

Patrick Crawford
Chief Executive

26 June 2007



2 Exchange Tower
Harbour Exchange Square
London E14 9GS
Main Fax: 020 7512 7649
Switchboard: 020 7512 7000
www.ecgd.gov.uk

Telephone Direct: 020 7512 7004
Fax Direct: 020 7512 7146
Email: patrick.crawford@ecgd.gsi.gov.uk

Dear Customer

ECGD: NEW FINANCIAL FRAMEWORK

I am writing to advise that Ministers have agreed a new Financial Framework for ECGD. The Minister for Trade, Investment and Foreign Affairs made a statement on this to the House of Commons today; a copy of this statement is enclosed.

By way of background, you may recall from an announcement by Ministers in July 2004 that consideration was to be given to ECGD establishing a Government Trading Fund. Over the past two years, ECGD has been operating a pilot Trading Fund to test the suitability of its operations to be financed by this means. Taking account of the experience gained under the pilot and of lower levels of new business, Ministers have now concluded that ECGD should not move to establish a Government Trading Fund. Instead, a new Financial Framework is to be adopted. This will build upon the experience gained from the pilot, but will be more suitable for the management of ECGD's business. ECGD will operate under this framework from 1 April 2008.

Exporters should see no difference in ECGD's day-to-day operations or in its ability to support their business. I would offer you assurances on three matters that arise from Mr McCartney's statement that may be of particular interest:

1. Risk appetite: although the new Financial Framework will introduce new exposure controls, these have been set at a level that takes into account historic, current and potential business demand. They will impose no greater constraints than the limits under which we have been operating for the last two years. Coupled with changes that have been made to our risk management policies during the pilot, sufficient risk capacity should continue, as now, to be available in all but a handful of countries where exposure is already highly concentrated and/or the risk outlook is poor.

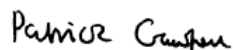
2. Premium: the New Financial Framework will not result in general changes to the way in which we set premium rates. ECGD's policy of pricing to risk and to meet the financial objectives set for it by Ministers will continue. Although there will be changes to the arrangements for setting our level of administrative costs, we will continue to seek to recover these through the premiums we charge. During the pilot, material cost reductions have been achieved, and we intend to continue to bear down on costs.

3. Operational autonomy: As you may be aware, ECGD can only operate under its Act of Parliament with the consent of HM Treasury, which is documented in a Standing Consent. During the pilot Trading Fund, HM Treasury agreed a new Consent which gave ECGD a high degree of operational autonomy. This is to be preserved in the revised Standing Consent to accompany the introduction of the new Financial Framework. Day-to-day management, including decision-making on individual applications for cover, will remain the responsibility of ECGD officials. HM Treasury will continue to have strategic oversight over our affairs and the Shareholder Executive will continue to advise our Secretary of State with respect to his exercise of Ministerial responsibility for ECGD.

The new Financial Framework will provide a stable platform on which ECGD can move forward and increase its efficiency and effectiveness.

We would be pleased to respond to any questions you may have on the new arrangements being introduced.

Yours sincerely



PATRICK CRAWFORD