EXPORT
CREDITS
GUARANTEE
DEPARTMENT

Export Credits Guarantee Department

Annual Report and Accounts 2010–11

The UK's Export Credit Agency

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The UK's Export Credit Agency

Annual Report presented to Parliament pursuant to s. 7(5) of the Export and Investment Guarantees Act 1991 (c.67).

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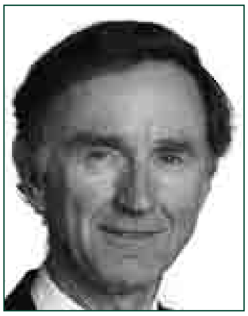
INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

Minister's Foreword



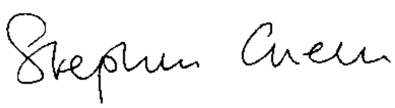
I am pleased to introduce ECGD's Annual Report and Accounts for 2010-11, which have now been laid before Parliament.

This has been another very busy year for ECGD, as British exporters pursuing opportunities in overseas markets have sought to make greater use of its support given continuing constraints on capacity in international financial markets. Since becoming ECGD's Minister in January this year, I have been impressed with the hard work and enthusiasm of everyone at ECGD as it has supported a material increase in exports compared to the previous year. In addition to its support for exports of civil aircraft to the benefit of the UK's aerospace industry, there was a marked rise in the level of civil exports supported. This included support for a number of SMEs as well as larger exporters.

The Government's *Trade and Investment for Growth* White Paper in February and the *Plan for Growth* published with the Budget in March announced a widening of ECGD's role. ECGD can now support a broader range of exports, beyond its traditional business domain of capital and semi-capital goods and services, and, allied to this, it has introduced new products targeted towards those SMEs who have difficulty in obtaining support for export orders from private insurers and banks. These changes mean ECGD now has a set of products that is broadly comparable to that of other leading international export credit agencies.

I am very pleased that the new products have been made available in line with the timetable set out in *Trade and Investment for Growth*. A key task now is to ensure that exporters across the UK are aware of ECGD's new services. ECGD has already undertaken a series of visits across the country to meet exporters to raise their level of knowledge about the new products. I am keen that this should continue. ECGD will work closely with UK Trade and Investment (UKTI) so that the full set of Government support programmes for exporters can be communicated jointly.

ECGD plays an important role in supporting British exporters. I am confident it will continue to meet new challenges with the same energy and enthusiasm it has shown in the past year. I would like to thank everyone at ECGD for their hard work supporting British exporters.



Lord Green of Hurstpierpoint
Minister of State for Trade and Investment

Chief Executive's Foreword

This year saw a 33 per cent increase in the volume of business underwritten by ECGD on behalf of British exporters as compared to the previous year. In 2010-11 ECGD issued 192 guarantees and insurance policies, involving 20 exporters. In total it supported £2.92 billion of new business, up from £2.21 billion last year. Premium income also rose to £96 million from £58 million in 2009-10.

Following a quiet year for civil project business in 2009-10, volumes of such business showed a return to more typical levels in 2010-11, with a wide range of civil exports supported. These included such contracts as a multi-million pound export contract won by Rolls-Royce Power Engineering for the supply and installation of natural gas pumping units in Russia and an export transaction involving the supply of control panels by TES Life Cycle Engineering for a water treatment facility based in Baghdad. For the first time in many years ECGD supported finance raised in the international capital markets; this was for the sale of Airbus aircraft to AerCap.

The most significant development was the launch of the new products announced in the Government's *Trade and Investment for Growth* White Paper. Their purpose is to help exporters who cannot find all the support they need from private markets. ECGD will now support a broader range of export types, which it has not done since the privatisation of its short term trade credit insurance operations in 1991. The products are being delivered on a pilot basis, so that we can take stock of whether they are meeting appropriately the needs of the exporting community and are financially viable. Meanwhile ECGD is undertaking a comprehensive marketing programme to inform exporters about its new products.

ECGD continued to pursue its objective of creating a more level international playing field for the support provided by international export credit agencies. This was reflected in an agreement within the OECD on revised terms for support for civil aircraft that will apply from 2013.

On 1 September 2011 a revised OECD pricing regime for finance for civil projects will be introduced. This will bring in disciplines to all OECD export credit agencies on pricing private obligor business, using risk-reflective criteria in line with longstanding ECGD policy objectives.

As a government department, ECGD is subject to parliamentary scrutiny and in March I gave evidence to the House of Commons Business Select Committee's inquiry *Rebalancing the Economy: Trade and Investment.*

ECGD has continued to develop stronger working links with UKTI so that the two organisations can work together to help deliver the Government's trade strategy. I now attend UKTI's management board and a UKTI representative sits on ECGD's management board. We are examining the possibility of co-locating with UKTI in the Department for Business, Innovation and Skills headquarters in Westminster.

During the course of the year we were pleased to be visited by Lord Green, following his appointment as Minister of State for Trade and Investment, by the Duke of York, in his role as UK trade envoy, and by Sir Gus O'Donnell, the Cabinet Secretary, who all met staff in order to learn more about our role in supporting exporters.

The increase in the level of ECGD's traditional business, combined with the development and launch of the new products, has meant that staff have been working to full capacity over the past year. Arrangements have been made to bolster staff resources if demand continues to grow, especially to support delivery of the new products. I am grateful to ECGD's staff, the Management Board chaired by Guy Beringer and the Export Guarantees Advisory Council chaired by Andrew Wiseman for their respective commitment and contributions to the work of ECGD over the past year.

J.P.S. Crawford

Patrick Crawford
ECGD Chief Executive

Mission and Principles

Who ECGD is

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

What ECGD does

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

How ECGD operates

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

The principles ECGD applies

On individual cases, ECGD aims to:

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

Generally, ECGD aims to:

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

Financial Overview

Figure 1: Financial overview – five year summary

	2010 – 11	2009 – 10	2008 – 09	2007 – 08	2006 – 07
	£m	£m	£m	£m	£m
Guarantees issued	**2924**	2206	1460	1830	1798
• of which OII	**42**	73	87	138	152
Premium income	**96**	58	38	60	55
• of which OII	**0.3**	1	1	1	1
Claims paid	**30**	48	44	59	61
Net operating income	**204**	272	326	597	401

Guarantees and Insurance Policies Issued

Figure 2: List of guarantees and insurance policies issued or renewed				
Market/ Exporter/ Investor	**Buyer/Airline/ Operating Lessor**	**Project/Goods and Services**	**Case Impact[1]**	**ECGD Max Liability, £s or equivalent**
Abu Dhabi				
Airbus S.A.S.	Etihad	Airbus aircraft	-	81,675,485
Australia				
Airbus S.A.S.	Qantas Airways Ltd	Airbus aircraft	-	151,520,165
Austria				
Airbus S.A.S.	Niki Luftfahrt GmbH	Airbus aircraft	-	9,250,888
Bahrain				
Airbus S.A.S.	Gulf Air Company GSC	Airbus aircraft	-	6,380,512
Bermuda				
Airbus S.A.S.	Aircastle Ltd	Airbus aircraft	-	81,161,229
Brazil				
Airbus S.A.S.	Tam Lineas Aereas S.A.	Airbus aircraft	-	82,016,655
See note 2	Companhia Brasiliera de Esterilizacoa S.A.	Medical supplies	-	1,280,069
See note 2	Embrarad	Medical supplies	-	1,199,689
Chile				
Airbus S.A.S.	LAN Airlines S.A.	Airbus aircraft	-	128,255,675
China				
Airbus S.A.S.	Air China Ltd	Airbus aircraft	-	41,033,672
Airbus S.A.S.	China Eastern Airlines	Airbus aircraft	-	12,235,410
Airbus S.A.S.	China Southern Airlines	Airbus aircraft	-	92,196,996
Voith Paper Ltd	Hangzou Huajin Special Paper Company Ltd	Machinery for paper production	Low[5]	172,208
Voith Paper Ltd	Fuyang Weishida Paper Company Ltd	Machinery for paper production	Low[5]	41,526
Dubai				
Airbus S.A.S.	Emirates	Airbus aircraft	-	213,123,265
Carillion Construction Ltd	Emaar Properties	Two residential towers	Medium	157,886,959

Figure 2: List of guarantees and insurance policies issued or renewed

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Egypt				
Airbus S.A.S.	Egyptair Holding Company	Airbus aircraft	-	40,256,364
Carillion Construction Ltd	Al-Futtaim Real Estate Dev SAE	Construction of infrastructure and apartment blocks	Medium	172,599,977
Mivan Ltd	Al-Futtaim Real Estate Dev SAE	Construction of office and apartment blocks and retail units	Medium	112,168,282
Rolls-Royce PLC	Egyptair Holding Company	Aero-engine	-	6,308,848
Finland				
Airbus S.A.S.	Finnair Oyj	Airbus aircraft	-	15,114,692
France				
Omega Foundry Machinery Ltd	Manoir Industries	Fast loop moulding plant	Low[5]	561,482
India				
ES Group Ltd	Organizing Committee Commonwealth Games 2010 Delhi	Overlay for two facilities to be used as competition and training facilities	Medium	14,495,649
Iraq				
TES Life Cycle Eng'g Ltd	Al Barih for General Contracting Company	Control panels for water treatment facility	-	453,219
Ireland				
Airbus S.A.S.	RBS Aerospace Ltd	Airbus aircraft	-	16,047,317
Airbus S.A.S.	Aer Lingus	Airbus aircraft	-	25,171,709
Airbus S.A.S.	Awas Aviation Capital Ltd	Airbus aircraft	-	8,525,173
Airbus S.A.S.	CIT Aerospace International	Airbus aircraft	-	71,403,554
Korea, Republic of				
Airbus S.A.S.	Korean Airlines Company Ltd	Airbus aircraft	-	32,655,806
Voith Paper Ltd	Hankuk Paper Mfg Company Ltd	Machinery for paper production	Low[5]	170,991

Figure 2: List of guarantees and insurance policies issued or renewed

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Kuwait				
Airbus S.A.S.	ALAFCO Aviation Lease and Finance Company (KSCC)	Airbus aircraft	-	55,821,723
Luxembourg				
Astrium Ltd	SES S.A.	Satellites	Low	87,432,847
Malaysia				
Airbus S.A.S.	AirAsia Berhad	Airbus aircraft	-	83,716,915
Airbus S.A.S.	AirAsia X	Airbus aircraft	-	41,356,542
Netherlands				
Airbus S.A.S.	AerCap Holdings N.V.	Airbus aircraft	-	104,887,045
Nigeria				
Well Trade Services Ltd	WTS Broadcasts Ltd	Outside broadcast trucks	-	5,225,000
Oman				
Airbus S.A.S.	Oman Air	Airbus aircraft	-	29,073,543
Philippines				
ABN Amro Bank	N/A	Loan to Coke Power Project[3]	-	27,413,778
Airbus S.A.S.	Cebu Air Inc	Airbus aircraft	-	20,656,542
Russian Federation				
Airbus S.A.S.	Aeroflot Russian Airlines JSC	Airbus aircraft	-	12,649,755
Rolls-Royce Power Eng'g Ltd	Gazprom	Steam compressor station	High	330,255,780
Saudi Arabia				
Fluor Ltd and other UK exporters	Saudi Kayan Petrochemical Company	Kayan petrochemical complex	High	62,434,280
Sharjah				
Airbus S.A.S.	Air Arabia	Airbus aircraft	-	20,142,633
Singapore				
Airbus S.A.S.	BOC Aviation Pte Ltd	Airbus aircraft	-	55,661,415
Airbus S.A.S.	Tiger Airways	Airbus aircraft	-	51,079,760

Figure 2: List of guarantees and insurance policies issued or renewed

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	ECGD Max Liability, £s or equivalent
Slovakia				
Rolls-Royce Power Eng'g Ltd	PPC Energy	Gas turbine	Medium	15,285,959
South Africa				
BNP Paribas	N/A	Loan to Mozal Aluminium Smelter[3]	-	6,567,953
Deutsche Bank AG	N/A	Loan to Mozal Aluminium Smelter[3]	-	7,820,247
Tunisia				
Airbus S.A.S.	Tunisair	Airbus aircraft	-	6,359,563
Turkey				
Airbus S.A.S.	Turkish Airlines Inc	Airbus aircraft	-	181,043,742
Securon (Amersham) Ltd	BMC Sanayi ve Ticaret A.S.	Military harnesses	-	85,000
United Arab Emirates				
Airbus Military S.L.	UAE Armed Forces	Airbus multi-role tanker transport	-	113,399,620
United States of America				
Airbus S.A.S.	International Lease Finance Corporation	Airbus aircraft	-	28,451,510
	Sub-Total			**2,922,184,618**
	Other business not listed[4]			1,415,000
	Grand Total			**2,923,599,618**

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

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

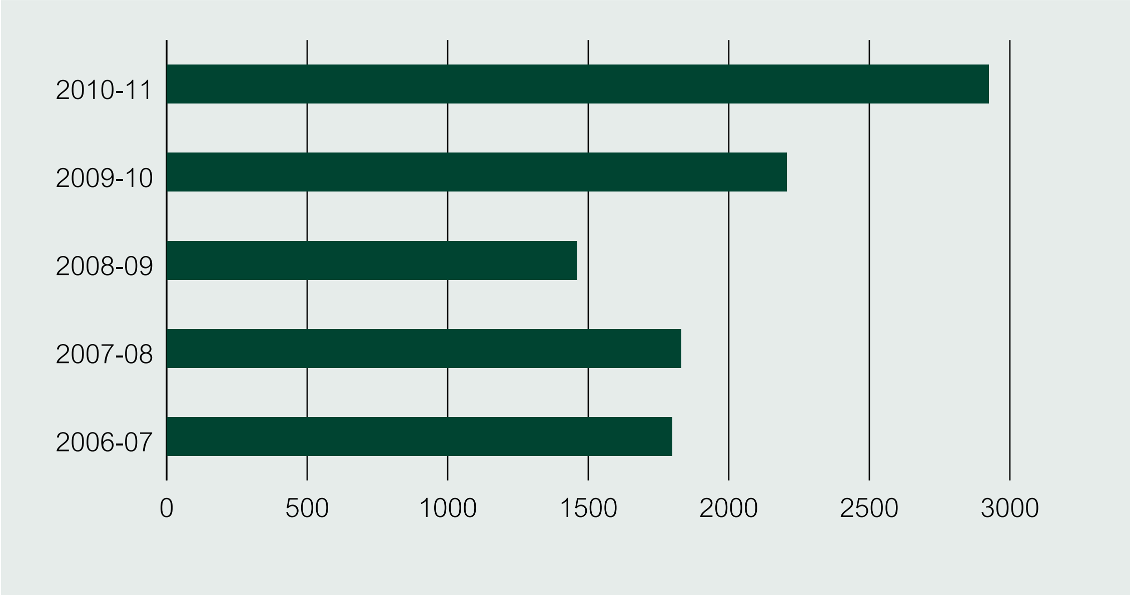
3 Overseas Investment Insurance policy renewals. The policies were issued prior to the introduction of the previous Case Impact Analysis Process.

4 Relates to guarantees to issuing banks under the Letter of Credit Guarantee Scheme.

5 Screened under ECGD Case Impact Analysis Process.

Business Commentary

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

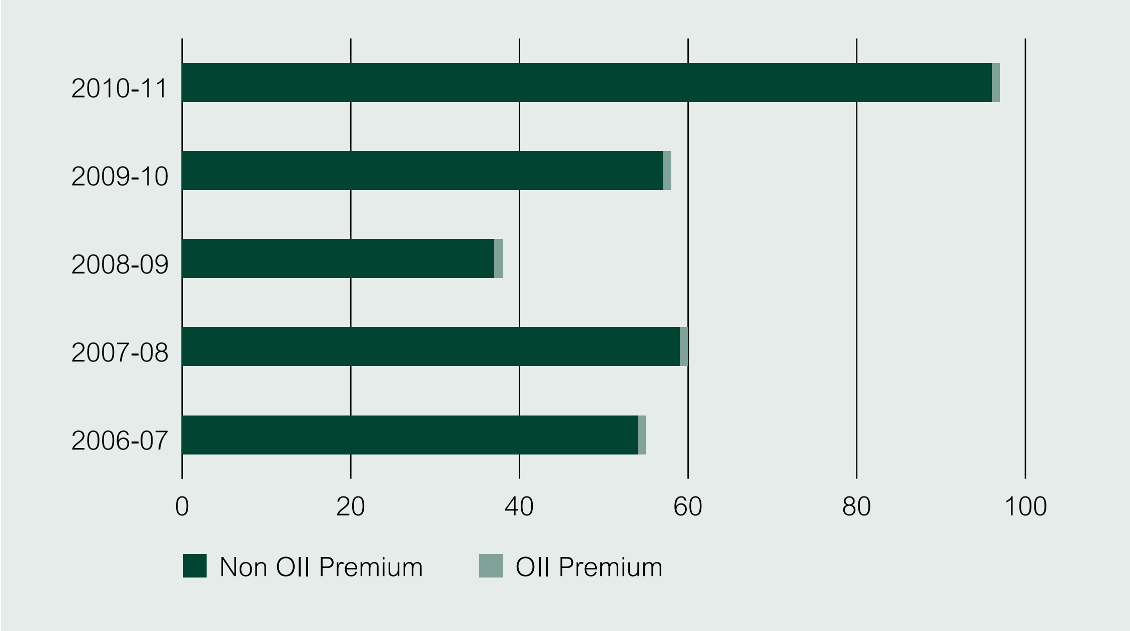


During 2010-11 ECGD supported exports and investments through the issue or renewal of guarantees and insurance policies with an aggregate value of £2.92 billion. This represented a 33 per cent increase on the level of business supported in 2009-10. Buyer Credit and Supplier Credit financing accounted for £2.86 billion of support, Supplier Credit Insurance for £21 million, and Overseas Investment Insurance (OII) business for £42 million.

The business supported related to 32 countries, compared with 30 in the previous year, and the total number of guarantees and insurance policies issued decreased from 198 to 192 (including eight OII renewals, compared to nine last year).

Net premium income was £96 million, up by 66 per cent from 2009-10.

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



Aerospace Business

ECGD continued to support the export of Airbus commercial aircraft in 2010-11 along with the French and German export credit agencies (ECAs), each in proportion to their respective workshares. Of the total aircraft delivered by Airbus the proportion supported by the ECAs was 34 per cent; before the onset of the economic downturn the proportion was around 17 per cent. The continuing high level of support by the ECAs reflected the lack of sufficient capacity in commercial bank markets.

Over the period ECGD issued insurance policies and financial guarantees for aerospace business to the value of £1.8 billion, generating premium of £54.2 million. The support provided in 2010-11 represented 158 aircraft compared to 166 in 2009-10. The aircraft were delivered to 32 airlines and operating lessors in Abu Dhabi, Australia, Austria, Bahrain, Bermuda, Brazil, Chile, China, Dubai, Egypt, Finland, Ireland, South Korea, Kuwait, Malaysia, Netherlands, Oman, Philippines, Russian Federation, Singapore, Tunisia, Turkey, Sharjah, United States. For over 50 per cent of the aircraft ECGD also provided additional support to take account of the supply of engines fitted to the aircraft from Rolls-Royce or its subsidiary company IAE. Support was also provided for the direct sale of a Rolls-Royce spare engine to Egyptair.

The high level of demand for ECGD support is expected to continue. There remains uncertainty around the sufficiency of commercial bank financing appetite as the banks continue to rebuild their balance sheets and take account of new capital requirements including the prospective introduction of the Basel III regulations. Moreover support for new aircraft types is not easily obtained from the commercial banking market; this puts further weight on the availability of support from the ECAs.

Last year, in response to conditions in financial markets restricting the supply of long term bank loans, ECGD agreed to apply its guarantee in support of transactions funded from the international capital markets in relation to the supply of aircraft to AerCap. This established a potential new funding mechanism for UK export credits. In the Government's *Plan for Growth* published in March 2011 it was announced that ECGD's guarantees could continue to be used to raise long-term finance for UK exports in the capital markets. This source of financing is particularly suitable for aircraft and ECGD expects to see more activity in the future in line with the appetite of investors in the capital markets for export credit transactions.

During 2010 a new OECD Aircraft Sector Understanding (ASU), which regulates the basis upon which ECAs support finance for commercial aircraft, was negotiated. This supersedes the 2007 agreement. The key objectives of the new ASU are to create a unified system of terms for all commercial aircraft types, in anticipation of new aircraft types, including Bombardier's CSeries and the Mitsubishi Regional Jet, and to make the premium pricing mechanism better reflect the cost of support from the private market. The new ASU retains a risk-based price floor but will now also include a market-reflective price mechanism, which will, in current market conditions, increase the level of premium ECAs will charge for export contracts signed after 31 December 2010. There is also a greater differentiation between credit risk categories.

ECGD will continue to utilise a reinsurance approach on Airbus business in partnership with the French and German ECAs, whereby one of the three ECAs leads (fronts) a transaction while the other two provide support to it. This approach has assisted the ECAs to address the higher levels of demand and provides Airbus customers with a single portal through which they can engage ECA support. ECGD also provides reinsurance to the US ECA, Ex-Im Bank, when Rolls-Royce engines are sold for Boeing or Hawker Beechcraft sales. Discussions are taking place between ECGD and the Canadian ECA, Export Development Canada, on setting up a joint mechanism to support the sale of Bombardier's CSeries aircraft, which involves supply from Northern Ireland.

Non-Aerospace Business

2010-11 saw a marked increase in ECGD's non-aerospace business over the volume supported in the previous year. Over the period, ECGD issued insurance policies and financial guarantees for such business to the value of £1.1 billion, generating premium of £41.4 million. These figures represent an increase from the comparable figures for 2009-10 of £220 million and £4.6 million respectively.

Figure 5: Value of business supported by sector (%) 2010-11

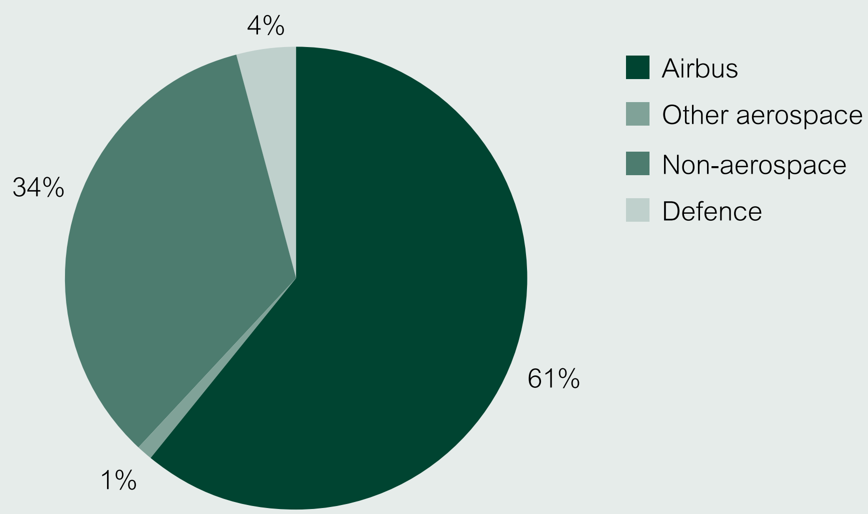


Figure 6: Value of business supported by sector (%) – five year summary

	2010 – 11	2009 – 10	2008 – 09	2007 – 08	2006 – 07
Airbus	**61**	89	72	29	27
Other aerospace	**1**	1	1	1	2
Non-aerospace	**34**	9	26	13	29
Defence	**4**	1	1	57	42
Total	**100**	100	100	100	100

The range of markets, export types and business sectors also widened. More SMEs, who had not previously used ECGD, received support, reflecting conditions in the private credit insurance markets. Sectors included construction, oil and gas, power, healthcare, water treatment, petrochemicals, industrial processing, satellites and automotives (vehicles and vehicle equipment). This broader range is consistent with the rise in global demand for official export credit support. Following the recent economic downturn many more corporate borrowers in non-OECD and OECD markets have turned to ECAs as a source of support to offset the gaps created by the reduced availability of unsupported lending from the commercial banks and capital markets.

Transactions supported included:

- A US$367 million loan provided to JSC Gazprom to finance an export contract won by Rolls-Royce Power Engineering for the supply and installation of natural gas pumping units for the completion of a new compressor station near Vyborg, Northwestern Russia. The financing arrangements involved close co-operation with the Italian ECA, SACE, which is supporting complementary finance in respect of Italian equipment supplies for the same compressor station.
- Lending totalling US$104 million in respect of Tranche 2 of the US$500 million project financing line of credit established by ECGD in 2008 to finance the Saudi Kayan petrochemical project.
- Two loans, with a combined value of US$318 million, to finance work to be undertaken by UK contractors in the development of the new Cairo Festival City, being developed by Al Futtaim, a private company based in the UAE, which will eventually house 13,000 residents and provide office space for 50,000 workers. One loan facility, for US$201 million, was provided to finance a contract for Carillion, which will be responsible for city-wide infrastructure, including roads, a cooling plant, water and irrigation supply and gas distribution. The second loan, for US$117 million, was to finance a contract awarded to Mivan to construct office and apartment blocks together with retail units and associated infrastructure works.
- A US$184 million loan provided to Emaar Properties of Dubai to help finance a US$196 million contract awarded to Carillion to build two residential towers (of 45 and 46 storeys) and a three-storey retail podium adjacent to the Burj Khalifa Tower, the world's tallest building, in Dubai (part of the Burj Dubai development).
- Reinsurance to the French ECA, Coface, with a total value of €91 million in support of the UK workshare for four geostationary satellites to be supplied to SES Luxembourg by Astrium.
- A US$13 million loan to finance the sale by Rolls-Royce Power Engineering of a US$18 million Trent gas turbine package to PPC Energy in Slovakia. This will permit the completion of a back-up power generation facility at a Bratislava power station to provide additional energy for the country's grid during peak hours of demand.
- Credit insurance of £5.3 million to Well Trade Services (an SME customer new to ECGD) for the provision of six outside broadcast (OB) trucks and a "flyaway" system, to WTS Broadcasts (WTS) Nigeria under a supply contract with an overall value of £19 million. The Flyaway system allows communication via a communications satellite between the outside broadcast trucks and the main broadcast centre.

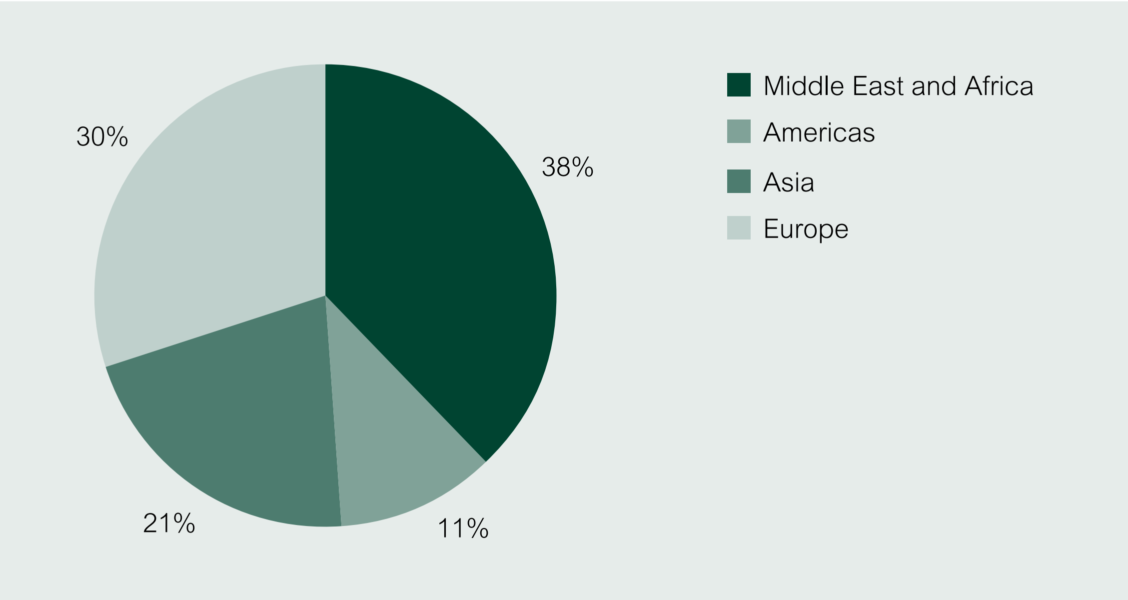
- Credit insurance support to TES Life Cycle Engineering in respect of a £433,000 contract with Al Barih for General Contracting Company for the supply of two control panels for a water treatment facility based in Baghdad, Iraq.
- Three bond insurance policies with a combined maximum liability of £380,000 issued to Voith Paper Ltd, a Manchester-based SME, in respect of existing contracts to supply paper making equipment to various buyers in China and Korea.
- A €630,000 contract supported through Sovereign Star, a company which specialises in the provision of export finance for SMEs with the backing of ECGD, for the supply by Omega Foundry Machinery Ltd of foundry equipment to France to produce 'wearing parts' for industrial use.

Defence Business

A major transaction involved the supply of military tanker aircraft to the UAE by Airbus; ECGD provided support by way of reinsurance for the UK work share to the Spanish ECA, CESCE.

Credit insurance for a £310,000 contract was provided to Securon (Amersham) Ltd, an SME manufacturer of seat belts and harnesses, in respect of a contract with a private sector military vehicle manufacturer in Turkey.

Figure 7: Business supported by region (%) 2010-11



Overseas Investment Insurance

Under its Overseas Investment Insurance scheme, ECGD provides political risk insurance in respect of UK investments. No new policies were issued during the year. At 31 March 2011 ECGD's maximum liability in respect of OII totals £42 million, a reduction from £73 million at 31 March 2010.

ECGD's Product Range

The *Trade and Investment for Growth* White Paper, published in February 2011, announced that ECGD would be launching three new products to meet gaps in the provision of support to exporters, especially SMEs, from private sector providers. The Government also decided that ECGD should broaden its business domain, previously confined to supporting capital and semi-capital goods exports, in order to support a wider range of export types. The new products were an Export Working Capital Scheme, a Contract Bond Support Scheme and a Foreign Exchange Credit Support Scheme. In addition, ECGD has issued a simplified Export Insurance Policy (EXIP). These schemes, detailed below, have since been launched.

The Government's *Plan for Growth* published in March 2011 announced that ECGD's Letter of Credit Guarantee Scheme, introduced initially in 2009 as a temporary response to the economic downturn, would be made permanent. It also announced that ECGD's guarantees could continue to be used to raise long-term finance for UK exports in capital markets, another initiative initially introduced on a temporary basis.

Export Insurance Policy

In March 2011 ECGD's Export Insurance Policy was re-launched following a revision and simplification of the wording of the policy. ECGD has also agreed that qualified credit insurance brokers can introduce export transactions to ECGD seeking cover under this policy. Given SMEs' limited awareness of ECGD, it is expected that brokers will help to facilitate knowledge of the product, especially to SMEs who are unable to obtain support from the private market. They will be paid brokerage at a lower rate than that normally paid by private sector insurers, in order to incentivise the seeking of insurance from the private market in the first instance before applying to ECGD for cover. Further, ECGD will require evidence that the private market has declined to provide cover before it considers support, in order to avoid distorting market provision.

Contract Bond Support Scheme

In March 2011 ECGD launched a scheme to assist UK exporters by increasing the capacity of banks to offer contract bond facilities. Under the scheme ECGD will typically provide a guarantee to the issuing bank in respect of 50 per cent of the risk associated with the bond; for advance payment and other cash-related bonds, ECGD may guarantee up to 80 per cent.

To date, four banks (Barclays Bank, HSBC Bank, The Royal Bank of Scotland and Santander UK) have joined the Contract Bond Support Scheme.

Export Working Capital Scheme

This scheme, launched at the end of April 2011, gives exporters access to working capital finance in order to help them fulfil particular export orders. The support is provided through banks on a risk-sharing basis, with ECGD typically guaranteeing 50 per cent of the working capital facility.

Letter of Credit Guarantee Scheme

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

The scheme was launched in October 2009 in response to the economic downturn. While originally scheduled to expire on 31 March 2011, the scheme has now been made a permanent addition to ECGD's product range.

Seven banks (Barclays Bank, HSBC Bank, Lloyds TSB Bank, The Royal Bank of Scotland, Santander UK, Standard Chartered Bank and Bank of London & the Middle East) are participating in the scheme, which covers over 300 overseas banks in 38 export markets.

Market Engagement

During 2010-11 ECGD sought to raise awareness among key market players overseas of the benefits to their business of ECGD support and to identify specific opportunities where ECGD support might help UK exporters win business. As part of this activity ECGD undertook visits to Abu Dhabi, Algeria, Brazil, Dubai, India, Indonesia, Oman, Qatar, Saudi Arabia, and Vietnam to meet buyers, their advisers, local banks and other government departments/agencies.

ECGD continued to engage with exporters and trade associations across the UK, through direct contact and through participation in relevant industry seminars, to raise awareness of ECGD's range of support services. This has included contact with representatives from various renewable energy trade associations to understand developments in this expanding sector, which is still nascent in its demand for ECGD support. ECGD remains in contact with those companies identified as most likely to need ECGD's services as they develop their businesses abroad in coming years.

ECGD, alongside UKTI and HM Treasury, also held a number of meetings with trade associations and Chambers of Commerce from various parts of the UK aimed specifically at understanding the needs of SME exporters and establishing whether these were being met by the commercial credit insurance and banking markets. These meetings helped to inform the Government's decision, announced in the *Trade and Investment for Growth* White Paper, that ECGD should deepen its engagement with this sector by broadening its business domain beyond capital and semi-capital goods and services and by introducing new products to meet areas of identified need. More recently, ECGD has started an intensive programme of exporter visits, road shows (with UKTI) and events all around the UK to continue to raise awareness of its services and of its new products.

Funding against ECGD Guarantees

During 2010-11 funding availability for ECGD-guaranteed loans continued to improve, which was reflected in lower funding costs, especially for civil aerospace cases. However there is still some uncertainty about the availability of long-term funding. In particular banks have expressed concerns about the potential impact of new capital and liquidity regulations on the medium and long-term availability of export finance.

ECGD has facilitated the funding of new loans in the capital markets by offering to support the issue of notes backed by ECGD-guaranteed loans.

Fixed Rate Export Finance Scheme

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

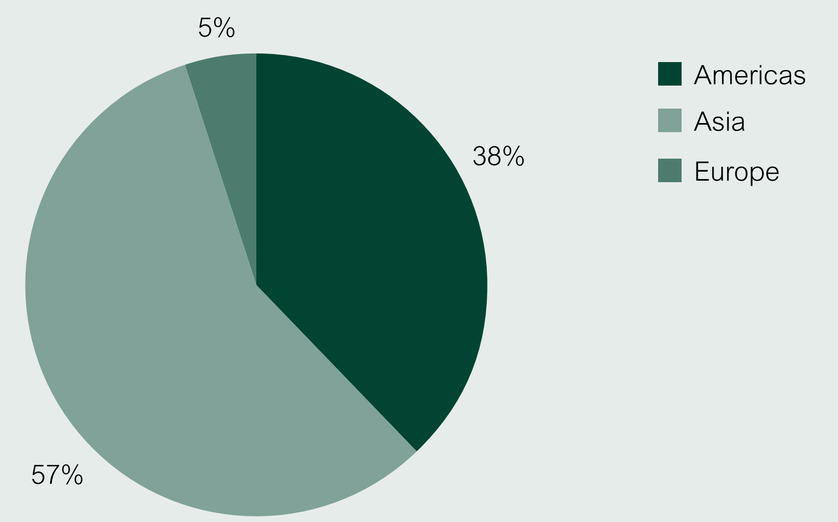
The scheme was subject to a review by ECGD in 2008, which included a public consultation. Due to the economic downturn and the dislocation in the banking sector the scheme was extended twice, with the second extension being until 31 March 2011. On 22 October 2010 the Government announced, as its Final Response to the earlier public consultation, that the scheme would not be extended beyond 31 March 2011. Accordingly ECGD's FREF scheme closed with effect from that date.

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).

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

Figure 8: Claims payments by region (%) 2010-11



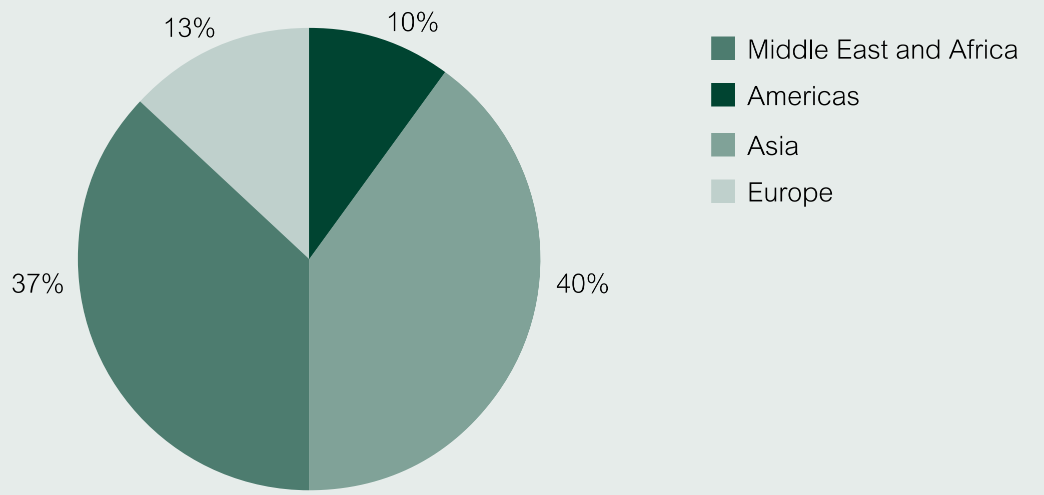
Claims

The reduction in the level of paid claims has continued. Payments authorised on capital goods and project business in 2010-11 totalled £30 million, as against £48 million in 2009-10.

Recoveries

Recoveries of principal and interest made during 2010-11 were £189 million, as against £205 million in the previous year.

Figure 9: Recoveries by region (%) 2010-11



Paris Club Activity

ECGD received £147 million in rescheduled debt and interest payments in 2010-11, compared to £152 million in 2009-10. ECGD participated in four negotiations through the Paris Club, involving debts owed by Antigua and Barbuda, the Democratic Republic of the Congo, Liberia and Togo.

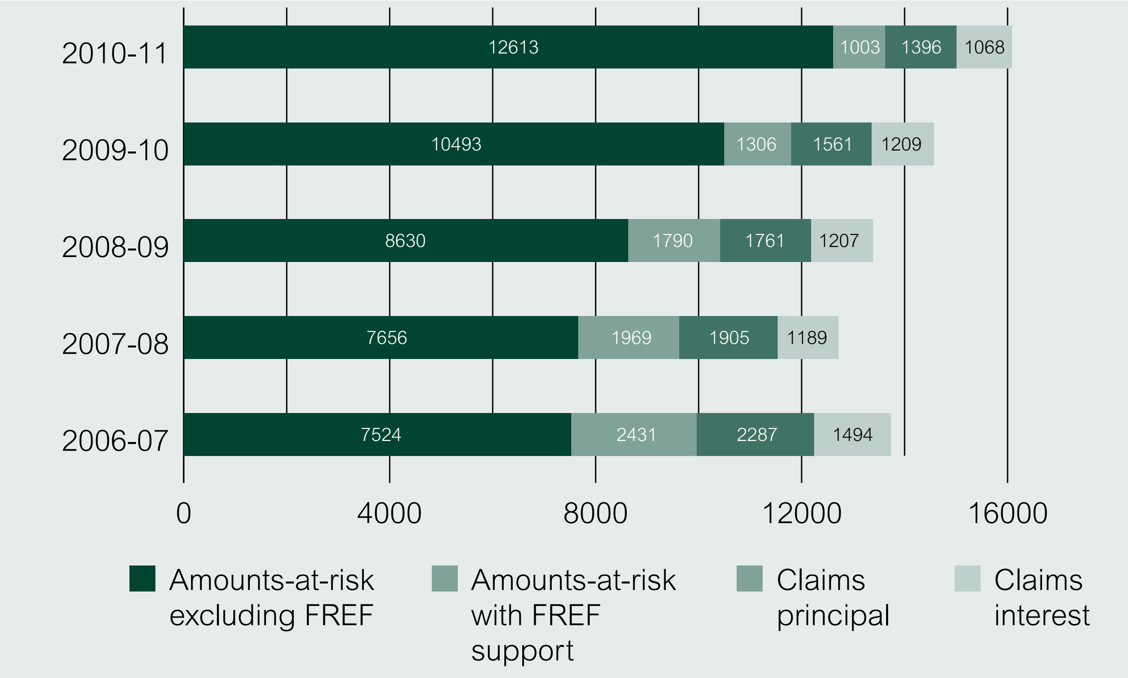
As a result of repayments and further debt reduction, the amount owed to ECGD under Paris Club arrangements was £2 billion at 31 March 2011, compared to £2.3 billion at 31 March 2010.

Non-Paris Club Recoveries

Recoveries of £42 million were made during the year, compared to £53 million in 2009-10.

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

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



Credit Risk Management

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

Approach

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

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

Organisational Structure

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

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

Management of Credit Risk

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

ECGD's credit risk management framework includes the application of extensive scenario analysis and stress testing to its portfolio, in line with best market practice, in order to measure ECGD's risk exposure against its financial objectives and to inform decision-making.

2010-11 Experience

During the year ECGD conducted country risk reviews for over thirty countries with rating adjustments downwards on two and upwards on five such countries. For this purpose ECGD receives information from a number of different sources to inform its judgements, including diplomatic posts overseas and its participation in discussions at the quarterly OECD country experts' meetings. A process of ongoing scrutiny enables ECGD to maintain an informed view on risks and related determinations of exposure to 'expected loss' as conditions and risk expectations change, especially for key country exposures.

Stronger economic or political profiles, or both, for many emerging markets have been reflected in higher internal risk ratings, despite the generally poor global economic climate that prevailed from 2008 to 2010. The emerging markets in which ECGD conducts most of its business have remained relatively unscathed and are showing signs of continuing improvement. While no new potential sovereign impairments have surfaced in its portfolio, ECGD continues to monitor a number of markets closely.

In the light of civil unrest and the potential for further contagion in a number of countries across the Middle East and North Africa (MENA) region, ECGD has recently conducted a detailed review of its exposure in the region. The MENA region accounts for 26 per cent of ECGD's overall exposure (excluding claims and reinsurance). While ECGD remains open for cover for most MENA countries, it is keeping its risk appetite, cover and premium policies under continuing review.

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

While the effects of the global economic downturn and of volatility in credit markets remained evident throughout the reporting year, no material prospective claims have yet to manifest themselves, including in the airline sector despite being subject to significant stress. There may be a lagging effect as markets and sectors come out of the downturn, so it is too early to judge fully its impact.

The airline industry recovered in 2010 from the stresses of 2008-09 but in 2011 is facing both disruptions in the MENA region affecting passenger demand, and increasing jet fuel prices which, if sustained, will materially impact profitability. Hence ECGD is keeping a number of airlines on credit watch.

ECGD continues to apply thorough risk analysis in relation to both its existing credit risk portfolio and its structuring of new business transactions. A much higher level of new business has been supported in 2010-11 relative to the previous year (as detailed on page 13), with a higher proportion of civil project cases among those requiring detailed credit risk analysis.

2010-11 witnessed an increase both in the size and quality of ECGD's portfolio. With new business exceeding business run-off, total amounts at risk under Account 2 increased from £8.9 billion to £9.6 billion (or from £11.8 billion to £13.6 billion when sums reinsured with other ECAs are included).

Reflecting the investment grade standing of most new business, the proportion of the Account 2 portfolio with an internal rating of BBB- or better increased from 59 per cent to 65 per cent. Taking account of the secured nature of the large airline segment within the overall portfolio and the generally improving trend arising from country reviews, the weighted average 'expected loss' fell from 1.99 per cent to 1.66 per cent.

During the year ECGD has been actively engaged in developing a number of new products, notably the Contract Bond Support Scheme, the Export Working Capital Scheme and the Foreign Exchange Credit Support Scheme. These new products will involve ECGD taking on credit and performance risks on UK exporters to a much greater extent than has been the case for many years. Accordingly the Credit Risk Group has been heavily involved in their design and in the establishment of risk parameters for these schemes that are consistent with ECGD's overall risk control framework. At the same time ECGD has widened its eligibility criteria to allow support (typically through an Export Insurance Policy) for contracts for the export, often by SMEs, of finished manufactures, intermediate goods and, when appropriate, commodities and consumable products. Again, this has required a further development of risk information and assessment systems. ECGD has also continued to monitor the performance of several hundred overseas banks as part of the Letter of Credit Guarantee Scheme, which has now been made permanent.

Financial Objectives

ECGD does not expect to face a portfolio capacity constraint on its ability to support new business. While ECGD's total nominal credit exposure increased in 2010-11 with the upturn in business volumes, the portfolio risk measure at the 99.1 percentile of the loss distribution remains materially below ECGD's risk appetite limit.

The upturn in non-aerospace business in 2010-11 was helpful in diversifying ECGD's risk portfolio. However, the civil aerospace sector remains ECGD's largest concentration of exposure, although some exposure within that sector is supported by sovereign or bank guarantees. With civil aerospace accounting for 61.7 per cent of new business in 2010-11 (although down from 89.6 per cent the previous year), the proportion of nominal credit exposure on Account 2 attributable to civil aerospace increased from 60.8 to 62.4 per cent. A similar level of support to that provided in 2010-11 is forecast for 2011-12, given the continued restricted appetite in the commercial markets for airline risk. Some of the expected new credits, especially at the lower risk rating bands, may provide ECGD with challenges on risk quality and on associated pricing. Non-aerospace business is expected to maintain the levels demonstrated in 2010-11, when the total volume of new business supported increased to £1.1 billion from £220 million in the previous year.

Staff Resources

Staff resources were strengthened to support risk assessments on the increased volumes of both civil project and aerospace business. Requests from exporters for indications of support on non-aerospace business are being seen at significant levels, with over £7 billion of indications issued in the year for a range of new exporters and sectors, to 66 exporters, of which 16 were SMEs.

International Developments

During the past year ECGD has represented the UK at international meetings on a number of issues, as detailed below.

Aircraft Sector Understanding

In December 2010, OECD members reached agreement on a new Aircraft Sector Understanding (2011 ASU). Negotiated by all OECD members and Brazil, it sets the financial terms and conditions that can be offered by ECAs in the civil aviation sector. The 2011 ASU became effective on 1 February 2011 and will apply to deliveries under export contracts concluded after 31 December 2010. There are transition arrangements, so that many export contracts concluded before the 2011 ASU was agreed will remain eligible for support under the terms of the previous 2007 ASU.

The main features of the new ASU include the introduction of a single set of rules for all types of aircraft and eight risk bands (up from five) with risk-based premiums of between 5 per cent and 11 per cent (up from 4 per cent to 7.5 per cent in the 2007 ASU). A new market reflective surcharge will be added to these base premium rates; this surcharge is to be adjusted quarterly taking account of changes in market costs. A new interest rate margin benchmark is to be added to the interest rates charged by ECAs that have direct lending ability, based on the spreads over floating interest rates charged by commercial banks in large aircraft transactions supported by ECAs. This is intended to provide a level playing field between different ECAs: those that guarantee and insure export credit loans and those that directly fund export credit loans.

Export Credit Agency Premium Rates

Following the agreement reached at the OECD in 2010 to introduce a new framework of minimum premium rates for private obligor business, OECD members have been working on implementation issues in anticipation of the effective date of the new rates on 1 September 2011, which will apply to all commitments from that date. This is a significant step forward towards achieving a more level playing field for UK exporters, given that the previous agreement covered only sovereign risks. The new premium agreement will apply to all official export credit support with a repayment period over two years, except defence exports (which are outside the OECD Arrangement) and civil aircraft and ships (which are subject to separate OECD premium regimes).

Renewable Energy and Climate Change

OECD members continue to review the *Sector Understanding on Renewable Energy and Water Projects* agreed in 2009, with a view to broadening its scope to include the export of technologies which help to combat climate change. Progress was slow during 2010 in order to allow examination of the issues in greater depth and an agreement is not expected until the end of 2011.

Common Approaches on the Environment

Members of the OECD Export Credit Group continued the review of the *OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*. Negotiations are now expected to be completed in late-2011 or early-2012 as members awaited the outcome of a separate review of relevant international environmental, social and human rights standards by the World Bank Group.

Engagement with non-OECD Countries

ECGD has had regular contact with non-OECD export credit agencies and their guardian authorities, both in London and at meetings of the OECD (where non-OECD countries are invited to attend as observers) and the Berne Union (the international organisation of public and private sector providers of export credit and investment insurance).

European Union

ECGD also represents the UK at regular meetings of the EU Council Working Group on Export Credits, where EU Member States meet the Commission in order to arrive at a common position on a range of export credit issues.

People and Infrastructure

ECGD's staff responded efficiently and effectively to the challenges of meeting increasing demand for support and of developing and launching new products during 2010-11. In order to respond to the needs of the exporting community, ECGD has sought to ensure that sufficient staff are available to deal with applications for support by bolstering its resources in credit risk, aviation financing, and the analysis and assessment of environmental, social and human rights impacts.

ECGD holds Investors in People status, which is due for re-accreditation in 2012. ECGD has continued to invest in staff learning and development, in line with its goal of being an efficient, flexible and high performing organisation with a responsive and adaptable workforce. Staff have taken advantage of a management training programme which has allowed them to work for and gain professional qualifications accredited by the Chartered Management Institute.

During the year ECGD developed an action plan in response to the results of the 2009 Civil Service People Survey, which was refined to take account of the broadly similar results of the 2010 Survey. One outcome has been the development of a vision and values statement to help inform the standards of behaviour expected of staff. In addition a training programme has been carried out for all ECGD staff on equality and diversity issues; this helped meet an objective in ECGD's Equality Scheme 2010-13 Action Plan.

Improvements in operational efficiency and effectiveness are being realised following a programme of work to reconfigure and simplify corporate systems, management reporting functions and corporate processes. Allocation of process and data ownership responsibilities, supported by clearly documented and understood processes, overlaid by appropriate controls, is providing ECGD with a sound basis for identifying areas where further efficiencies might be gained and for the introduction of continuous improvement techniques.

ECGD is also benefiting from improved controls against the risk of operational error. Data in ECGD's corporate systems is more accurate and reliable and ECGD has eliminated some off-system working, with more record-keeping now being carried out on main commercial systems. A plan is in place for the further reduction of off-system working. The introduction of a new data warehouse in 2011 will result in further improvements in the system of internal control; this will be simpler to maintain and enhance, and will provide improved and more reliable management information than under the existing system. It is intended to make further material savings in operating costs including a move from onsite IT support to an offsite IT service.

A key task in 2011-12 will be to determine whether ECGD should re-locate to Westminster to be accommodated alongside UK Trade and Investment and the Department for Business, Innovation and Skills, as envisaged in the *Trade and Investment for Growth* White Paper. A decision will be based on value for money criteria and operational effectiveness. The timetable for a move, if this is decided, will need to take account of the current pressures on ECGD to meet business demand, given the disruption that a move would entail.

Sustainable Development Report

Sustainable Development Action Plan

In 2010-11 ECGD continued to pursue the goals set out in its 2009-11 Sustainable Development Action Plan (SDAP). The status of each action is summarised in the table below.

In February 2011, the Coalition Government announced its vision for Mainstreaming Sustainable Development. The vision stated that bodies will be reviewed in relation to sustainable development principles through their business plans, which will replace Sustainable Development Action Plans. ECGD will therefore not produce an SDAP for 2011 and beyond.

After 2010-11, ECGD will no longer report progress against the actions outlined in its 2009-11 SDAP in its Annual Report. Therefore, where possible, any outstanding actions have been embedded into ECGD's business as usual activity and will continue to be pursued as part of ongoing operations.

	Action	Status at 31 March 2011
1	To obtain multilateral agreement for improvements to the Common Approaches. ECGD will work to develop the UK position for the purposes of the review of the OECD Common Approaches in 2010-11. The UK's objectives will include: (i) that the Common Approaches should require OECD ECAs to provide more environmental information during the due diligence phase in order to allow greater participation by interested parties before decisions are made; and (ii) a tightening of the use of the 'escape' clause, whereby ECAs can support projects which do not meet international standards.	In late-2009, ECGD consulted other government departments to formulate the UK's aims for the OECD negotiations on the Common Approaches. These were approved by Ministers in early-2010 ahead of the beginning of the negotiations. Negotiations have been slow. ECGD will continue to seek reform of the Common Approaches towards the UK's agreed aims.
2	ECGD will continue to apply the International Agreements which it has stated it will follow on all transactions to which they relate.	This action is incorporated within ECGD's business-as-usual operations.

	Action	Status at 31 March 2011
3	ECGD will continue to comply with the OECD Recommendation on Bribery and Officially Supported Export Credits. ECGD will also seek to identify possible improvements to the procedures set out in the Recommendation through monitoring their implementation and to pursue on a multilateral basis any changes as may be supported.	This action is incorporated within ECGD's business-as-usual operations.
4	ECGD will continue to conform to OECD standards in respect of Sustainable Lending, and to monitor the effectiveness of the OECD Principles and Guidelines.	This action is incorporated within ECGD's business-as-usual operations.
5	ECGD will contribute to the development of the EU's position for OECD negotiations during 2009 on the Renewables and Water Sector Understanding, consistent with wider UK Government policy.	Over the past two years ECGD has contributed to negotiations in the EU and OECD which have resulted in a revised Renewable Energies and Water Sector Understanding (REWSU), agreed in June 2009. OECD Participants thereafter began negotiations on a Climate Change Sector Understanding to build on the REWSU to include additional renewable energy technologies and to broaden the scope to include technologies that mitigate Climate Change. Work continues on a proposed Climate Change Sector Understanding. ECGD will continue to pursue UK interests while trying to ensure a level playing field for UK exporters in this sector.
6	ECGD will continue to engage with potential customers in the UK renewables sector to raise awareness of the department's facilities and ascertain whether ECGD's services can be of assistance to UK exporters of capital goods and related services in that sector.	Throughout the plan period ECGD has engaged with existing and new potential customers and the trade associations in the renewable energy and low carbon sector. It is clear that those companies exporting in this sector are doing so in markets where cover is readily available from the private market. ECGD will remain available to offer support to UK exporters in the renewable energy and low carbon sector, complementing that available in the private market.

	Action	Status at 31 March 2011
7	ECGD will: (i) publish annually on its website estimates of the Greenhouse Gas (GHG) emissions from high and medium impact projects from 1 April 2008 and 1 April 2009 respectively; and (ii) explore the feasibility of airlines being willing and able to report periodically the emissions of the aircraft that benefit from ECGD support.	ECGD publishes information on GHG emissions from high and medium-impact projects in its Annual Report and Accounts. ECGD has undertaken investigations with airlines but found that reporting of aircraft emissions for that part of the fleet which ECGD has supported would not be possible as airlines would be unable to provide the data.
8	ECGD will seek to engage with other ECAs with a view to exploring the potential to develop a common understanding regarding supply chain policies and practices for capital goods business.	Discussions are proceeding in the OECD Environmental Practitioners Group.
9	ECGD will continue to review and improve performance against those SOGE (estate management) targets already met, and to work toward achieving improvements in energy efficiency and waste reduction.	ECGD has exceeded, wherever possible, the targets set for it by the Government. As the new targets come in to effect in 2011-12 and beyond, ECGD will continue to strive towards the levels of success achieved since the introduction of the 2006 targets.
10	ECGD will continue the dialogue with the building management of its London office to work to encourage that the energy supply sourced meets sustainable targets.	ECGD maintains engagement with its building managers through membership of the Harbour Exchange Green Committee. In addition, ECGD entered into green lease arrangements with its London landlord in 2010.
11	ECGD will continue its involvement with the Government Carbon Offsetting Fund for the 2009-11 period and work toward offsetting other forms of travel, even if not mandatory under the new GCOF II.	A budget has been set specifically to cover the Government Carbon Offsetting Fund, so that ECGD makes a fair contribution. ECGD will continue to monitor the need for all business travel. HM Treasury has also introduced Sustainability Reporting that will be required of central government departments from 2011-12.
12	ECGD will continue work on delivery of the key elements of its Learning and Development Strategy to promote the professional development of its staff.	ECGD's Learning & Development Strategy has provided, and will continue to provide, development opportunities for ECGD staff members.
13	ECGD will launch a Sustainable Development intranet site in the summer of 2009 to better inform its staff and to improve sustainable development efforts within ECGD.	ECGD launched a Sustainable Development intranet site for its staff in 2009.

	Action	Status at 31 March 2011
14	ECGD will continue to contribute to the local community through providing work experience opportunities for local students; by supporting and promoting staff volunteering; and by making appropriate paid special leave available for this purpose.	ECGD has offered, and continues to offer, work experience opportunities to students from the Tower Hamlets area. ECGD actively promotes volunteering to its staff and has policies in place to support staff that volunteer.
15	ECGD will review its Flexible Working provision in 2009-10.	ECGD reviewed its Flexible Working Policy and a new policy was introduced in 2010.

Sustainable Development in Government

ECGD's 2009-10 reporting period (the most recent) against the Sustainable Development on the Government Estate (SOGE) framework has shown continuing improvements in a number of areas:

- ECGD has reduced the total carbon emissions from its offices by 47.9 per cent, against a target of 12.5 per cent by 2010-11 (relative to 1999-2000 levels). This is an increase on the 44.4 per cent reduction reported in 2009. The improvement coincides with the reduction in ECGD's occupation of floor space at Harbour Exchange Square. In the same period, ECGD reduced the total carbon emissions from road vehicles by 97.2 per cent, against a target of 12.5 per cent by 2010-11.
- In common with other government departments who have reduced their floor space, ECGD has found that energy efficiency decreased. The more efficient use of floor space meant more work stations and computers and so increased energy use in respect of that space. From 2009-10 onwards, the Centre of Expertise in Sustainable Procurement (CESP) withdrew this measure and departments are no longer required to report against it.
- ECGD's waste arisings have increased by 36.6 per cent, against a targeted decrease of 5 per cent by 2010-11 (relative to 2004-05 levels). It is difficult to assess accurately the volume of waste at ECGD's London office due to its location as part of a multi-tenanted office complex. ECGD's waste is not measured separately from other tenants and ECGD reports waste as being its estimated proportion of the waste for the whole office complex, calculated by reference to its share of the floor space. This fluctuates as floor space in the complex is let, and depends on the use each tenant makes of that space and staff volumes.
- ECGD has continued to increase its level of recycling, from 81.9 per cent of waste arisings in 2008-09 to 84.4 per cent in 2009-10.

- Another target is to reduce water consumption by 25 per cent on the office and non-office estate by 2020, relative to 2004-05 levels. ECGD is exceeding this target, reducing water consumption by 69.5 per cent by 2009-10.

There are a number of mandated mechanisms in the SOGE framework, only two of which are applicable to ECGD:

- ECGD has achieved the mandate to encourage staff to take an active role in volunteering in the community, with 16 Full Time Equivalent days reported in 2009-10.
- ECGD does not have an Environmental Management System (EMS) in place; however, the Harbour Exchange building management has a non-certified EMS in place in the building, to which ECGD adheres.

ECGD has achieved five of its six Sustainable Procurement Action Plan (SPAP) Commitments. These include action measures on leadership, staff objectives, supplier engagement and quick wins.

ECGD purchases carbon offsets for its air and rail travel.

Coalition 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 2011-12 the Government will be considering how to implement this commitment.

Sustainable Lending

In 2010-11 ECGD did not support any 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.*

Environmental, Social and Human Rights Impacts

Information related to the application of the *OECD Revised Recommendation on Common Approaches on the Environment and Officially Supported Export Credits*	
	Total
Insurance policies and guarantees issued that were screened for environmental, social and human rights (ESHR) impacts	13
Insurance policies and guarantees issued for which an ESHR impact assessment was provided	8
Insurance policies and 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	7
Insurance policies and guarantees issued categorised as Category A (having high potential ESHR impacts), for which the project was expected to comply fully with the relevant international standards at the time of the guarantee being issued	1
Projects reported by ECGD to the OECD under the terms of the Common Approaches for non-compliance with the relevant international standards	0
Insurance policies and guarantees issued which were categorised as Category B to which environmental conditions were attached	5
Insurance policies and guarantees which were categorised as Category A to which environmental conditions were attached	1
Transactions that ECGD declined to support on ESHR impact grounds	0

Environment, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2010-11

Market	**Overseas project**	**Exported goods/ services**	**Potential impact category[1]**	**Explanation of category**	**Compliance with relevant international standards**	**Estimated GHG emissions**
Brazil	Medical equipment sterilisation facility	Medical supplies	B	Potential negative environmental, social or human rights impacts but not at a level requiring an Environmental Impact Assessment (EIA)	Compliant at date of issue of support	Below reporting threshold

Environment, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2010-11 (continued)						
Market	**Overseas project**	**Exported goods/ services**	**Potential impact category[2]**	**Explanation of category**	**Compliance with relevant international standards**	**Estimated GHG emissions**
China	Paper mill	Machinery for paper production	C	Insignificant impacts in terms of environmental, health and safety, or social and human rights	Not applicable	Not required for Category C cases
Dubai	Burj residential towers	Construction services	B	Potential negative environmental, social or human rights impacts but not at a level requiring an EIA	Compliant at date of issue of support	Below reporting threshold
Egypt	Cairo Festival City	Construction services	B	Potential negative environmental, social or human rights impacts but not at a level requiring an EIA	Compliant at date of issue of support	Below reporting threshold
France	Process Plant & Equipment	Fast loop moulding equipment	C	Insignificant impacts in terms of environmental, health and safety, or social and human rights	Not applicable	Not required for Category C cases
India	2010 Commonwealth Games	Supply of temporary facilities	B	Potential negative environmental, social or human rights impacts but not at a level requiring an EIA	Compliant at date of issue of support	Below reporting threshold

Environment, social and human rights impact categorisation of civil, non-aerospace cases for which support was issued during 2010-11 (continued)

Market	Overseas project	Exported goods/ services	Potential impact category[2]	Explanation of category	Compliance with relevant international standards	Estimated GHG emissions
Korea, Republic of	Paper mill	Machinery for paper production	C	Insignificant impacts in terms of environmental, health and safety, or social and human rights	Not applicable	Not required for Category C cases
Russian Federation	Steam compressor station	Supply of gas turbines	A	Potential significant negative environmental, social or human rights impacts at a level requiring an EIA	Compliant at date of issue of support	Emissions estimated at 1.0 million tonnes CO2e/ annum
Saudi Arabia	Kayan petrochemical complex	Supply of refinery and petrochemical plant	A	Potential significant negative environmental, social or human rights impacts at a level requiring an EIA	Compliant at date of issue of support	Emissions estimated at 5.9 million tonnes CO2e/ annum
Slovakia	Electricity generation plant	Supply of a gas turbine	B	Potential negative environmental, social or human rights impacts but not at a level requiring an EIA	Compliant at date of issue of support	Below reporting threshold

Notes:

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

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

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

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 Limited	Baku-Tbilisi-Ceyhan (BTC) Pipeline	Range of goods and services	Compliant	Operation phase
2004-05 / Iran / MAN Ltd	South Pars gas field: Projects 9 & 10	Piping, electrical and mechanical equipment, and other steel-related products	Action plan agreed with project sponsors to address air quality compliance	Construction phase
2005-06 / Brazil / Rolls-Royce Power Engineering, InvSat Limited (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 Power Eng'g Ltd	Portovaya Gas Compressor Station	Steam compressor station and associated gas pipeline	Compliant	Construction phase

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

Anti-Bribery and Corruption

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

Requests for Information

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

In 2010-11 ECGD received 66 requests for information under the Freedom of Information Act or the related Environmental Information Regulations.

Requests for information 2010-11 and 2009-10		
Issue	**2010-11**	**2009-10**
Anti-bribery and corruption procedures	0	1
Defence business	3	8
Environmental information	1	3
Project information and general business matters	29	29
International debt	7	2
Organisation/procurement	26	22
Total	66	65

ECGD responded to 80 per cent of cases within the statutory time limit.

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

Export Guarantees Advisory Council Annual Report 2010-11

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

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

- environmental, social and human rights impacts;
- anti-bribery and corruption;
- sustainable lending; and
- its 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 made by ECGD to support individual export transactions and projects, though it does carry out retrospective reviews to understand how ECGD's principles and policies are applied in practice and, as appropriate, gives advice on how these might be further developed.

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

Chair

Andrew Wiseman (Partner, Stephenson Harwood)

Members

Gillian Arthur (Head of Philanthropy Services, Sanne Group)

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

John Newgas (Consultant, Sagwen Computer Consultancy)

Martin Roberts – *to May 2011* (Former Consultant, Beachcroft Regulatory Consulting)

Anthony Shepherd – *to December 2010* (Chairman, The Alderley Group)

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

Paul Talbot – *to May 2011* (Assistant General Secretary, Unite)

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

The Council met on four occasions in 2010-11. The Council also met exporters and exporter representative groups and, separately, NGOs and special interest groups.

At its meeting in May 2010, the Council considered the work of ECGD's Environmental Advisory Unit (EAU). In view of the level of transactions being undertaken and policy initiatives being carried out, the Council particularly focussed its attention on the sufficiency of staff resources. The numbers of staff in the EAU had been increased and, for the first time, included the appointment of a human rights specialist. The creation of a new post to lead the analysts in their due diligence work to assess individual projects had created capacity for the head of the EAU to concentrate on policy work. The augmentation of staff resources enabled the EAU to undertake due diligence on environmental, social and human rights impacts on new projects that ECGD was asked to support, in order to satisfy itself that these met international standards, where this was necessary, and also to carry out post-issue monitoring of projects, in their construction and operational phases, where ECGD support had been previously agreed. ECGD was in the process of establishing a new panel of external environmental advisors so that the EAU could deploy their services, on a call-off basis as required, to supplement staff resources and obtain specialist advice, where this was not available internally.

The Council considered its terms of reference. Although the role of the Council is defined in ECGD's Act, the advice that the Secretary of State seeks from the Council is not fully defined in that act. Hence the Council has suggested to the Secretary of State terms of reference to guide the way it works and the issues it considers. The original terms of reference were drawn up before the introduction of ECGD's Management Board led by a non-Executive Chairman. It was decided to revise the Council's terms of reference to reflect the focus of the Council's work on the application of ECGD's ethical policies, in order to distinguish its role more clearly from that of ECGD's Management Board. The revised terms of reference were published on ECGD's website at the time ECGD introduced its new Statement of Mission and Principles, following a public consultation about revision to its former Business Principles.

The Council reviewed ECGD's Sustainable Development Action Plan that had been revised following consultation with, and advice from, the Sustainable Development Commission.

In May the Council met exporters and exporter representative organisations. In September the Council met NGO representatives. At each of these meetings a range of topics was discussed. These meetings gave the Council useful insights into the matters which are of concern to ECGD's customers and to interested parties. The issues helped to shape the Council's agenda and its engagement with ECGD. I should like to take this opportunity to thank all those who participated. At its second quarterly meeting in September the Council discussed with ECGD issues raised with it by exporters, exporter representatives and NGO representatives, and subjects were identified for more detailed examination at future meetings.

In December, the Council reviewed the outcome of ECGD's procurement to establish a panel of external environmental advisors to support the work of the EAU. Three companies had been appointed for a three-year period.

In the context of the review by members of the OECD of the *OECD Revised Recommendation on Common Approaches on the Environment and Officially Supported Export Credits* (OECD Common Approaches), the Council considered the work that ECGD had been undertaking with the International Finance Corporation (IFC), a member of the World Bank Group, on its review of its Performance Standards as these are applied to certain projects in line with the requirements of the OECD Common Approaches. The Council encouraged ECGD in its aim to bring greater clarity to aspects of the IFC Performance Standards; these should include supply chain due diligence, in order to help to fulfil a remit for ECGD to consider supply chain issues which had arisen from the public consultation on its foreign content policy carried out in 2007.

The Council also reviewed the application of ECGD's anti-bribery and corruption policies during July 2009-June 2010. This was the fourth such annual review since new policies were introduced in 2006. The Council noted that the policies appeared to have settled down well. This included the use of ECGD's Special Handling Arrangements which were designed to allow ECGD to undertake due diligence on Agents but in a way that protects commercial confidentiality in regard to an Agent's identity upon request by an exporter. ECGD reported that exporters had complied with ECGD's requirements and no particular issue had been raised in relation to the operation of its policies and practices. The Council was informed that the introduction of the new Bribery Act was not expected to require any changes to be made to ECGD's anti-bribery policies. The Council noted that the new Act would require companies to put in place measures to deter corrupt activity and that the Government had produced guidance to assist this. ECGD will be able to take into account the measures put in place by exporters when it carries out its due diligence on particular transactions it has agreed to support.

Given the levels of support that ECGD provides in respect of civil aerospace exports, the Council requested a briefing on ECGD's civil aircraft portfolio and the support it provided to aircraft and engine manufacturers. ECGD briefed the Council on the environmental standards that apply to civil aircraft and the improvements being made in noise levels and emissions of new aircraft being developed. The Council noted that, following the economic downturn, demand for ECGD's support had risen substantially so that in 2009-10 89 per cent of new business was in the aerospace sector. ECGD explained that this had come about largely because of a lack of commercial bank financing caused by the economic downturn. Airbus had contracted with airlines and operating lessors in earlier years to deliver aircraft and the ECAs had helped to fill the financing gap, so that Airbus could continue to meet its objectives to fulfil these orders. ECGD explained that the proportion of aerospace business in 2009-10 had been unusually high, because the economic downturn had depressed demand for support on civil project exports. The Council was informed that ECGD expected a recovery in the level of civil business in 2010-11; this would result in there being a more even balance between the different types of new business supported.

At its meeting in February the Council examined arrangements that other Export Credit Agencies had in place to provide them with advice on corporate social responsibility and ethical matters. It was found that none had a body that compared directly to the Council but that Export Development Canada (EDC), the export credit agency of Canada, did have an advisory body which addresses ethical policies. I plan to engage with it to share mutual experience and to ascertain if it operates practices that might be relevant to the work of the Council.

The Council reviewed projects which had been supported by ECGD in order to understand the due diligence process followed by the EAU to determine whether applications for support meet international standards on environmental, human rights and social impacts. This gave the Council an insight into the practicalities of addressing such impacts and benchmarking them against the relevant standards. The Council was particularly interested to understand situations where there is a mismatch between local and international standards and the work carried out to assist project sponsors to bridge gaps. ECGD explained that it cannot support projects which do not meet international standards except in situations where local standards were higher than the relevant international standards. The Council was impressed by the diligence and professionalism of ECGD's staff and the rigour applied to their work to satisfy the requirement that projects should comply with the international OECD agreements on ethical issues.

The Council was briefed on ECGD's meeting with the United Nations Special Representative on Human Rights and Business, Professor John Ruggie, and the work he is undertaking to develop, on behalf of the United Nations, guiding principles for business and human rights. It is expected that the principles would include reference to export credit agencies as they are sources of support for projects. The Council encouraged ECGD in its engagement with Professor Ruggie and the UN on human rights matters. These developments are expected to be considered by the export credit agencies in the context of the review of the OECD Common Approaches that is under way.

I take this opportunity to thank ECGD for its openness in responding to requests for briefings to assist the Council in fulfilling its remit.

I would also take this opportunity to record my thanks to Anthony Shepherd for his services to the Council over a period of 10 years, especially in expressing views from the exporting community.

During the remainder of 2011 the Council plans to consider, among other things, ECGD's relationship with UKTI; the discussions taking place within the OECD on the review of the OECD Common Approaches; projects that have been supported and categorised as potentially having high environmental, social and human rights impacts; ECGD's policy on debt sustainability; and ECGD's performance in responding to requests for information made under the Freedom of Information Act and the Environmental Information Regulations.

Andrew Wiseman
Chair

Governance

The Management Board

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

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

Chairman's Statement

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

During the year it was decided that a member of UKTI should join ECGD's Board as a non-executive director to help develop stronger working links with UKTI.

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

- exercising oversight of the Chief Executive and the Executive Committee;
- monitoring the application of the principles of good governance;
- examining and testing the strategic goals of ECGD;

- advising on policies and strategies; providing advice on achieving policies set by Ministers;
- monitoring performance; assessing and monitoring enterprise-wide risks;
- approving accounting policies and the Annual Report and Accounts; and
- approving the remuneration of the Chief Executive and all other members of ECGD staff in the Senior Civil Service.

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

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

Statement on Compliance with the Code of Good Practice

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

Non-Executive Directors

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

Board Performance Evaluation

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

Executive Committee

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

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

Audit Committee

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

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

Internal Audit and Assurance

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

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

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

Enterprise Risk Management

An enterprise risk register is maintained and reviewed formally every six months by the Board. Quarterly risk reports are provided by senior managers to the Executive Committee on their arrangements for managing risks in their areas of responsibility. Programmes and projects are governed by formal programme and project management disciplines, including the regular review of risks, overseen by either the Executive Committee or the Business Systems and Infrastructure Committee. Where appropriate, Office of Government Commerce "Gateway" peer reviews provide additional independent assurance over the effective management of change. More detail on ECGD's management of risk can be found in the Statement on Internal Control within the Accounts on page 75.

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: 11 of the 11 targets were achieved throughout the year.

Financial Objectives on the provision of Fixed Rate Export Financing (FREF)	
Objective and Description	**Results**
2005 FREF Portfolio The total cost of this portfolio must remain no greater than £10 million. The total cost is measured by the aggregate of the Mark-to-Market value, the cumulative cash outturn, and the administrative cost of the portfolio.	**Met** The total cost remained within the agreed limit.
All FREF Portfolios The interest rate risks arising from the FREF portfolios (other than risks arising from Prepayment Optionality) must be contained within agreed sensitivity limits.	**Met** There were no breaches of the sensitivity limits.
Arrangements in Old FREF Portfolio with Prepayment Optionality[1] The interest rate risks arising from Prepayment Optionality in the Old FREF Portfolio must be contained within agreed sensitivity limits.	**Met** There were no breaches of the sensitivity limits.

1 Following a review of prepayment optionality risks, this financial objective no longer applied from December 2010.

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 monthly recorded maximum exposure in the year was £15.6 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 £1.1 billion, against a notional Risk Appetite Limit of £2.5 billion (unadjusted for foreign-exchange movement).
Reserve Index This index ensures that ECGD has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5 per cent level of confidence	**Met** The reserve index did not fall below 3.53 in the year, against a target of 1.00.
Pricing Adequacy Index This index tests whether, over time, ECGD earns enough premium income to cover all its risk and operating costs. It is measured over three different periods:	
(i) Past Two Years and Present Financial Year:	**Met** This index for 2009-10 was 1.34, against a target of 1.00.
(ii) Previous, Present and Next Year:	**Met** This index did not fall below 1.38, against a monthly target of 1.00.
(iii) Present Year and Next Two Years:	**Met** This index did not fall below 1.31, 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 1.99, against a target of 1.35.

Export Credits Guarantee Department

Accounts 2010-11

At 31st March 2011

The Accounting Officer authorised these financial statements for issue on 29 June 2011

LONDON: The Stationery Office
HC973

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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). ECGD achieved an operating surplus in 2010-11 of £204 million, as compared to £272 million in 2009-10. The reduction in operating income was largely caused by:

- a reduction in the movement of Underwriting Funds to £26 million in 2010-11, compared to £100 million in 2009-10;
- lower gains to provisions for Recoverable Claims with a gain of £55 million in 2010-11, compared to a gain of £88 million in 2009-10;
- a decrease in net investment return to £71 million in 2010-11, compared to £88 million in 2009-10; and
- Offset by: the foreign exchange loss of £35 million in 2009-10 reducing to a loss of £21 million in 2010-11.

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.

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

Ministers

The Ministers who had responsibility for ECGD during the year ended 31 March 2011 and up to the date of these accounts were:

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

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

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

Edward Davey, MP, Minister for Employment Relations, Consumer and Postal Affairs from 11 May 2010 until 10 January 2011.

Lord Green of Hurstpierpoint, Minister of State for Trade and Investment from 10 January 2011.

Accounting Officer of ECGD and the Management Board

ECGD's Accounting Officer is Mr Patrick Crawford.

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

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

Executive Members:

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

Non-Executive Members:

Mr Guy Beringer, Chairman
Mr David Godfrey
Mr David Harrison (retired from the Management Board on 31 March 2011 but continues to be a member of the Management Board's Audit Committee)
Mr Peter Haslehurst
Mr Robin Barnett (from February 2011 to 3 June 2011)
Ms Katherine Letsinger

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

Activities of ECGD

These financial statements present the results of ECGD's activities in issuing guarantees and insurance against loss for or on behalf of UK exporters, Overseas Investment Insurance, and the administration of discontinued short-term credit insurance facilities issued by the former Insurance Services Group of ECGD (the main part of which was privatised on 1 December 1991). These activities are referred to in these Accounts as Underwriting Activities.

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

There are no other entities included within the Resource Accounting boundary. Guaranteed Export Finance Corporation PLC (GEFCO), a special purpose company which refinances certain of ECGD's export finance loans, is not consolidated. This is in accordance with the Government Financial Reporting Manual (FReM) (see Note 31). The scheme for the provision of support for FREF on behalf of UK exporters closed for new business on 31 March 2011.

Accounts 1, 2, 3 and 4

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

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

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

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

Account 4 - the provision of support for FREF on behalf of UK exporters (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 during the year supported by ECGD was £344 million.

Payment Policy

ECGD's payment policy is that all invoices should be paid on the contractual due date or, where there is no contractual provision, within thirty days of receipt. This policy is in accordance with the requirements laid down in Managing Public Money and follows the Confederation of British Industry code on prompt payment of commercial debt. During 2010-11 ECGD paid 99.5 per cent of invoices within the policy requirement. In addition, ECGD follows guidance issued during the year that all Government departments should plan to make payments within five working days. At 31 March 2011 the creditor days outstanding were 1.4 days.

Days Lost due to Absence

ECGD encourages a culture where good attendance is expected and valued. However, it recognises 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 2010 to 31 March 2011, the average working days lost per full time employee was 5.3 days. This is a slight increase to the previous year's figure of 5.0 days but compares very favourably with the most recently published Civil Service average figure of 8.7 days.

Further Information on ECGD Activities

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

Audit

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

Management Commentary

Five Year Summary

	2010-11 £m	2009-10 £m	2008-09 £m	2007-08 £m	2006-07 £m
Overall Value of Guarantees and Insurance Policies Issued Net of Reinsurance	**2,924**	**2,206**	**1,460**	**1,830**	**1,798**
Statement of Comprehensive Net Income:					
Premium Income Net of Reinsurance	**96**	**58**	**38**	**60**	**55**
Staff, other administration and operating costs	**22**	**26**	**23**	**26**	**26**
Net Operating Income – total	**204**	**272**	**326**	**597**	**401**
– Account 1	56	103	111	388	211
– Account 2	130	140	177	176	157
– Account 3	-	-	-	18	23
– Account 4	18	29	38	15	10
Statement of Cash Flows					
Claims Recoveries – total	**123**	**151**	**110**	**389**	**872**
– Account 1	46	31	11	307	735
– Account 2	77	120	99	82	137
Interest Recoveries in the year – total	**66**	**54**	**146**	**362**	**593**
– Account 1	44	23	93	301	573
– Account 2	22	31	53	61	20
Claims Paid – total	**30**	**48**	**44**	**59**	**61**
– Account 1	-	-	-	-	-
– Account 2	30	48	44	59	61
Net Cash Flow from Operating Activities – total	**269**	**215**	**239**	**782**	**1,557**
– Account 1	84	44	59	599	1,306
– Account 2	152	140	139	138	168
– Account 4	33	31	41	45	83
Statement of Financial Position					
Amounts at Risk - Gross of Reinsurance	**13,616**	**11,799**	**10,420**	**9,625**	**9,955**
Non-FREF	12,613	10,493	8,630	7,656	7,524
FREF	1,003	1,306	1,790	1,969	2,431
Recoverable Claims before provisioning	**1,396**	**1,561**	**1,762**	**1,905**	**2,287**
– Account 1	748	853	910	1,092	1,444
– Account 2	648	708	852	813	843
Recoverable Claims after provisioning	**780**	**833**	**872**	**861**	**1,127**
– Account 1	324	344	328	315	540
– Account 2	456	489	544	546	587
Interest on Unrecovered Claims after provisioning	**154**	**169**	**148**	**150**	**184**
– Account 1	152	163	128	109	127
– Account 2	2	6	20	41	57
Underwriting Funds - Net of Reinsurance	**380**	**406**	**506**	**583**	**642**
– Account 1	1	1	3	3	5
– Account 2	379	405	503	580	624
– Account 3	-	-	-	-	13
Direct Funding balance	**230**	**330**	**492**	**701**	**998**
FREF Loans balance	**683**	**941**	**1,365**	**1,419**	**1,737**

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 are:

- In the recent past, the majority of Net Operating Income for Account 1 was generated when recoveries of claims or interest exceeded the book value net of provisions. During 2010-11, Operating Income decreased to £56 million from £103 million (2009-10). The income for the year includes an exchange loss of £11 million on claims held in foreign currencies.

- Claims Recoveries were £46 million (of which Congo £20 million, Egypt £9 million, Indonesia £7 million and Togo £4 million), compared to £31 million in 2009-10.

- Recoveries of interest on claims were £44 million (of which Congo £20 million, Togo £9 million, Serbia £6 million, Egypt £3 million and Indonesia £1 million), compared to £23 million in 2009-10.

- 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 £853 million (2009-10) to £748 million during the year, while those for net claims decreased from £344 million (2009-10) to £324 million during the same period.

- Recoverable Interest on Unrecovered Claims has decreased from £163 million (2009-10) to £152 million. The decrease has been caused by recoveries.

Account 2

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

- The total of guarantees and insurance issued during the year was £2,924 million, compared to £2,206 million in 2009-10.

- Net Premium Income was £96 million, compared to £58 million in 2009-10. The increase in premium for the year was mainly caused by a significant increase in guarantees for civil business.

- Claims authorised and paid or payable during the year decreased to £30 million from £48 million in 2009-10.

- Net Operating Income was £130 million, compared to £140 million in 2009-10. The reduction in net income was caused largely by a smaller movement in the Underwriting Funds which decreased from £98 million in 2009-10 to £26 million in 2010-11.

- Claim Recoveries for the year were £77 million, compared to £120 million in 2009-10. Gross Claims balances were £648 million, as against £708 million in 2009-10. Net Claims balances were £456 million, compared to £489 million in the previous year.

Account 3

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

There were no new guarantees issued or claims made on this Account during the year. There was no income for the year, as was the case for 2009-10, because there are no longer any significant Underwriting Funds for this Account.

Account 4

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

- FREF loan balances continued to run off during the year, with the balance reducing to £683 million from £941 million in 2009-10, due to loan instalments being paid.

- The Direct Funding balance represents the funds loaned by HM Treasury to reduce the cost of FREF. The balance continued to reduce during the year to £230 million from £330 million in 2009-10, as both regular instalments and early repayments were made.

- Net Operating Income decreased to £18 million in 2010-11 from £29 million in 2009-10, being mainly due to the Prior Period Adjustment for the abolition of capital charges within Central Government.

All Accounts

Operating expenses decreased by £4 million to £22 million, due mainly to a decrease in rent and staff related costs. ECGD's staffing level decreased from an average full time equivalent of 207 for the year ended 31 March 2010 to 198 for the year ended 31 March 2011.

For the reasons set out above (see Account 1 and 2), the major asset of ECGD, being Net Recoverable Claims, decreased from £833 million (2009-10) to £780 million during the year. Gross claims also reduced from £1.6 billion to £1.4 billion.

Future Developments

ECGD is required to finance its operating costs out of income. A programme of measures to reduce costs was implemented in the year to March 2011, including those related to staff, accommodation and IT, consistent with ECGD's 2010 Spending Review. Since the economic downturn, there has been a material increase in the level of enquiries for ECGD services and, more recently, new products have been launched which are expected to generate new business. Against this background, the cost reduction programme is being refocused to ensure that sufficient staff resources are available to meet higher levels of demand but at the same time continue to achieve reductions in ECGD's overheads.

Under the HM Treasury's Clear Line of Sight (Alignment) project ECGD will move to a Parliamentary vote of negative resource in years where it anticipates net income arising. This increases the risk of an Excess Vote (i.e. spending money not approved by Parliament) arising as a result of changes in market conditions.

Financial Risk Management

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

Detailed Explanation of Variances between Estimate and Outturn

As a government department, ECGD is unusual in having net income from various sources, some of which can be offset against its costs; in the case of Underwriting Activities, the Request for Resources (RfR) is a token sum of £3,000.

RfR 1 – Provision of export finance assistance

Overall, the net cost after Appropriations in Aid (A. in A.) was £10.9 million, compared to an estimate of £13.3 million. The variance was largely due to movements in the fair value of financial instruments.

RfR 2 – Provision of export credit guarantees and insurance

This RfR includes the costs of ECGD which are offset by A. in A. to give a requirement for a nominal £3,000 for the purposes of the Estimate. Total gross expenditure at £49.3 million compares with £101.8 million in the Estimate.

The Central Government Spending Departmental Expenditure Limits (DEL) Section A - Administration estimate of £25.2 million compares to actual net expenditure of £23.6 million.

The Non-Budget Section C – Export Credits estimate was £65.6 million whereas actual gross expenditure was £26.0 million. The variance was largely due to lower claims exposure.

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

Comparison of Resource Outturn with Operating Income and Budgeted Cost

	Note	2010-11 £'000	2009-10 £'000
Net Resource Outturn (Estimates)	2	(10,871)	(20,958)
Consolidated Fund Extra Receipts in the OCS	3.1	214,931	258,695
Net Operating Income (Accounts)		204,060	237,737
Other Consolidated Fund Extra Receipts	3.1	(214,931)	(258,695)
Other adjustments		(21,694)	(37,252)
Resource Budget Outturn (Budget)		(32,565)	(58,210)
of which			
Departmental Expenditure Limits (DEL)		(25,169)	(53,235)
Annually Managed Expenditure (AME)		(7,396)	(4,975)

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

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

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

Personal Data

ECGD confirms that no personal data-related incidents have occurred since 1 April 2010, which were:

- Reported to the Information Commissioners during the year to date, or

- Not reported to the Information Commissioners during the year to date.

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

J.P.S. Crawford

JPS Crawford
Accounting Officer
Export Credits Guarantee Department
20 June 2011

Statement of Accounting Officer’s Responsibilities

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

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

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

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

Remuneration Report

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

Remuneration

Remuneration Policy

Executive Directors

2 The executive members of the Management Board are members of the Senior Civil Service (SCS). The Cabinet Office determines the SCS pay system.

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

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

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

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

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

7 The applicable base pay ranges from 1 April 2010 were:

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

8 Members of the SCS are currently subject to a base pay freeze which started in 2009/10 and which will be in place for three years. This excludes some specially approved additional payments.

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

Non-Executive Directors

10 Non-executive directors are paid a fee for their attendance at Management Board, Audit and Remuneration Committee meetings, or to attend other ad hoc meetings and, from time to time, perform other duties. They are also paid travel and subsistence expenses. As an Executive Director at UK Trade and Investment, Robin Barnett does not receive a fee for his attendance at ECGD Management Board meetings.

11 The level of fees paid to the non-executive directors is decided by the Shareholder Executive[1], on the advice of the Chair of the Management Board. The Shareholder Executive, in consultation with the Chief Executive, decides the remuneration of the Chair of the Management Board. The fees payable take account of:

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

Remuneration Committee

12 The Remuneration Committee is responsible for overseeing the performance management and pay of executive directors of the Management Board. The membership of the Remuneration Committee for 2010-11 was:

- Guy Beringer – Chair
- David Godfrey – Non-Executive Director
- Katherine Letsinger – Non-Executive Director
- Peter Haslehurst – Non-Executive Director

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

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

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

Service Contracts

Executive Directors

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

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

16 Unless otherwise stated below, the 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.

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

Non-Executive Directors

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

Remuneration (The following table has been audited)

	2010-11			2009-10		
	Salary £'000	Bonus Payments £'000	Benefits in kind (to nearest £100)	Salary £'000	Bonus Payments £'000	Benefits in kind (to nearest £100)
Executive Directors						
Patrick Crawford *Chief Executive*	205-210	10-15	0	215-220	10-15	0
Nigel Addison Smith *Finance Director*	115-120	0	0	110-115	10-15	0
Steve Dodgson *Director, Business Group*	105-110	5-10	0	105-110	5-10	0
David Havelock *Director, Credit Risk Group*	130-135	5-10	0	105-110	10-15	0
Nicholas Ridley *General Counsel*	130-135	5-10	0	130-135	10-15	0
Non-Executive Directors						
Guy Beringer *Chair (Appointed January 2010[2])*	45-50	-	-	10-15 *(45-50 Full year equivalent)*	-	-
David Godfrey	10-15	-	-	20-25	-	-
David Harrison	10-15	-	-	15-20	-	-
Peter Haslehurst	10-15	-	-	20-25	-	-
Katherine Letsinger	15-20	-	-	15-20	-	-
Robin Barnett (From February 2011)	0	-	-	0	-	-

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

Salary

19 'Salary' includes gross salary, allowances and other emoluments paid via payroll. This report is based on payments made by ECGD and thus recorded in the Accounts.

Benefits in kind

20 The monetary value of benefits in kind covers any benefits provided by ECGD and treated by HM Revenue and Customs as a taxable emolument.

Bonus payments

21 Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2010-11 relate to performance in 2009-10 and the comparative bonuses reported for 2009-10 relate to the performance in 2008-09.

Pension Benefits (the following table has been Audited)

22 The pension provision is as follows

	Accrued pension at pension age as at 31/3/11 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/11	CETV at 31/3/10[3]	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Executive Directors					
Patrick Crawford *Chief Executive*	10-15	0-2.5	269	210	28
Nigel Addison Smith *Finance Director*	10-15	0-2.5	131	98	15
Steve Dodgson *Director, Business Group*	45-50 Plus lump sum of 145-150	-2.5-0 Plus lump sum of -2.5-0	998	877	-4
David Havelock *Director, Credit Risk Group*	5-10	0-2.5	201	159	28
Nicholas Ridley *General Counsel*	15-20 Plus lump sum of 50-55	0-2.5 Plus lump sum of 2.5-5	408	342	21
Non-Executive Directors	Nil	Nil	Nil	Nil	Nil

[3] The actuarial factors used to calculate CETVs were changed in 2010-11. The CETVs at 31/03/10 and 31/03/11 have both been calculated using the new factors for consistency. The CETV at 31/03/10 therefore differs from the corresponding figure in last year's report which was calculated using previous factors.

Civil Service Pensions

23 Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007 new entrants joining the Civil Service are offering membership of nuvos, a whole career pension with a pension age of 65. Before 30 July 2007 those joining the Civil Service would have been eligible to join one of the previous final salary arrangements of premium, classic and classic plus. Civil servants therefore 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).

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

25 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).

26 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.

27 Further details about the Civil Service pension arrangements can be found at the website www.civilservice.gov.uk/my-civil-service/pensions/index.aspx.

Cash Equivalent Transfer Values

28 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.

29 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 within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

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

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

Exit package cost band	2010-11			2009-10		
	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	0	1	1	0	0	0
£10,000 - £25,000	0	1	1	0	1	1
£25,000 - £50,000	0	0	0	0	0	0
£50,000 - £100,000	0	0	0	0	0	0
£100,000 - £150,000	0	1	1	0	0	0
£150,000 - £200,000	0	1	1	0	0	0
Greater than £200,000	0	2	2	0	2	2
Total number of exit packages	0	6	6	0	3	3
Total resource cost £'000	0	856	856	0	529	529

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.

J.P.S. Crawford

JPS Crawford
Accounting Officer
Export Credits Guarantee Department
20 June 2011

Statement on Internal Control

1. Scope of responsibility

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

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

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

2. Purpose of the system of internal control

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

2.2 Separate arrangements exist to manage financial risks, being the assessment and acceptance of credit and treasury risk exposures (that represent contingent public expenditure liabilities on the Exchequer until the risks expire) other than exchange rate risks which ECGD is not authorised by HM Treasury to hedge, and the associated operational risks.

2.3 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve aims, objectives and policies; it can therefore provide only a reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of ECGD's aims, objectives and policies; to evaluate the likelihood of those risks being realised and the impact should they transpire; and to manage them efficiently, effectively and economically. Our system of internal control has been in place in ECGD for the year ended 31 March 2011 and up to the date of approval of the Annual Review and Accounts, and accords with HM Treasury guidance.

3. Capacity to handle risk

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

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

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

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

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

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

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

3.8 The General Counsel manages legal risk.

4. The risk and control framework

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

- Following a review of pre-payment risks, the Delta and Vega limits applicable to the pre-payment optionality portfolio were removed from the Financial Objectives set by HM Treasury (but pre-payment risks are still monitored and reported on a quarterly basis to ECGD's Risk Committee and HM Treasury);
- An IT service improvement plan was implemented with ECGD's IT supplier;
- The standards, documentation and controls applicable to protect the security and integrity of key spreadsheets were reviewed, and a review of the use of all key spreadsheets was begun;
- A significant spreadsheet, used in the production of the accounts, was redesigned to provide greater assurance of its integrity;
- Final data cleanse activity was completed during the year;
- New process and control documentation for delivering payroll services was introduced;
- New IT disaster recovery technology and standards were introduced following a thorough testing of capabilities; and
- A new business continuity planning framework and corporate plan was introduced.

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

Financial Risk

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

Operational Risk

- Key enterprise risks are reviewed every six months by the Management Board;

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

Information Risk

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

5. Review of effectiveness

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

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

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

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

- *Staff resources:* the increase in new business volumes has created pressure on staff resources in respect of certain key skills but so far ECGD has successfully recruited skilled personnel on short term appointments to manage the higher workload. If there were to be a further increase or an increase in claims activity, further pressure on staff resources could arise which might require further recruitment to be undertaken. ECGD operates some complex systems which require certain skills for which experience must be retained within ECGD. Succession planning also needs to be addressed at junior levels so that in the medium term mid-ranking and senior posts can be filled with suitably experienced staff.
- *Finalising IT projects*: the implementation of two remaining IT systems is largely complete and is due to be implemented in 2011-12. The other major IT and related projects have been completed. I am aware of the significant risk around the implementation of major new business systems and processes and will continue to seek to mitigate this risk. The data issues of the past have been satisfactorily resolved.

J.P.S. Crawford

JPS Crawford
Accounting Officer
Export Credits Guarantee Department
20 June 2011

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 (ECGD) for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, Statement of Comprehensive Net Income and the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, 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 ECGD's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by ECGD; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report 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. In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Export Credits Guarantee Department's affairs as at 31 March 2011and of its net cash requirement, 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 there under.

Emphasis of Matter – Significant Uncertainty

In forming my opinion, which is not qualified, I have also considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the considerable uncertainty attaching to the final outcome of the underwriting activities. As explained in the section of Note 1 headed "Significant uncertainty arising from the nature of ECGD's Underwriting Activity (Accounts 1 – 3)", the nature of these activities 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 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

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

23 June 2011

Statement of Parliamentary Supply

For the year ended 31 March 2011

Summary of Resource Outturn 2010-11

	2010-11 Estimate			2010-11 Outturn			2010-11	2009-10 Outturn
Request for Resources	Gross Expenditure £'000	A. in A. £'000	Net total £'000	Gross Expenditure £'000	A. in A. £'000	Net total £'000	Net Outturn Compared with Estimate Savings/ (Excess) £'000	Net total £'000
1 Export Finance Assistance	38,881	25,571	13,310	36,442	25,571	10,871	2,439	20,958
2 Export Credit Guarantees and Insurance	101,805	101,802	3	49,274	49,274	-	3	-
Total Resources	**140,686**	**127,373**	**13,313**	**85,716**	**74,845**	**10,871**	**2,442**	**20,958**
Non-Operating A. in A.			-			-	-	**3,978**

Net cash requirement 2010-11

	Note	2010-11 Estimate £'000	Outturn £'000	2010-11 Net Total outturn compared with estimate: saving/ (excess) £'000	2009-10 Outturn £'000
Net cash requirement	4	(4)	-	4	-

Summary of the income payable to the Consolidated Fund

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

	Note	Forecast 2010-11 Income £'000	Forecast 2010-11 *Receipts £'000*	Outturn 2010-11 Income £'000	Outturn 2010-11 *Receipts £'000*
Total	5	54,534	*198,220*	214,931	*364,549*

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

The notes on pages 86 to 137 form part of these accounts.

Statement of Comprehensive Net Income

For the year ended 31 March 2011

	Note	2010-11 £'000	2009-10 (Restated) £'000
Request for Resources 2: Export Credit Guarantees and Insurance			
Income			
Gross premium income		142,691	102,453
Less ceded to reinsurers		(46,994)	(44,835)
Net premium income	9	**95,697**	**57,618**
Net investment return	11	50,927	55,887
Claims credit for the year	13	55,122	87,777
Changes in insurance liabilities (net of reinsurance)	28	25,921	99,791
Total income		**227,667**	**301,073**
Expenses			
Staff costs	14	(10,644)	(11,071)
Other administration and operating costs	15	(9,301)	(11,471)
Net foreign exchange loss	16	(21,214)	(35,299)
Total expenses		**(41,159)**	**(57,841)**
Net income arising from Export Credit Guarantees and Insurance Activities		**186,508**	**243,232**
Request for Resources 1: Export Finance Assistance			
Income			
Net investment return	11	20,017	32,492
Expenses			
Staff costs	14	(1,315)	(1,654)
Other administration and operating costs	15	(1,150)	(1,721)
Total expenses		**(2,465)**	**(3,375)**
Net Income on Export Finance Assistance Activities		**17,552**	**29,117**
Net operating income for the year		**204,060**	**272,349**

The comparative figures for 2009-10 have been restated following the removal of the cost of capital charge (refer Note 1(Q)).

All income and expenditure is derived from continuing operations.

The notes on pages 86 to 137 form part of these accounts.

Statement of Financial Position

As at 31 March 2011

	Note	31 March 2011 £'000	31 March 2010 (Restated) £'000	1 April 2009 (Restated) £'000
Non-current assets:				
Plant and equipment	18(a)	914	1,120	1,382
Intangibles	18(b)	862	891	-
Financial assets				
Loans and receivables	19(b)	178,242	233,678	333,171
Insurance contracts				
Insurance assets	20	869,923	855,814	890,214
Reinsurers' share of insurance liabilities	21	123,038	81,145	40,952
Insurance and other receivables	22	1,816	1,812	6,467
Total non-current assets		**1,174,795**	**1,174,460**	**1,272,186**
Current assets:				
Financial assets				
Fair value through profit or loss	19(a)	35,755	65,006	98,956
Loans and receivables	19(b)	54,613	100,550	174,914
Insurance contracts				
Insurance assets	20	63,327	146,101	129,955
Insurance and other receivables	22	5,574	5,361	5,601
Cash and cash equivalents	23	296,848	345,068	413,432
Total current assets		**456,117**	**662,086**	**822,858**
Total assets		**1,630,912**	**1,836,546**	**2,095,044**
Current liabilities:				
Financial liabilities				
Fair value through profit or loss	25	(42,454)	(56,659)	(71,172)
Payable to Consolidated Fund	26	(296,848)	(345,068)	(413,432)
Insurance and other payables	27(a)	(10,349)	(8,108)	(26,009)
Total current liabilities		**(349,651)**	**(409,835)**	**(510,613)**
Non-current assets plus net current assets		**1,281,261**	**1,426,711**	**1,584,431**
Non-current liabilities				
Insurance contracts				
Insurance liabilities	28	(503,023)	(487,051)	(546,649)
Provisions	27(b)	(8,378)	(9,551)	(7,258)
Financial liabilities				
Payable to Consolidated Fund	26	(160,929)	(177,159)	(163,828)
Total non-current liabilities		**(672,330)**	**(673,761)**	**(717,735)**
Assets less liabilities		**608,931**	**752,950**	**866,696**
Taxpayers' equity				
Exchequer Financing		(2,267,778)	(1,951,421)	(1,593,530)
Cumulative Trading Surplus		2,880,651	2,694,143	2,450,911
General Fund		(3,942)	10,228	9,315
Total taxpayers' equity		**608,931**	**752,950**	**866,696**

The comparative figures have been restated following the removal of the cost of capital charge which led to a change in the analysis of taxpayers' equity, and for the reclassification of the provision for early departure.

The notes on pages 86 to 137 form part of these accounts.

J.P.S. Crawford

JPS Crawford

Accounting Officer
Export Credits Guarantee Department
20 June 2011

Statement of Cash Flows

For the year ended 31 March 2011

	Note	2010-11 £'000	2009-10 (Restated) £'000
Cash flows from operating activities			
Net operating income		204,060	272,349
Less: net investment return	11	(70,944)	(88,379)
Adjustments for other non-cash transactions:			
Depreciation of plant, property and intangible assets	15	412	424
Impairment loss on plant, property and intangible assets	15	340	-
Claims credit for the year	13	(55,122)	(87,777)
Other administration and operating expenses	15	240	233
Unrealised foreign exchange loss	16	21,195	30,714
Add back: (Decrease) / increase in provisions	27(b)	(59)	3,503
Early retirement payments	27(b)	(1,114)	(1,210)
Interest received		84,098	81,052
Decrease in insurance liabilities (net of reinsurance)	28	(25,921)	(99,791)
Movements in working capital other than financial assets	17	94,236	98,043
Movement in financial assets		17,806	5,843
Net cash inflow from operating activities		269,227	215,004
Cash flows from investing activities			
Purchase of plant, equipment and intangibles	18	(517)	(1,053)
Purchase of financial instruments		(3,933)	(2,889)
Export Finance Loans:			
Recoveries	31	99,772	165,913
Payments	31	-	(3,978)
Net cash inflow from investing activities		95,322	157,993
Net cash inflow total	5	364,549	372,997
Payments of amounts due to the Consolidated Fund of amounts:			
relating to the prior year		(345,068)	(413,432)
relating to current year		(67,701)	(27,929)
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		(48,220)	(68,364)
Cash and cash equivalents at the beginning of the year	23	345,068	413,432
Cash and cash equivalents at the end of the year	**23**	**296,848**	**345,068**

The comparative analysis of net cash flow from operating activities has been restated following the removal of the cost of capital charge and the reclassification of the provision for early departures.

The notes on pages 86 to 137 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2011

	Note	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2009		(1,566,238)	2,423,619	9,315	866,696
Prior Year Adjustment		(27,292)	27,292	-	-
Restated Balance at 1 April 2009		(1,593,530)	2,450,911	9,315	866,696
Changes in taxpayers' equity for 2009-10					
Non-Cash Adjustments:					
auditors' remuneration		233	-	-	233
Movements in Reserves:					
Transfers between reserves		28,204	-	(28,204)	-
Recognised in Statement of Comprehensive Net Income		-	243,232	29,117	272,349
Total recognised income and expense for 2009-10		28,437	243,232	913	272,582
CFER arising in year transferred into current liabilities		(372,997)	-	-	(372,997)
Long term Consolidated Fund creditor movement		(13,331)	-	-	(13,331)
Balance at 31 March 2010		(1,951,421)	2,694,143	10,228	752,950
Changes in taxpayers' equity for 2010-11					
Non-Cash Adjustments:					
auditors' remuneration	15	240	-	-	240
Movements in Reserves:					
Transfers between reserves		31,722	-	(31,722)	-
Recognised in Statement of Comprehensive Net Income		-	186,508	17,552	204,060
Total recognised income and expense for 2010-11		31,962	186,508	(14,170)	204,300
CFER arising in year transferred into current liabilities	5	(364,549)	-	-	(364,549)
Long term Consolidated Fund creditor movement	26	16,230	-	-	16,230
Balance at 31 March 2011		**(2,267,778)**	**2,880,651**	**(3,942)**	**608,931**

The prior period adjustment pertains to the impact of the reversal of the cost of capital charge.

The notes on pages 86 to 137 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 2010-11 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. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of net resource requirement and net cash requirement.

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

As noted above, ECGD applies the Accounting Standards set out in the FReM. The 2010-11 FReM applies financial reporting standards that are effective for the financial year.

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

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

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

		IFRS 9 simplifies the classification and measurement of financial assets, removing the numerous categories of financial asset specified in IAS 39, and resulting in one impairment method.		

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

Amendments to IFRSs

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

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

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

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

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

- IAS 12 Income Taxes - the amendment relates to issues with the fair value model in IAS 40 Investment Property. The amendment is effective for annual periods beginning on or after 1 July 2011, with earlier application permitted.

- IFRS 1 First-time Adoption of International Financial Reporting Standards - the amendments replace references to a fixed transition date with 'the date of transition to IFRSs'. The amendments are effective from 1 July 2011, with earlier application permitted.

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

- Improvements to IFRSs. Amendments issued in April 2009 and May 2010. The amendments are effective for annual periods beginning on or after 1 January 2010 and 2011 respectively, with earlier application permitted.

Major FReM changes for 2011-12

ECGD has reviewed the major FReM changes for 2011-12 and determined the following will have a significant impact on the Department's financial statements:

- Chapter 3 Parliamentary Accountability – second stage of alignment project

- Chapter 11 Income and Expenditure – change for second stage of alignment project concerning parliamentary voted totals.

It has been determined that the following FReM changes will not have a significant impact on the financial statements:

- Chapter 2 Accounting Principles - True and Fair Override Provision

- Chapter 4 Accounting Boundaries - second stage of alignment project

- Chapter 6 Tangible non-current assets – changes in relation to Accounting for Capital Grants and Similar Financing

- Chapter 13 Accounting for Consolidated Fund Revenue - Tax Credits

(B) Use of estimates

The preparation of these financial statements includes the use of estimates and assumptions which affect the reported amounts of assets, liabilities, and 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>Fund Basis of Accounting for insurance contracts</u>

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).

<u>Liability adequacy test</u>

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 than 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;

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

Product classification

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

Premium income

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

- **Project Business:** the income on all guarantees and insurance contracts, excluding Overseas Investment Insurance, 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 profit or loss 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, realised gains and losses in the current year, and changes in unrealised gains and losses on financial assets classified as 'fair value through profit or loss'. It also includes realised and unrealised foreign exchange gains and losses on interest income.

- Interest income is recognised as it accrues (see interest types set out below).
- All non-insurance financial assets are classified as 'fair value through profit or loss', or 'loans and receivables'.
- For financial assets classified as 'fair value through profit or loss', realised gains and losses represent the difference between net sales proceeds and the purchase price (if acquired during the year), or fair value at the previous year-end.
- For financial assets classified as loans and receivables, realised gains and losses are the difference between the proceeds received on disposal, net of transaction cost, and its amortised cost.
- Unrealised gains and losses represent the difference between the carrying value at the year-end and the carrying value at the previous year-end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

ECGD receives the following types of interest:

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

(F) Operating expenses

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

(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 date.

(H) Property and equipment and intangible assets

i. Property and equipment

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

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

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

ii. Intangible assets

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

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

iii. Impairment review

An impairment review is conducted whenever there is an indication that the assets are impaired. If this review indicates that an asset's carrying amount is greater than its recoverable amount, 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, income in excess of the amount that can be Appropriated in Aid (A. in A.) together with any other receipts is payable by ECGD to the Consolidated Fund as Consolidated Fund Extra Receipts (CFERs).

ECGD discloses the amounts due to the Consolidated Fund received in cash (due within one year) separately from that which has not yet been received (due after one year).

The amount payable within one year is equal to ECGD's bank balances at the Statement of Financial Position date.

The amount payable after one year is estimated as the sum of Premium Debtors, Unrecovered Interest on Claims (net of provisions), and interest receivable accrued on GEFCO Loans reported within the Statement of Financial Position.

(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 19. '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 19. 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, interest rate options and credit default swaps

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

(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 25.

(O) Provisions

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

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

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

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

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

(P) Contingent liabilities

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

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

(Q) Cost of capital prior period adjustment

In line with HM Treasury requirements, Prior Period Adjustments (PPAs) arising from the removal of the cost of capital charge were not included in Spring Supplementary Estimates for 2010-11, other than as a note, on the basis that the PPA numbers could have been misleading. The impact of these accounting policy changes on Supply outturn in respect of 2009-10 are shown below.

The removal of the cost of capital charge has the following effect on Resource outturn and on Non-supply income (CFERs) in 2009-10. The Statement of Parliamentary Supply and related notes have not been restated for this effect however restatement was required for the Statement of Comprehensive Net Income, the Statement of Financial Position, the Statement of Cash flows as well as the Statement of Changes in Taxpayers Equity.

	Note	2009-10 (Restated) £'000
Net Resource Outturn - Statement of Parliamemtary Supply		(20,958)
Removal of the net cost of capital charge after AinA		20,958
Adjusted Net Resource Outturn		-
Non-supply income (CFER's) - Operating income payable to the Consolidated Fund		258,695
AinA adjustment following removal of the cost of capital charge		13,654
Adjusted Non-supply income (CFER's)		272,349
Net Operating income		237,737
Removal of the cost of capital charge	**3.1**	34,612
Adjusted Net Operating income		272,349

2 Analysis of net resource outturn by section

	2010-11								2009-10
	Outturn						Estimate		
	Admin	Other Current	Grants	Gross Resource Expenditure	A. in A.	Net Total	Net Total	Net Total outturn compared with estimate	Prior-year outturn
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for Resources (RfR) 1:									
To provide export finance assistance through interest support to benefit the UK economy by facilitating exports									
Spending in Annually Managed Expenditure (AME)									
Central Government spending									
A - Fixed Rate Export Finance	-	34,165	-	34,165	24,501	9,664	(1,054)	(10,718)	-
Non-Budget									
B - GEFCO loans and interest equalisation	-	2,277	-	2,277	1,070	1,207	1,056	(151)	20,958
C - Other Expenditure	-	-	-	-	-	-	13,308	13,308	-
RfR 1 Total	**-**	**36,442**	**-**	**36,442**	**25,571**	**10,871**	**13,310**	**2,439**	**20,958**
Request for Resources (RfR) 2:									
To provide export credit guarantees to benefit the UK economy by facilitating exports and to provide investment insurance									
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A - Administration	24,440	-	-	24,440	857	23,583	25,169	1,586	25,962
Spending in Annually Managed Expenditure (AME)									
Central Government spending									
B - Administration	(1,173)	-	-	(1,173)	-	(1,173)	8,450	9,623	-
Non-Budget									
C - Export Credits	-	26,007	-	26,007	48,417	(22,410)	(33,616)	(11,206)	(25,962)
RfR 2 Total	**23,267**	**26,007**	**-**	**49,274**	**49,274**	**-**	**3**	**3**	**-**
Resource Total	**23,267**	**62,449**	**-**	**85,716**	**74,845**	**10,871**	**13,313**	**2,442**	**20,958**

Brief explanation of variances between Estimate and outturn:

RfR1

Actual gross expenditure was less than the Estimate as a result of movements in fair value of financial instruments.

RfR2

Gross expenditure of £49.3 million compares with £101.8 million in the Estimate. There was sufficient income to return the Request for Resources to zero.

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

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

3.1 Reconciliation of net resource outturn to net operating income

	Note	Outturn £'000	Supply estimate £'000	2010-11 Outturn compared with estimate £'000	2009-10 Outturn £'000
Net resource outturn	2	(10,871)	(13,313)	2,442	(20,958)
Non-supply income (CFERs)	6	214,931	54,534	160,397	258,695
Net operating income before PPA		204,060	41,221	162,839	237,737
Prior Period Adjustment (PPA)		-	-	-	34,612
Net operating income		**204,060**	**41,221**	**162,839**	**272,349**

3.2 Outturn against final Administration Budget

	Note	Budget £'000	2010-11 Outturn £'000
Gross Administration Budget	2	27,782	24,440
Income Allowable against the Administration Budget	2	2,613	857
Net outturn against final Administration Budget		**25,169**	**23,583**

4 Reconciliation of resources to net cash requirement

	Note	Estimate £'000	Outturn £'000	Net total outturn compared with estimate: savings / (excess) £'000
Net resource requirement	2	(13,313)	(10,871)	2,442
Voted capital items:				
Capital :				
Acquisition of plant, property and Intangible assets	18	(500)	(517)	(17)
Accruals adjustments				
Non-cash items		88,321	(14,269)	(102,590)
Movements in working capital other than cash	17	10,936	94,236	83,300
Excess cash receipts surrenderable to the Consolidated Fund		(85,448)	(68,579)	16,869
Net cash requirement		**(4)**	**-**	**4**

The variances between Estimate and Outturn are explained within the Management Commentary; in summary the variance between Outturn and Estimate is largely due to changing claims exposure and fair value movements.

5 Analysis of income payable to the Consolidated Fund

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

	Note	Forecast Income £'000	2010-11 *Forecast Receipts £'000*	Income £'000	2010-11 *Outturn Receipts £'000*
Operating income and receipts - excess A. in A.	6	54,534	*16,549*	214,931	*196,198*
Non-operating income and receipts - excess A in A	8	-	*96,223*	-	*99,772*
Excess cash receipts surrenderable to the Consolidated Fund	4	-	*85,448*	-	*68,579*
Total		**54,534**	***198,220***	**214,931**	***364,549***

6 Reconciliation of income recorded within the Statement of Comprehensive Net Income to income payable to the Consolidated Fund

	Note	2010-11 £'000	2009-10 £'000
Operating Income	9	289,776	386,776
Gross income		289,776	386,776
Income authorised to be Appropriated in Aid	2	(74,845)	(128,081)
Operating income payable to the Consolidated Fund		**214,931**	**258,695**

7 Consolidated Fund Income

ECGD has no income acting as an agent of the Consolidated Fund.

8 Non-operating income - Excess Appropriations in Aid

	Note	2010-11 £'000	2009-10 £'000
Principal repayments of voted loans	31	99,772	161,935
Non-operating income - excess A. in A.		**99,772**	**161,935**

9 Income

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

	RfR 1 £'000	RfR 2 £'000	2010-11 Total £'000	2009-10 Total £'000
Net premium income	-	95,697	95,697	57,618
Interest receivable	-	55,720	55,720	80,361
Claims credit for the year	-	55,122	55,122	87,777
Changes in insurance liabilities (net of reinsurance)	-	25,921	25,921	99,791
Administration	-	857	857	1,082
Interest support costs	40,062	-	40,062	35,646
Interest income – Directly Funded Export Loans	16,397	-	16,397	24,501
Total Income for the year	**56,459**	**233,317**	**289,776**	**386,776**

10 Segmental information

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

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

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

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

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

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

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

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

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

ii. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2010

	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000
Income					
Gross premium income	-	102,453	-	-	102,453
Less ceded to reinsurers	-	(44,835)	-	-	(44,835)
Net premium income	**-**	**57,618**	**-**	**-**	**57,618**
Net investment return income	62,679	-	-	32,492	95,171
Claims credit for the year	54,307	33,470	-	-	87,777
Changes in insurance liabilities net of reinsurance	2,046	97,720	25	-	99,791
Total income	**119,032**	**188,808**	**25**	**32,492**	**340,357**
Expenses					
Net investment return expense	-	(6,792)	-	-	(6,792)
Staff costs	(1,527)	(9,544)	-	(1,654)	(12,725)
Other administration and operating costs	(1,588)	(9,883)	-	(1,721)	(13,192)
Net foreign exchange losses	(12,735)	(22,564)	-	-	(35,299)
Total expenses	**(15,850)**	**(48,783)**	**-**	**(3,375)**	**(68,008)**
Net income	**103,182**	**140,025**	**25**	**29,117**	**272,349**

Total income per the Statement of Comprehensive Net Income includes Net investment return expense shown under Account 2 above.

iii. Additional segmental information

For the year ended 31 March 2011, 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 £19.2m. In 2009-10 there were no customers 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 2011

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	914	-	-	914
Intangible assets	-	862	-	-	862
Financial assets					
Loans and receivables	-	-	-	178,242	178,242
Insurance contracts					
Insurance assets	443,742	426,181	-	-	869,923
Reinsurers' share of insurance liabilities	-	123,038	-	-	123,038
Insurance and other receivables	-	1,816	-	-	1,816
Total non-current assets	**443,742**	**552,811**	**-**	**178,242**	**1,174,795**
Current assets:					
Financial assets					
Fair value through income	-	-	-	35,755	35,755
Loans and receivables	-	-	-	54,613	54,613
Insurance contracts					
Insurance assets	31,783	31,544	-	-	63,327
Insurance and other receivables	-	5,574	-	-	5,574
Cash and cash equivalents	30,111	147,659	-	119,078	296,848
Total current assets	**61,894**	**184,777**	**-**	**209,446**	**456,117**
Total assets	**505,636**	**737,588**	**-**	**387,688**	**1,630,912**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	(2,260)	-	(40,194)	(42,454)
Payable to Consolidated Fund	(30,111)	(147,659)	-	(119,078)	(296,848)
Insurance and other payables	(2,399)	(7,771)	-	(179)	(10,349)
Total current liabilities	**(32,510)**	**(157,690)**	**-**	**(159,451)**	**(349,651)**
Non-current assets plus net current assets	**473,126**	**579,898**	**-**	**228,237**	**1,281,261**
Non-current liabilities					
Insurance contracts					
Insurance liabilities	(641)	(502,377)	(5)	-	(503,023)
Provisions	-	(8,378)	-	-	(8,378)
Financial liabilities					
Payable to Consolidated Fund	(151,118)	(7,761)	-	(2,050)	(160,929)
Total non-current liabilities	**(151,759)**	**(518,516)**	**(5)**	**(2,050)**	**(672,330)**
Assets less liabilities	**321,367**	**61,382**	**(5)**	**226,187**	**608,931**
Taxpayers' equity					
Exchequer Financing	(1,007,161)	(1,389,064)	(101,682)	230,129	(2,267,778)
Cumulative Trading Surplus	1,328,528	1,450,446	101,677	-	2,880,651
General Fund	-	-	-	(3,942)	(3,942)
Total taxpayers' equity	**321,367**	**61,382**	**(5)**	**226,187**	**608,931**

v. Segmental Statement of Financial Position at 31 March 2010

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	1,120	-	-	1,120
Intangible assets	-	891	-	-	891
Financial assets					
Loans and receivables	-	-	-	233,678	233,678
Insurance contracts					
Insurance assets	426,612	429,202	-	-	855,814
Reinsurers' share of insurance liabilities	-	81,145	-	-	81,145
Insurance and other receivables	-	1,812	-	-	1,812
Total non-current assets	**426,612**	**514,170**	**-**	**233,678**	**1,174,460**
Current assets:					
Financial assets					
Fair value through income	-	-	-	65,006	65,006
Loans and receivables	-	-	-	100,550	100,550
Insurance contracts					
Insurance assets	79,653	66,448	-	-	146,101
Insurance and other receivables	-	5,361	-	-	5,361
Cash and cash equivalents	44,199	125,469	-	175,400	345,068
Total current assets	**123,852**	**197,278**	**-**	**340,956**	**662,086**
Total assets	**550,464**	**711,448**	**-**	**574,634**	**1,836,546**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	(1,400)	-	(55,259)	(56,659)
Payable to Consolidated Fund	(44,199)	(125,469)	-	(175,400)	(345,068)
Insurance and other payables	(4,988)	(2,782)	-	(338)	(8,108)
Total current liabilities	**(49,187)**	**(129,651)**	**-**	**(230,997)**	**(409,835)**
Non-current assets plus net current assets	**501,277**	**581,797**	**-**	**343,637**	**1,426,711**
Non-current liabilities					
Insurance contracts					
Insurance liabilities	(915)	(486,118)	(18)	-	(487,051)
Provisions	-	(9,551)	-	-	(9,551)
Financial liabilities					
Payable to Consolidated Fund	(162,610)	(11,041)	-	(3,508)	(177,159)
Total non-current liabilities	**(163,525)**	**(506,710)**	**(18)**	**(3,508)**	**(673,761)**
Assets less liabilities	**337,752**	**75,087**	**(18)**	**340,129**	**752,950**
Taxpayers' equity					
Exchequer Financing	(934,715)	(1,244,925)	(101,682)	329,901	(1,951,421)
Cumulative Trading Surplus	1,272,467	1,320,012	101,664	-	2,694,143
General Fund	-	-	-	10,228	10,228
Total taxpayers' equity	**337,752**	**75,087**	**(18)**	**340,129**	**752,950**

vi. Segmental Statement of Financial Position at 1 April 2009

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	1,382	-	-	1,382
Financial assets					
Loans and receivables	-	-	-	333,171	333,171
Insurance contracts					
Insurance assets	345,546	544,668	-	-	890,214
Reinsurers' share of insurance liabilities	-	40,952	-	-	40,952
Insurance and other receivables	-	6,467	-	-	6,467
Total non-current assets	**345,546**	**593,469**	**-**	**333,171**	**1,272,186**
Current assets:					
Financial assets					
Fair value through income	-	20,185	-	78,771	98,956
Loans and receivables	-	-	-	174,914	174,914
Insurance contracts					
Insurance assets	110,017	19,938	-	-	129,955
Insurance and other receivables	387	5,214	-	-	5,601
Cash and cash equivalents	59,175	137,537	-	216,720	413,432
Total current assets	**169,579**	**182,874**	**-**	**470,405**	**822,858**
Total assets	**515,125**	**776,343**	**-**	**803,576**	**2,095,044**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	-	-	(71,172)	(71,172)
Payable to Consolidated Fund	(59,175)	(137,537)	-	(216,720)	(413,432)
Insurance and other payables	(11,610)	(5,948)	-	(8,451)	(26,009)
Total current liabilities	**(70,785)**	**(143,485)**	**-**	**(296,343)**	**(510,613)**
Non-current assets plus net current assets	**444,340**	**632,858**	**-**	**507,233**	**1,584,431**
Non-current liabilities					
Insurance contracts					
Insurance liabilities	(2,961)	(543,645)	(43)	-	(546,649)
Provisions	-	(7,258)	-	-	(7,258)
Financial liabilities					
Payable to Consolidated Fund	(127,986)	(29,760)	-	(6,082)	(163,828)
Total non-current liabilities	**(130,947)**	**(580,663)**	**(43)**	**(6,082)**	**(717,735)**
Assets less liabilities	**313,393**	**52,195**	**(43)**	**501,151**	**866,696**
Taxpayers' equity					
Exchequer Financing	(855,892)	(1,127,792)	(101,682)	491,836	(1,593,530)
Cumulative Trading Surplus	1,169,285	1,179,987	101,639	-	2,450,911
General Fund	-	-	-	9,315	9,315
Total taxpayers' equity	**313,393**	**52,195**	**(43)**	**501,151**	**866,696**

11 Net investment return

	Note	Account 1 £'000	Account 2 £'000	2010-11 Total £'000	2009-10 Total £'000
Export Credit Guarantees and Insurance					
Net loss on Credit Default Swaps		-	(4,793)	(4,793)	(24,474)
Interest income	12	36,971	18,749	55,720	80,361
Total		**36,971**	**13,956**	**50,927**	**55,887**

	Note	2010-11 Total £'000	2009-10 Total £'000
Export Finance Assistance			
Net interest support costs		1,043	1,515
Net movement in fair value of derivatives		2,577	6,476
Interest income	31	16,397	24,501
Total		**20,017**	**32,492**

12 Interest receivable

	Note	Account 1 £'000	Account 2 £'000	2010-11 Total £'000	2009-10 Total £'000
Interest arising from claims					
- interest charged in the year	20(b)	41,028	37,074	78,102	133,853
- net increase in provisions for unrecovered interest	20(b)	(4,057)	(18,365)	(22,422)	(53,515)
Interest arising from claims net of provisions		36,971	18,709	55,680	80,338
Other Interest		-	40	40	23
Interest credit for the year		36,971	18,749	55,720	80,361

Other Interest includes bank interest on balances with commercial banks.

13 Claims credit for the year

	Note	Account 1 £'000	Account 2 £'000	2010-11 Total £'000	2009-10 Total £'000
Claims authorised and paid in year	20(a)	-	(30,175)	(30,175)	(48,472)
Expected recoveries on claims authorised and paid in the year		-	28,433	28,433	33,685
Provision on claims authorised and paid in the year		-	(1,742)	(1,742)	(14,787)
Net decrease in provisions for claims authorised and paid in previous years		32,341	24,523	56,864	102,564
Claims credit for the year	20(a)	**32,341**	**22,781**	**55,122**	**87,777**

There is no reinsurance element included within the figures above.

14 Staff numbers and costs

A. Staff costs consist of:

	2010-11 £'000	2009-10 £'000
Salaries and Wages	8,743	9,383
Social Security Costs	785	809
Early Retirement Costs	747	777
Other Pension Costs	1,684	1,756
Total Staff Cost	**11,959**	**12,725**
Of which:		
Export Credit Guarantees and Insurance	10,644	11,071
Export Finance Assistance	1,315	1,654

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

For 2010-11, employers' contributions of £1,637,909 were payable to the PCSPS (2009-10: £1,731,134) at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The rates from 2010-11 will be in the range of 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2010-11 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, being a stakeholder pension with an employer contribution. Employers' contributions of £3,600 (2009-10: £2,466) 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 £3,020 (2009-10: £658), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £237(2009-10: £371). Contributions prepaid at that date were £Nil (2009-10: £Nil).

B. The average number of full-time equivalent persons employed (including senior management) was 198 (2009-10: 207) and full time equivalent of temporary workers during the year was 15 (2009-10: 19).

15 Other administrative and operating costs

	2010-11 £'000	2009-10 £'000
IT	2,756	2,860
Indirect staff and personnel expenses	1,245	2,008
Business promotion	19	63
Rent	1,031	2,608
Other establishment costs	1,640	1,476
Underwriting expenses	193	70
Claims and recovery expenses	285	275
Non-refundable premium administration income	(59)	(95)
Other administration costs	2,224	3,146
Depreciation	412	424
Impairments	340	-
Travel, subsistence and hospitality	365	357
Expenditure	**10,451**	**13,192**
Of which:		
Export Credit Guarantees and Insurance	9,301	11,471
Export Finance Assistance	1,150	1,721
Included in the above figures:		
Minimum lease payments under operating leases recognised as expense in the year	2,529	2,529
Audit fees	240	233

16 Foreign exchange (loss)/gain

	Account 1 £'000	Account 2 £'000	2010-11 Total £'000	2009-10 Total £'000
Unrealised foreign exchange (loss)/gain arising on:				
- recoverable claims and interest before provisions	(23,532)	(12,018)	(35,550)	(51,421)
- provisions against recoverable claims and interest	13,411	1,450	14,861	21,399
- insurance premium receivables	-	(506)	(506)	(692)
Net unrealised foreign exchange (loss)/gain for year	(10,121)	(11,074)	(21,195)	(30,714)
Realised foreign exchange (loss)/gain	(939)	920	(19)	(4,585)
Net foreign exchange (loss)/gain for year	**(11,060)**	**(10,154)**	**(21,214)**	**(35,299)**

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

Currency	Currency equivalent to £ 1 31 March 2011	31 March 2010
Euro	1.13	1.12
Japanese Yen	132.93	141.79
US Dollars	1.60	1.52

17 Movements in working capital other than financial assets

	Note	2010-11 £'000	2009-10 £'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	20(a)	92,575	102,393
Receivables, other debtors and prepayments		(580)	13,551
Payables, insurance liabilities and accruals		2,241	(17,901)
Net decrease in working capital other than cash and cash equivalents		**94,236**	**98,043**

18 Plant and equipment, and intangible assets

(a) Plant and equipment

	IT equipment £'000	Leasehold improvements £'000	Total £'000
Cost:			
Balance at 1 April 2009	4,261	2,970	7,231
Additions	162	-	162
Balance at 31 March 2010	**4,423**	**2,970**	**7,393**
Additions	45	53	98
Balance at 31 March 2011	**4,468**	**3,023**	**7,491**
Accumulated Depreciation:			
Balance at 1 April 2009	3,807	2,042	5,849
Charge for the Year	289	135	424
Balance at 31 March 2010	**4,096**	**2,177**	**6,273**
Charge for the Year	176	128	304
Balance at 31 March 2011	**4,272**	**2,305**	**6,577**
Carrying amount:			
31 March 2011	**196**	**718**	**914**
31 March 2010	327	793	1,120
1 April 2009	454	928	1,382

(b) Intangible assets

	Software £'000
Cost	
Balance at 1 April 2009	-
Additions	891
Balance at 31 March 2010	**891**
Impairments	(340)
Additions	419
Balance at 31 March 2011	**970**
Accumulated Depreciation	
Balance at 1 April 2009	-
Charge for the Year	-
Balance at 31 March 2010	**-**
Charge for the Year	108
Balance at 31 March 2011	**108**
Carrying amount:	
31 March 2011	**862**
31 March 2010	**891**
1 April 2009	-

19 Financial assets

(a) Fair value through profit or loss:

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Export Credit Guarantees and Insurance			
Credit default swaps	-	-	20,185
Export Finance Assistance			
Interest rate derivatives in relation to Export Finance Loan Guarantees	35,755	49,820	61,950
Interest rate derivative contracts entered into for hedging purposes	-	15,186	16,821
Total	**35,755**	**65,006**	**98,956**
Falling due:			
- within one year	35,755	65,006	98,956

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

(b) Loans and receivables:

	Note	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Export Finance Loans due from GEFCO	31	230,129	329,901	491,836
Export Finance Interest due from GEFCO	31	2,050	3,508	6,082
Export Finance Interest on FREF loans due from DFID		569	688	1,840
Other Export Finance Receivables		107	131	8,327
Total		**232,855**	**334,228**	**508,085**
Falling due:				
- within one year		54,613	100,550	174,914
- after more than one year		178,242	233,678	333,171

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 £ 254,290,000 (2009-10: £363,197,000).

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

20 Insurance assets

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Recoverable claims	779,633	833,409	872,245
Interest on unrecovered claims	153,617	168,506	147,924
Total	**933,250**	**1,001,915**	**1,020,169**
Falling due:			
- within one year	63,327	146,101	129,955
- after more than one year	869,923	855,814	890,214

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 2009	910,097	852,049	1,762,146
Reclassifications & transfers from interest on unrecovered claims	-	9,159	9,159
Claims approved in the year	10	48,462	48,472
Recoveries made in the year	(30,689)	(120,176)	(150,865)
Recoveries abandoned in the year	(12,694)	(59,924)	(72,618)
Foreign exchange movements	(13,377)	(21,731)	(35,108)
Balance at 31 March 2010	**853,347**	**707,839**	**1,561,186**
Reclassifications & transfers from interest on unrecovered claims	442	8,036	8,478
Claims approved in the year	-	30,175	30,175
Recoveries made in the year	(45,500)	(77,250)	(122,750)
Recoveries abandoned in the year	(50,162)	(8,817)	(58,979)
Foreign exchange movements	(10,479)	(11,597)	(22,076)
Balance at 31 March 2011	**747,648**	**648,386**	**1,396,034**
Recoverable claims - provisions			
Balance at 1 April 2009	582,520	307,381	889,901
Reclassifications & transfers from interest on unrecovered claims	-	9,159	9,159
Release of provisions in the year	(54,307)	(33,470)	(87,777)
Recoveries abandoned in the year	(12,694)	(59,924)	(72,618)
Foreign exchange movements	(5,827)	(5,061)	(10,888)
Balance at 31 March 2010	**509,692**	**218,085**	**727,777**
Reclassifications & transfers from interest on unrecovered claims	442	8,036	8,478
Release of provisions in the year	(32,341)	(22,781)	(55,122)
Recoveries abandoned in the year	(50,162)	(8,817)	(58,979)
Foreign exchange movements	(4,390)	(1,363)	(5,753)
Balance at 31 March 2011	**423,241**	**193,160**	**616,401**
Net recoverable claims as at:			
- 31 March 2011	**324,407**	**455,226**	**779,633**
- 31 March 2010	343,655	489,754	833,409
- 1 April 2009	327,577	544,668	872,245

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 2009	1,170,598	36,088	1,206,686
Reclassifications & transfers to recoverable claims	(54,831)	45,672	(9,159)
Interest charged in the year	107,342	26,511	133,853
Interest received in the year	(22,847)	(31,107)	(53,954)
Recoveries abandoned in the year	(46,562)	(5,381)	(51,943)
Foreign exchange movements	(15,330)	(983)	(16,313)
Balance at 31 March 2010	1,138,370	70,800	1,209,170
Reclassifications & transfers to recoverable claims	(442)	(8,036)	(8,478)
Interest charged in the year	41,028	37,074	78,102
Interest received in the year	(44,431)	(21,772)	(66,203)
Recoveries abandoned in the year	(130,862)	-	(130,862)
Foreign exchange movements	(13,053)	(421)	(13,474)
Balance at 31 March 2011	**990,610**	**77,645**	**1,068,255**
Interest on unrecovered claims - provisions			
Balance at 1 April 2009	1,042,612	16,150	1,058,762
Reclassifications & transfers to recoverable claims	(54,831)	45,672	(9,159)
Increase in provisions in the year	44,686	8,829	53,515
Recoveries abandoned in the year	(46,562)	(5,381)	(51,943)
Foreign exchange movements	(10,145)	(366)	(10,511)
Balance at 31 March 2010	975,760	64,904	1,040,664
Reclassifications & transfers to recoverable claims	(442)	(8,036)	(8,478)
Increase in provisions in the year	4,057	18,365	22,422
Recoveries abandoned in the year	(130,862)	-	(130,862)
Foreign exchange movements	(9,021)	(87)	(9,108)
Balance at 31 March 2011	**839,492**	**75,146**	**914,638**
Net interest on unrecovered claims as at:			
- 31 March 2011	**151,118**	**2,499**	**153,617**
- 31 March 2010	162,610	5,896	168,506
- 1 April 2009	127,986	19,938	147,924

As at 31 March 2011 £3,257,724 of the above Account 1 net unrecovered interest on claims balance was due from the Department for International Development.

21 Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 2009	40,952
Movements summary:	
Addition to the underwriting funds in the year	44,831
Net decrease of open credit funds	(3,114)
Other fund movements	(1,524)
Balance at 31 March 2010	81,145
Movements summary:	
Addition to the underwriting funds in the year	47,706
Net decrease of open cash funds	(4,371)
Net decrease of open credit funds	(5)
Other fund movements	(709)
Net decrease in insurance liabilities on closed funds	(728)
Balance at 31 March 2011	**123,038**

Movements are summarised within Note 28.

22 Insurance and other receivables

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Insurance premium receivables	5,262	5,145	9,822
Prepayments and accrued income	2,128	2,028	2,162
Other receivables - policyholders	-	-	84
	7,390	**7,173**	**12,068**
Falling due:			
- within one year	5,574	5,361	5,601
- after more than one year	1,816	1,812	6,467

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

23 Cash and cash equivalents

	Note	£'000
Balance at 1 April 2009		413,432
Net cash inflow to ECGD		372,997
Payments to the Consolidated Fund:		
in respect of amounts received in the previous year		(413,432)
in respect of amounts received in the current year		(27,929)
Balance at 31 March 2010		**345,068**
Net cash inflow to ECGD	5	364,549
Payments to the Consolidated Fund:		
in respect of amounts received in the previous year		(345,068)
in respect of amounts received in the current year		(67,701)
Balance at 31 March 2011		**296,848**

Cash and cash equivalents comprise:	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Office of Paymaster General	277,973	326,659	402,074
Commercial banks and cash in hand	18,875	18,409	11,358
Total	**296,848**	**345,068**	**413,432**

24 Reconciliation of Net Cash Requirement to decrease in cash

	Note	2010-11 £'000	2009-10 £'000
Net cash requirement	4	-	-
Amounts due to the Consolidated Fund:			
- payments relating to prior year		(345,068)	(413,432)
- received and not paid over		296,848	345,068
Decrease in cash		**(48,220)**	**(68,364)**

25 Financial liabilities at fair value

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Export Credit Guarantees and Insurance			
Credit default swaps	2,260	1,400	-
Export Finance Assistance			
Interest rate derivatives in relation to Export Finance Loan Guarantees	9,889	13,451	16,090
Interest rate derivative contracts entered into for hedging purposes	30,305	41,808	55,082
Total	**42,454**	**56,659**	**71,172**
Falling due:			
- within one year	42,454	56,659	71,172

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

26 Payable to the Consolidated Fund

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	296,848	345,068	413,432
Long term Consolidated Fund creditor	160,929	177,159	163,828
Total	**457,777**	**522,227**	**577,260**
Falling due:			
- within one year	296,848	345,068	413,432
- after more than one year	160,929	177,159	163,828

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

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

27 Insurance and other payables, and provisions

(a) Insurance and other payables

	31 March 2011 £'000	31 March 2010 (Restated) £'000	1 April 2009 (Restated) £'000
Insurance payables - amounts due to policyholders	160	658	548
Income tax and National Insurance	256	272	281
Other payables	9,421	6,380	15,220
Accruals	512	798	9,960
Total	**10,349**	**8,108**	**26,009**
Falling due:			
- within one year	10,349	8,108	26,009

(b) Provisions

	31 March 2011 £'000	31 March 2010 (Restated) £'000	1 April 2009 (Restated) £'000
Dilapidations Provision	875	875	750
Onerous Lease Provision	4,944	5,750	3,149
Early Departure Provision	2,559	2,926	3,359
Total	**8,378**	**9,551**	**7,258**
Falling due:			
- after more than one year	8,378	9,551	7,258

	Dilapidations Provision £'000	Onerous Lease Provision £'000	Early Departure Provision £'000	Total £'000
Balance at 1 April 2009	750	3,149	3,359	7,258
Additions	125	2,601	777	3,503
Cash paid	0	0	(1,210)	(1,210)
Balance at 31 March 2010	**875**	**5,750**	**2,926**	**9,551**
Additions	0	0	747	747
Releases	0	(806)	0	(806)
Cash paid	0	0	(1,114)	(1,114)
Balance at 31 March 2011	**875**	**4,944**	**2,559**	**8,378**

Provision for Early Departure has been reclassified from other payables to provisions as this represents a fairer presentation.

28 Insurance liabilities

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

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

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 2009	2,961	543,645	43	546,649
Movements:				
Addition to the underwriting funds in the year	-	80,177	-	80,177
Release of excess funds - cash	-	(21,612)	-	(21,612)
Release of excess funds - credit	-	(102,061)	-	(102,061)
Other fund movements	-	9,839	-	9,839
Change in insurance liabilities on closed funds	(2,046)	(23,870)	(25)	(25,941)
Balance at 31 March 2010	915	486,118	18	487,051
Movements:				
Addition to the underwriting funds in the year	-	125,257	-	125,257
Release of excess funds - cash	-	(20,365)	-	(20,365)
Release of excess funds - credit	-	(56,094)	-	(56,094)
Other fund movements	-	(2,834)	-	(2,834)
Change in insurance liabilities on closed funds	(274)	(29,705)	(13)	(29,992)
Balance at 31 March 2011	**641**	**502,377**	**5**	**503,023**
Insurance liabilities - Net of reinsurance				
Balance at 1 April 2009	2,961	502,693	43	505,697
Movements:				
Addition to the underwriting funds in the year	-	35,346	-	35,346
Release of excess funds - cash	-	(21,612)	-	(21,612)
Release of excess funds - credit	-	(98,947)	-	(98,947)
Other fund movements	-	11,363	-	11,363
Change in insurance liabilities on closed funds	(2,046)	(23,870)	(25)	(25,941)
Balance at 31 March 2010	915	404,973	18	405,906
Movements:				
Addition to the underwriting funds in the year	-	77,551	-	77,551
Release of excess funds - cash	-	(15,994)	-	(15,994)
Release of excess funds - credit	-	(56,089)	-	(56,089)
Other fund movements	-	(2,125)	-	(2,125)
Change in insurance liabilities on closed funds	(274)	(28,977)	(13)	(29,264)
Balance at 31 March 2011	**641**	**379,339**	**5**	**379,985**
Summary of movements:				
2009-10				
Gross changes in insurance liabilities	*(2,046)*	*(57,527)*	*(25)*	*(59,598)*
Reinsurers' share of changes in insurance liabilities	*-*	*(40,193)*	*-*	*(40,193)*
Changes in insurance liabilities (net of reinsurance)	***(2,046)***	***(97,720)***	***(25)***	***(99,791)***
2010-11				
Gross changes in insurance liabilities	*(274)*	*16,259*	*(13)*	*15,972*
Reinsurers' share of changes in insurance liabilities	*-*	*(41,893)*	*-*	*(41,893)*
Changes in insurance liabilities (net of reinsurance)	***(274)***	***(25,634)***	***(13)***	***(25,921)***

Movements in reinsurance are analysed within Note 21.

Claims development tables

The tables below present the development of the underwriting funds balances for fund years 2004-05 to 2010-11.

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

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

Table 1: Development of insurance liabilities, gross of reinsurance

	Prior fund years		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	
	Closed years £'000	Open years £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	fund year £'000	Grand Total £'000
Account 2										
Credit funds	15,859	99,510								
At end of year			19,512	53,095	24,845	23,265	28,485	79,484	124,015	
One year later			17,232	53,521	25,178	23,265	29,123	79,483		
Two years later			13,033	54,141	25,178	20,003	29,123			
Three years later			13,476	54,141	22,476	20,003				
Four years later			13,476	83,609	22,476					
Five years later			14,531	83,601						
Six years later			14,531							
Cash funds	12,546	-								
At end of year			12,902	22,935	21,255	20,423	7,963	693	1,242	
One year later			13,554	23,131	21,684	16,901	7,120	693		
Two years later			14,004	23,416	21,684	20,371	4,590			
Three years later			280	266	73	6				
Four years later			120	-	53					
Five years later			-	230						
Six years later			1							
Account 2 - credit fund total	15,859	99,510	14,531	83,601	22,476	20,003	29,123	79,483	124,015	488,601
Account 2 - cash fund total	12,546	-	1	230	53	6	4,590	693	1,242	19,361
Account 1 total	641	-								641
Account 3 total	5	-								5
Gross fund before paid claims	**29,051**	**99,510**	**14,532**	**83,831**	**22,529**	**20,009**	**33,713**	**80,176**	**125,257**	**508,608**
Cumulative paid claims - Account 2		(5,585)	-	-	-	-	-	-	-	(5,585)
Gross fund total	**29,051**	**93,925**	**14,532**	**83,831**	**22,529**	**20,009**	**33,713**	**80,176**	**125,257**	**503,023**

Table 2: Development of insurance liabilities, net of reinsurance

	Prior fund years: Closed years £'000	Prior fund years: Open years £'000	2004-05 fund year £'000	2005-06 fund year £'000	2006-07 fund year £'000	2007-08 fund year £'000	2008-09 fund year £'000	2009-10 fund year £'000	2010-11 fund year £'000	Grand Total £'000
Account 2										
Credit funds	11,283	99,361								
At end of year			15,937	49,916	16,468	20,086	25,798	34,653	76,308	
One year later			13,657	50,342	16,801	20,086	26,433	35,363		
Two years later			9,458	50,962	16,801	20,003	26,433			
Three years later			9,901	50,962	17,278	20,003				
Four years later			9,901	65,011	17,278					
Five years later			14,531	65,003						
Six years later			14,531							
Cash funds	12,546	-								
At end of year			12,902	22,935	21,255	20,423	7,963	693	1,242	
One year later			13,554	23,131	21,684	16,901	7,120	693		
Two years later			14,004	23,416	21,684	16,001	4,590			
Three years later			280	266	73	6				
Four years later			120	-	53					
Five years later			-	230						
Six years later			1							
Account 2 - credit fund total	11,283	99,361	14,531	65,003	17,278	20,003	26,433	35,363	76,308	365,563
Account 2 - cash fund total	12,546	-	1	230	53	6	4,590	693	1,242	19,361
Account 1 total	641	-								641
Account 3 total	5	-								5
Net fund before paid claims	**24,475**	**99,361**	**14,532**	**65,233**	**17,331**	**20,009**	**31,023**	**36,056**	**77,550**	**385,570**
Cumulative paid claims - Account 2		(5,585)	-	-	-	-	-	-	-	(5,585)
Net fund total	**24,475**	**93,776**	**14,532**	**65,233**	**17,331**	**20,009**	**31,023**	**36,056**	**77,550**	**379,985**

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	
	Closed years	Open years	fund year	fund year	fund year	fund year	fund year	fund year	fund year	Grand Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Account 2										
Expected Loss - credit funds	11,283	7,364								
At end of year			15,937	30,697	9,322	12,203	14,077	29,302	34,350	
One year later			13,657	19,534	12,143	14,080	14,549	26,329		
Two years later			8,354	21,915	12,812	19,337	11,946			
Three years later			8,771	21,910	7,061	17,415				
Four years later			6,853	27,686	5,326					
Five years later			4,150	16,157						
Six years later			2,915							
Expected Loss - cash funds	12,546	-								
At end of year			11,008	4,955	20,718	20,423	7,963	544	311	
One year later			1,089	851	1,841	21	7,120	109		
Two years later			516	622	173	6	4,590			
Three years later			280	266	73	6				
Four years later			120	-	53					
Five years later			-	230						
Six years later			1							
Account 2 total	23,829	7,364	2,916	16,387	5,379	17,421	16,536	26,438	34,661	150,931
Account 1 total	641	-								641
Account 3 total	5	-								5
Expected Loss total	**24,475**	**7,364**	**2,916**	**16,387**	**5,379**	**17,421**	**16,536**	**26,438**	**34,661**	**151,577**

29 Movement in exchequer financing

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

30 Risk management: financial instruments and insurance contracts

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

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

a) **Market risk** (including interest rate risk, foreign currency risk, and other price risk);
b) **Credit risk** (in this context meaning counterparty risk in relation to interest rate derivatives and credit default swaps);
c) **Insurance risk** (including related foreign currency risk);
d) **Liquidity risk;** 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 within the Statement on Internal Control. Its approach to managing enterprise risk more broadly is described within the Annual Review, under the heading of Governance.

30(a) Market risk

Market risk is the risk of adverse financial impact due to changes in the fair value or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates and other prices. ECGD is exposed to market risk through its holdings of credit default swaps and of interest rate derivatives held in support of its Fixed Rate Export Finance (FREF) scheme. In addition ECGD has a significant exposure to foreign currency risk, primarily due to holding US dollar denominated insurance assets in the form of net unrecovered claims. ECGD is not authorised by HM Treasury to hedge its exposure to foreign currency risk (refer Note 30 (a) (ii) and (c) (iii)). In addition there is some foreign exchange market risk which is explained in Note 30 (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 Agreement on Officially Supported Export Credits (the OECD Agreement). The minimum fixed interest rates which may be supported under the OECD Agreement in this manner are called Commercial Interest Reference Rates (CIRR).

Support is provided in the form of interest make up (IMU) arrangements between ECGD and the lending bank under Export Finance Loans. These IMU arrangements are effectively interest rate swaps between ECGD and the lending bank. The lending bank provides funding for the export loan at a floating rate (usually LIBOR plus a margin). ECGD 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 controlling the terms of the FREF scheme itself and the use of effective hedging instruments such as interest rate swaps.

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

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

Sensitivities to movements in interest rates were:

	1% increase in interest rates £'000	1% decrease in interest rates £'000
As at 31 March 2011		
Interest rate swap arrangements on Export Finance Loan Guarantees	(7,953)	6,848
Interest rate derivative contracts entered into for hedging purposes	11,149	(11,720)
Net impact on profit or loss	**3,196**	**(4,872)**
As at 31 March 2010		
Interest rate swap arrangements on Export Finance Loan Guarantees	(12,161)	10,720
Interest rate derivative contracts entered into for hedging purposes	13,501	(13,786)
Net impact on profit or loss	**1,340**	**(3,066)**

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 2011		
Interest rate swap arrangements on Export Finance Loan Guarantees	(231)	196
Net impact on profit or loss	**(231)**	**196**
As at 31 March 2010		
Interest rate swap arrangements on Export Finance Loan Guarantees	(285)	230
Interest rate derivative contracts entered into for hedging purposes	327	(297)
Net impact on profit or loss	**42**	**(67)**

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 2011				
Interest rate swap arrangements on Export Finance Loan Guarantees	115,618	294,570	70,157	480,345
Interest rate derivative contracts entered into for hedging purposes	132,139	301,154	63,906	497,199
As at 31 March 2010				
Interest rate swap arrangements on Export Finance Loan Guarantees	116,810	398,033	118,505	633,348
Interest rate derivative contracts entered into for hedging purposes	169,909	446,522	140,320	756,751

(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 30 (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 2011				
Financial assets:				
Fair value through profit or loss	8,211	19,605	7,939	35,755
Loans and receivables	232,855	-	-	232,855
Insurance and other receivables	2,145	2,928	2,317	7,390
Financial liabilities:				
Fair value through profit or loss	(15,688)	(20,702)	(6,064)	(42,454)
Insurance and other payables	(10,349)	-	-	(10,349)
As at 31 March 2010				
Financial assets:				
Fair value through profit or loss	26,094	26,615	12,297	65,006
Loans and receivables	334,228	-	-	334,228
Insurance and other receivables	2,063	4,242	869	7,173
Financial liabilities:				
Fair value through profit or loss	(20,591)	(26,084)	(9,984)	(56,659)
Insurance and other payables	(8,108)	-	-	(8,108)

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

(a)(iii) Other price risk

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

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

ECGD is exposed to price risk through changes in the credit spreads for the entity on which protection has been purchased (the Reference Entity).

The sensitivity to changes in credit spreads on the fair value of ECGD's CDS Financial Liabilities at 31 March 2011 is as follows;

- 100% increase in credit spreads would increase the carrying value by £3,529,864 (31 March 2010 by £9,761,887).

- 80% decrease in credit spreads would reduce the carrying value by £2,895,772 (31 March 2010 by £8,294,608).

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

	One year or less £'000	Between one and five years £'000	After five years £'000	Total £'000
As at 31 March 2011	-	130,968	-	130,968
As at 31 March 2010	42,836	206,808	15,517	265,161

30(b) Credit risk

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

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

Reports detailing credit exposures by counterparty, together with their limits, are reviewed by the Risk Committee on a monthly basis. At 31 March 2011 all counterparty exposures were with financial institution counterparties with an external credit rating of A+ or higher.

Credit concentration risk (financial counterparty)

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

30(c) Insurance risk

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

(c)(i) Credit risk

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

Underwriting funds

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

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

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

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at risk, gross of reinsurance			
Account 2			
Asset-backed	6,026,568	2,823,396	8,849,964
Other	2,896,582	1,824,559	4,721,141
	8,923,150	**4,647,955**	**13,571,105**
Amounts at risk, net of reinsurance			
Account 2			
Asset-backed	3,173,484	2,823,396	5,996,880
Other	1,797,628	1,824,559	3,622,187
	4,971,112	**4,647,955**	**9,619,067**
Expected Loss, gross of reinsurance			
Account 2			
Asset-backed	26,207	68,480	94,687
Other	31,715	81,940	113,655
	57,922	**150,420**	**208,342**
Expected Loss, net of reinsurance			
Account 2			
Asset-backed	15,583	42,407	57,990
Other	15,156	77,785	92,941
	30,739	**120,192**	**150,931**

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

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

Amounts at risk on Accounts 1 and 3 were £37,031,000 and £8,161,000 respectively at 31 March 2011 (31 March 2010: £47,774,000 and £16,909,000 respectively)

Expected Loss on Accounts 1 and 3 were £641,000 and £5,000 respectively at 31 March 2011 (31 March 2010: £915,000 and £18,000 respectively).

There is no reinsurance on Accounts 1 and 3.

Insurance assets – unrecovered claims

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

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

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

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

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

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

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

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

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

(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 and industrial sectors. 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 2011. 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	4,150,726	1,746,505	1,158,078	1,794,655	8,849,964
Other	1,523,609	284,192	1,899,828	1,013,512	4,721,141
	5,674,335	**2,030,697**	**3,057,906**	**2,808,167**	**13,571,105**
Amounts at Risk, net of reinsurance					
Account 2					
Asset-backed	1,297,642	1,746,505	1,158,078	1,794,655	5,996,880
Other	424,655	284,192	1,899,828	1,013,512	3,622,187
	1,722,297	**2,030,697**	**3,057,906**	**2,808,167**	**9,619,067**
Expected Loss, gross of reinsurance					
Account 2					
Asset-backed	19,373	16,511	14,349	44,454	94,687
Other	8,448	13,538	60,010	31,659	113,655
	27,821	**30,049**	**74,359**	**76,113**	**208,342**
Expected Loss, net of reinsurance					
Account 2					
Asset-backed	12,935	14,125	9,616	21,314	57,990
Other	8,243	13,464	42,029	29,205	92,941
	21,178	**27,589**	**51,645**	**50,519**	**150,931**

The following table provides an indication of the concentration of credit risk within the ECGD Account 2 portfolio as at 31 March 2010:

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

(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 2011:

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

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2011 is as follows:

- 10% movement would increase / decrease the carrying value by £33,302,000 (31 March 2010 by £35,748,000).

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 2010:

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

30(d) Liquidity risk

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

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

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

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

30(e) Risk measurement

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

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

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

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

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

	Across the board ratings downgrade		Increased persistence	Reduced recovery rates	Combination: ratings down 2 notches, persistence +2 yrs, recovery rates -20%
	1 notch	2 notches	+ 2 years	-20%	
	£'000	£'000	£'000	£'000	£'000
As at 31 March 2011:					
- Increase in Expected Loss	70,173	167,539	5,823	47,436	301,646
- Impact on net operating income for the year	18,851	56,806	957	12,589	137,756

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

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

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

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

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

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

31 Related party transactions

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

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

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

GEFCO is incorporated in Great Britain and registered in England and Wales and is domiciled in the United Kingdom. It is the only subsidiary of First Securitisation Company Limited. As at 31 March 2011, First Securitisation Company Limited holds 49,999 of its shares with the one remaining share being held by Capita IRG Trustees Limited. GEFCO has three Directors: two appointed by Capita IRG Trustees Limited and the other appointed by Lloyds Banking Group Plc (Lloyds).

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

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

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

In 2010-11, transactions between ECGD and GEFCO comprised:

- repayments of principal under loans made by ECGD to GEFCO: £99,772,000 (£165,913,000 in 2009-10);
- payment of advances of principal under loans by ECGD to GEFCO: £Nil (£3,978,000 in 2009-10); and
- net interest received under those loans: £17,855,000 (£27,075,000 in 2009-10)

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

	Loan £'000	Interest £'000
Balance at 1 April 2009	**491,836**	**6,082**
Cash Advanced / Interest Charged in Year	3,978	24,501
Cash Received in Year	(165,913)	(27,075)
Balance at 31 March 2010	**329,901**	**3,508**
Cash Advanced / Interest Charged in Year	-	16,397
Cash Received in Year	(99,772)	(17,855)
Balance at 31 March 2011	**230,129**	**2,050**

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 2011, GEFCO fees and expenses totalled £711,000 (2009-10: £821,000).

The expenses deducted include:

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

The residual margin payments made by GEFCO to banks on ECGD’s behalf pursuant to the Agency Agreement between ECGD and GEFCO totalled £1,446,000 (2009-10 £1,780,000).

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

32 Contingent liabilities

(i) Amounts at Risk on issued guarantees and other contingent liabilities

Gross of reinsurance	**Account 1**	**Account 2**	**Account 3**	**Account 4**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2009	59,648	10,331,551	28,548	-	10,419,747
Guarantees and insurance policies issued and renewed	-	3,904,336	-	-	3,904,336
Run off	(11,148)	(2,251,658)	(10,215)	-	(2,273,021)
Foreign exchange adjustments	(726)	(249,527)	(1,424)	-	(251,677)
Balance at 31 March 2010	**47,774**	**11,734,702**	**16,909**	**-**	**11,799,385**
Guarantees and insurance policies issued and renewed	-	4,478,520	-	-	4,478,520
Run off	(10,387)	(2,264,683)	(8,196)	-	(2,283,266)
Foreign exchange adjustments	(356)	(377,434)	(552)	-	(378,342)
Balance at 31 March 2011	**37,031**	**13,571,105**	**8,161**	**-**	**13,616,297**

Net of reinsurance	**Account 1**	**Account 2**	**Account 3**	**Account 4**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2009	59,648	9,007,850	28,548	-	9,096,046
Guarantees and insurance policies issued and renewed	-	2,205,701	-	-	2,205,701
Run off	(11,148)	(1,976,991)	(10,215)	-	(1,998,354)
Foreign exchange adjustments	(726)	(339,546)	(1,424)	-	(341,696)
Balance at 31 March 2010	**47,774**	**8,897,014**	**16,909**	**-**	**8,961,697**
Guarantees and insurance policies issued and renewed	-	2,923,600	-	-	2,923,600
Run off	(10,387)	(1,883,823)	(8,196)	-	(1,902,406)
Foreign exchange adjustments	(356)	(317,724)	(552)	-	(318,632)
Balance at 31 March 2011	**37,031**	**9,619,067**	**8,161**	**-**	**9,664,259**

(ii) Statutory Limits

The Export and Investment Guarantees Act 1991 sets limits on the maximum liabilities that ECGD may incur in both pounds sterling and foreign currency. The latter is expressed in Special Drawing Rights (SDR). The following table shows the Statutory Limits at 31 March 2011 and the cumulative outstanding commitments set against them:

				31 March 2011				31 March 2010
	Sterling	Foreign currency	Sterling equivalent	Sterling Total	Sterling	Foreign currency	Sterling equivalent	Sterling Total
	£'000	SDR '000	£'000	£'000	£'000	SDR '000	£'000	£'000
Section 6(1) amounts								
Statutory Limit	35,000,000	30,000,000	29,558,400	64,558,400	35,000,000	30,000,000	30,064,200	65,064,200
Commitments	896,039	14,154,418	13,946,065	14,842,105	1,156,363	11,945,964	11,971,529	13,127,892
Section 6(3) amounts								
Statutory Limit	15,000,000	10,000,000	9,852,800	24,852,800	15,000,000	10,000,000	10,021,400	25,021,400
Commitments	-	-	-	-	-	-	-	-
Statutory Limit	**50,000,000**	**40,000,000**	**39,411,200**	**89,411,200**	**50,000,000**	**40,000,000**	**40,085,600**	**90,085,600**
Commitments	**896,039**	**14,154,418**	**13,946,065**	**14,842,105**	**1,156,363**	**11,945,964**	**11,971,529**	**13,127,892**
Exchange rate applied				**1SDR = £ 0.98528**				**1SDR = £ 1.00214**

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

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

- Non-trading activities;
- Commitments contingent upon the full utilisation of credit insurance facilities made available to exporters; and
- Guarantees issued but not yet effective and pre-issue guarantees awaiting final agreement of terms.

33 Leasehold obligations

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

	One year or less	Between one and five years	After five years	Total
	£'000	£'000	£'000	£'000
at 31 March 2011				
Gross lease commitments	2,529	8,219	-	10,748
Net lease commitments	1,769	5,749	-	7,518
at 31 March 2010				
Gross lease commitments	2,529	10,116	632	13,277
Net lease commitments	1,769	7,076	442	9,287

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.

34 Losses and special payments

During the course of the year it was decided to abandon an IT project (the costs of which had been capitalised during 2009-10). The previously capitalised cost written off was £340k. (Refer Note 18(b)).

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.

Appropriations in Aid (A. in A.)

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

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, and 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 on a time-limited basis its willingness, 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)

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

Contract Bond

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

Credit Default Swap (CDS)

A market instrument used to transfer credit risk.

Estimate

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

Expected Loss

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

Export Credit Agencies (ECAs)

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

Financial Objectives

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

Fixed Rate Export Finance (FREF)

Finance for export contracts involving credit of two years or more provided by lending banks at fixed interest rates determined under the Arrangement, and which is guaranteed by ECGD and is the subject of interest equalisation. The finance was 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.

Maximum Liability

Maximum liability is the maximum value of the amount of claims payable under a particular guarantee, taking into account the principal and interest over the life of the guarantee for which ECGD could become liable.

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.

Project Finance

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

Provisions

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

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.

Supplier Credit Finance Facility (SCF)

An ECGD facility for the sale of capital or semi-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 current assets minus current liabilities.

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