in the United Kingdom. It is the only subsidiary of First Securitisation Company Limited. As at 31 March 2013, First Securitisation Company Limited holds 49,999 of its shares with the one remaining share being held by Capita IRG Trustees Limited. GEFCO has three Directors: two appointed by Capita IRG Trustees Limited and the other appointed by Lloyds Banking Group Plc (Lloyds).

Between the financial years 1986-87 and 2002-03, GEFCO refinanced a number of export credit loans guaranteed by ECGD. Since 2002-03, there have been no new re-financings (although drawings under loans previously refinanced have themselves been refinanced). The loans which GEFCO has refinanced are now in run-off.

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

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

In 2012-13, transactions between ECGD and GEFCO comprised:

- repayments of principal under loans made by ECGD to GEFCO: £40,488,000 (£51,886,000 in 2011-12); and
- net interest received under those loans: £10,003,000 (£12,946,000 in 2011-12).

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

	Loan £'000	**Interest £'000**
Balance at 1 April 2011	**230,129**	**2,050**
Cash Advanced / Interest Charged in Year	-	12,429
Cash Received in Year	(51,886)	(12,946)
Balance at 31 March 2012	**178,243**	**1,533**
Cash Advanced / Interest Charged in Year	-	9,681
Cash Received in Year	(40,488)	(10,003)
Balance at 31 March 2013	**137,755**	**1,211**

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 2013, GEFCO fees and expenses totalled £621,000 (2011-12: £628,000).

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 £863,000 (2011-12 £1,116,000).

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

29 Contingent liabilities

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

Gross of reinsurance	**Account 1 £'000**	**Account 2 £'000**	**Account 3 £'000**	**Account 4 £'000**	**Total £'000**
Balance at 1 April 2011	37,031	13,571,105	8,161	-	13,616,297
Guarantees and insurance policies issued and renewed	-	3,343,702	-	-	3,343,702
Run off	(10,253)	(2,612,594)	(8,067)	-	(2,630,914)
Foreign exchange adjustments	33	(30,524)	(94)	-	(30,585)
Interest rate adjustments	0	(20,892)	-	-	(20,892)
Balance at 31 March 2012	**26,811**	**14,250,797**	**(0)**	**-**	**14,277,608**
Guarantees and insurance policies issued and renewed	-	5,312,149	-	-	5,312,149
Run off	(8,651)	(2,600,288)	-	-	(2,608,939)
Foreign exchange adjustments	63	652,802	-	-	652,865
Interest rate adjustments	-	(31,399)	-	-	(31,399)
Balance at 31 March 2013	**18,223**	**17,584,061**	**(0)**	**-**	**17,602,284**

Net of reinsurance	**Account 1 £'000**	**Account 2 £'000**	**Account 3 £'000**	**Account 4 £'000**	**Total £'000**
Balance at 1 April 2011	37,031	9,619,067	8,161	-	9,664,259
Guarantees and insurance policies issued and renewed	-	2,309,294	-	-	2,309,294
Run off	(10,253)	(2,010,451)	(8,067)	-	(2,028,771)
Foreign exchange adjustments	33	1,221	(94)	-	1,160
Interest rate adjustments	-	(22,588)	-	-	(22,588)
Balance at 31 March 2012	**26,811**	**9,896,543**	**-**	**-**	**9,923,354**
Guarantees and insurance policies issued and renewed	-	3,747,496	-	-	3,747,496
Run off	(8,651)	(1,864,904)	-	-	(1,873,555)
Foreign exchange adjustments	63	428,307	-	-	428,370
Interest rate adjustments	-	(26,100)	-	-	(26,100)
Balance at 31 March 2013	**18,223**	**12,181,342**	**-**	**-**	**12,199,565**

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

AAR on products separately provided for under IAS 39 was £ 538,991,000 at 31 March 2013 (£2,768,000 at 31 March 2012). There were no amounts reinsured on these guarantees. During the year to 31 March 2013 guarantees issued were £ 543,974,000, run off was £ 7,310,000 and there was an FX loss of £441,000.

Commitments’ against statutory limits are now being reported in the Annual Report section of this document.

30 Leasehold obligations

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

	One year or less £'000	Between one and five years £'000	After five years £'000	Total £'000
at 31 March 2013				
Gross lease commitments	5,519	10,172	12,030	27,721
Net lease commitments	3,865	10,172	12,030	26,067
at 31 March 2012				
Gross lease commitments	2,529	5,690	-	8,219
Net lease commitments	1,579	3,980	-	5,559

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

Glossary

Amounts at Risk (AAR)

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

Arrangement, The

The OECD Arrangement on 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.

Buyer Credit

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

Commitment

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

Consolidated Fund

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

Consolidated Fund Excess Receipts (CFER)

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

Contract Bond

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

Credit Default Swap (CDS)

A market instrument used to transfer credit risk.

Estimate

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

Expected Loss

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

Export Credit Agencies (ECAs)

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

Financial Objectives

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

Fixed Rate Export Finance (FREF)

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

Letter of Credit

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

Overseas Investment Insurance (OII)

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

Premium Income

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

Provisions

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

SMEs

Small and medium-sized enterprises.

Spending Review

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

Supplier Credit

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

Supplier Credit Finance Facility (SCF)

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

Unexpected Loss

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

Working Capital

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

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