UK Export Finance

Export Credits
Guarantee Department

Annual Report and Accounts

2013–14

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Export Credits Guarantee Department (UK Export Finance) Annual Report and Accounts 2013–14

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

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

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

Ordered by the House of Commons to be printed on 17 June 2014.

HC15

This is part of a series of departmental publications which, along with the Main Estimates 2014–15, the document Public Expenditure: Statistical Analyses 2014, and the Supply Estimates 2013–14: Supplementary Budgetary Information, present the government's outturn for 2013–14 and planned expenditure for 2014–15.

This publication is available at www.gov.uk/government/publications

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Print ISBN 9781474106733

Web ISBN 9781474106740

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office.

ID 11061404 06/14

Printed on paper containing 75% recycled fibre content minimum.

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UK Export Finance's name

UK Export Finance

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

Minister's Foreword

I am pleased to introduce the Annual Report and Accounts for UK Export Finance for 2013–14 which have been laid before Parliament.

This year the government has put in place a new three-year business plan for UKEF. The plan improves the alignment of UKEF's objectives with the government's export strategy by seeking to develop a product portfolio to better assist small and medium-sized exporters, and make UKEF one of the most competitive export credit agencies in Europe. In the 2013–14 financial year we have seen a 55% increase in the number of companies assisted.

UKEF has already launched a number of new products that will assist exporters and the banks who provide export support. It has improved its processes and reduced its interest rates on the Direct Lending Facility. In addition, the government is taking forward a bill in the current session of parliament to make changes to UKEF's statutory powers which, if passed, will help to maximise UKEF's ability to support exporters. UKEF is also placing more emphasis on marketing its products and services both at home and overseas, working in partnership with UK Trade & Investment and other bodies so that exporters, buyers and project sponsors of all sizes are fully aware of the products and services available to them.

During my trade promotion visits overseas I have heard and seen the work that UKEF performs and I take this opportunity to thank its staff, led by new CEO David Godfrey, for their contribution to the export effort. UKEF is an enabler for exporters seeking access to competitive financial support and therefore has a hugely important role in helping to achieve the government's export ambitions.

During the year, the government also undertook a review of the Export Guarantees Advisory Council (EGAC), a statutory non-departmental public body (NDPB) that gives advice to Ministers on UKEF, in particular its ethical policies. This was conducted in line with the government's policy of reviewing the need for NDPBs every three years. The outcome was that the EGAC should carry on operating with its existing terms of reference. This means that the government will continue to have access to independent advice and assurance on the application of UKEF's ethical policies on the business it supports.

Lord Livingston
Minister of State for Trade and Investment

Chief Executive's Foreword

I succeeded David Havelock as chief executive in September 2013. I take this opportunity to thank David for his service as acting chief executive over the previous 10 months.

The new business outturn for 2013–14 was £2.3 billion, with over £500 million more business issued awaiting final clearance. This was lower than the £4.3 billion of business supported in 2012–13 but that included £2 billion for a very large defence export contract. Taking that into account, there was growth in the amount of exports supported by UKEF in 2013–14 in respect of civil, non-aerospace, business which saw a sharp increase, up from £0.4 billion to £1.3 billion. Exports were supported to 71 countries, up from 58 in 2012–13. The total number of guarantees and insurance policies issued increased from 368 to 619 and the number of exporters supported increased from 84 to 130. There was a decline in the level of support for commercial aircraft business involving Airbus from £1.8 billion in 2012–13 to £1 billion as private sector appetite for this business increased. Business supported under the Short-Term products fell from £74 million in 2012–13 to £60 million, however the number of facilities issued under these products more than doubled. Premium income was £120 million. Claims paid were £13 million and recoveries were £135 million.

This illustrates the ongoing demand for UKEF support and there is a strong pipeline of potential business. Against this background, it is important that UKEF is able to offer a full range of products and services to exporters particularly when the private market is unable to meet their needs. To this end, I have put in place new objectives to ensure that the UK has a strong and responsive export credit agency (ECA) that can quickly adapt to changes in the marketplace and match the offerings of other ECAs. New facilities – direct lending and export refinancing – have been launched that will help secure the availability of funding for export credit loans involving long repayment terms when this is unavailable from the private market. In addition, an agreement has been secured with the Bank of England to make the guarantees that UKEF issues to support bonds eligible for refinancing through the Sterling Monetary Framework, which should lead to related financing being more keenly priced.

UKEF supports exports of capital/semi-capital goods and services under its buyer and supplier credit guarantees. It guarantees loans raised by banks that are made available to overseas borrowers to finance the purchase of such supplies from UK exporters. Support for this class of exports in 2013–14 involved a range of borrowers: sovereign and public entities, and corporates including companies specially established to build, own and operate projects under limited recourse finance structures. The destination of exports involved countries in Africa, Australasia, the Caribbean, Europe, the Middle East, the Far East, and South America.

As noted, there was a strong increase in the amount of support for civil, non-aerospace exports including the oil and gas, infrastructure and construction sectors. The latter included hospitals, hotels, housing complexes and airport facilities. During the year, UKEF extended support for the Sadara petrochemical project in Saudi Arabia, the largest it has ever supported on a limited recourse project financing basis. Other projects in this sector were supported in India and Vietnam.

UKEF continued to support the civil aerospace sector and provided guarantees for the supply of 95 Airbus aircraft to airlines and operating lessors. Following the onset of the financial crises in 2007–08, which saw a sharp increase in support for this sector, a greater amount of financing is now becoming available again from commercial sources. This is likely to result in demand for support from ECAs returning to more historic levels and UKEF has begun to see this trend during 2013–14.

A very wide range of exports sold on short terms of credit, typically up to one year, was supported under the export working capital, bond support and export insurance products. UKEF played an important role to support smaller exporters who could not access support from private sources; without UKEF involvement, the exports may well not otherwise have taken place.

Work is being undertaken to step up marketing both in the UK and overseas, partnering with UK Trade & Investment, the government's trade promotion body, so that exporters and buyers/project sponsors are aware of UKEF's products and services and can more easily access help and support at home or abroad. UKEF's network of regionally based export finance advisors, which was expanded in the year from a staff of 12 to 18, interacted with over 1000 companies, signposting them to the most appropriate sources of export support including credit insurers, banks, other sources of trade finance, brokers and UKEF itself. Plans are in hand to increase the number of advisers further to 24, including 3 specifically for mid-sized companies. At the same time, investment is being made in UKEF's human resource capacity and capability that will see an expansion in staff numbers and address succession to secure the ability of the department to meet the needs of exporters in the future.

I would like to take this opportunity to extend my thanks to UKEF's management board, the Export Guarantees Advisory Council and the staff for their work and support to help achieve this outturn for 2013–14. This is a period of transformation for the department and I fully appreciate the commitment and effort that is going into the delivery of UKEF's strategic plan.

David Godfrey
Chief Executive

Mission and Principles

Who UKEF is

The UK Export Finance is the export credit agency of the United Kingdom and is a government department that operates under an act of parliament.

What UKEF does

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

How UKEF operates

UKEF is governed by its statute pursuant to which certain financial objectives are set by HM Treasury. It is UKEF's policy to comply with all international agreements which apply to the operations of export credit agencies.

The principles UKEF applies

On individual cases, UKEF 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, UKEF 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 UKEF's business goals and objectives.

Financial Overview

Figure 1: Financial overview – five year summary

	2013–14	2012–13	2011–12	2010-11	2009–10
	£m	£m	£m	£m	£m
Business supported[1]	2,272[2]	4,295	2,318	2,924	2,206
Premium income	120	133	85	96	58
Claims paid	13	7	6	30	48
Net operating income	50	135	147	204	272

1 Net of amounts reinsured by another official ECA.

2 This excludes guarantees of £524 million issued in 2013–14 but not yet effective at 31 March 2014.

Operating Model

UKEF's statutory purpose is to support exports and investments made overseas. It does so principally by providing:

- trade credit insurance to exporters against the risks of non-payment for amounts owed under export contracts;
- guarantees to banks to support working capital financing and raising of contract bonds on behalf of exporters;
- guarantees to banks and investors in the debt capital markets in respect of medium/long-term loans to overseas buyers who purchase goods and services from UK exporters;
- lending directly to overseas buyers who purchase goods and services from UK exporters; and
- political risk insurance for investments made overseas.

UKEF supports exports of all types of goods and services and can help businesses of all sizes who seek protection from the financial risks of exporting. Broadly, its support caters for exports of:

- capital/semi-capital goods and related services e.g. large projects, high value machinery etc. Because of the high values involved (normally £5 million to £1 billion plus), overseas buyers frequently require loans (usually repayable between five to twelve years or more) to finance the purchase of such supplies from UK exporters. UKEF provides support under its finance products (such as its buyer credit guarantee) to banks that provide export credit loans, thereby covering the risk of default by borrowers; and
- consumer goods i.e. raw materials, consumer durables, light manufactures, etc. Typically, such exports are sold on short credit terms i.e. up to one year, which exposes exporters to (a) risks of non-payment, and (b) the need to finance working capital (pre-shipment financing) and the credit period (post-shipment financing). UKEF provides support for these needs under its Short-Term products.

In doing this, UKEF's role is to complement the private market. It seeks to support exports which might otherwise not happen thereby supporting UK exporters and indirectly their supply chains. The space in which UKEF operates is therefore largely determined at any one time by the willingness and capacity of the private market to assume financial risks in support of exports. UKEF is also bound by European Union (EU) restrictions on member governments supporting short-term export credit insurance for exports to EU countries (currently excluding Greece) and rich Organisation for Economic Co-operation and Development (OECD) countries e.g. the USA.

In recent years, UKEF has supported around 1% of total UK exports, principally capital/semi-capital goods and services, dominated by the aerospace, oil and gas, construction and defence sectors.

The financial liabilities assumed by UKEF when supporting UK exports involves a risk transfer from the private to public sector i.e. the taxpayer. Direct lending involves up-front public expenditure and other financial liabilities represent contingent public expenditure i.e. Exchequer funding is required in the event claims are made under contracts of insurance issued to exporters and guarantees provided to banks. Where claims are made, UKEF then instigates recovery action as appropriate on a case-by-case basis or, where there is a sovereign default, through the Paris Club of Official Creditors to recoup the relevant payments.

UKEF operates under the consent of HM Treasury, which sets financial objectives that it must achieve, including an exposure cap, a portfolio risk appetite limit and a requirement that premium meets credit risk and operating costs. To this end, UKEF operates credit risk and pricing policies that inform its ability to underwrite individual export transactions. The current financial objectives set by HM Treasury and UKEF's performance against them are found on page 48 to 49.

UKEF also operates under international agreements which inform the terms under which ECAs can support exports and thereby seek to create a level playing field. These agreements emanate principally from the OECD and the EU. Not all ECAs in the world, however, subscribe to these international agreements and competition for UK exporters is increasingly from non-OECD countries, whose ECAs are not constrained by the OECD and EU rules.

Strategy

UKEF published a new business plan in June 2014 for the period 2014 to 2017. By the end of the plan, UKEF aims to be an ECA which is recognised as having the following characteristics:

1. **Agile and adaptable**: UKEF will be an agile department, able to address the challenges to UK exporters throughout the economic cycle. It will act quickly and tailor its support to reflect prevailing economic conditions and export opportunities.

2. **Competitive offering**: UKEF will be proactive in ensuring that it is one of the most competitive ECAs in the global marketplace by providing a full range of financing tools whilst remaining within its legal and overall agreed remit. It will ensure that there is a level playing field for UK exporters when looking at the offerings of other comparable ECAs.

3. **Customer delivery and awareness:** UKEF will provide a quality of service to its customers that is proactive, flexible and efficient with a focus on solutions and innovation. Awareness of UKEF products and services amongst exporters, overseas buyers, banks, brokers and other intermediaries will be increased and customer feedback will guide its policies and processes.

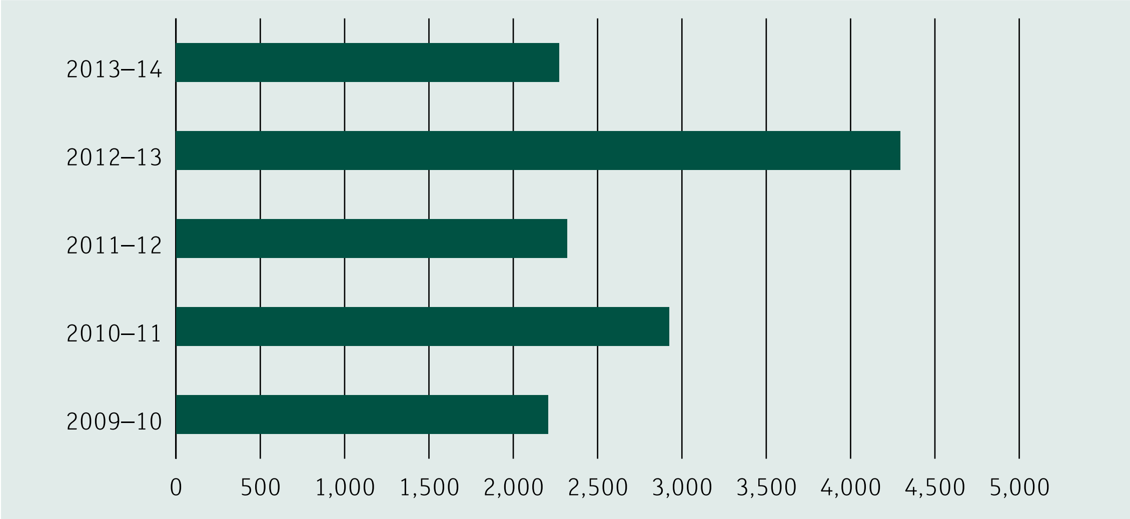
4. **UKEF as an organisation**: UKEF will be a great place to work where teams work across functions easily and to common goals. Its people will be experienced and skilled in what they do and their talents developed. Its leaders will be role models and create the environment for success and learning.

An improved set of information on overseas markets with potential, and on export segments and sectors, will provide the platform to focus its resources in a more targeted way. UKEF will enhance its products and services and build further capability to address market gaps. In this UKEF will work closely with its partners, UK Trade and Investment (UKTI) and the Foreign & Commonwealth Office.

UKEF's full business plan is available from its website at: www.gov.uk/uk-export-finance.

Business Commentary

Figure 2: Business supported (£m) – five year summary

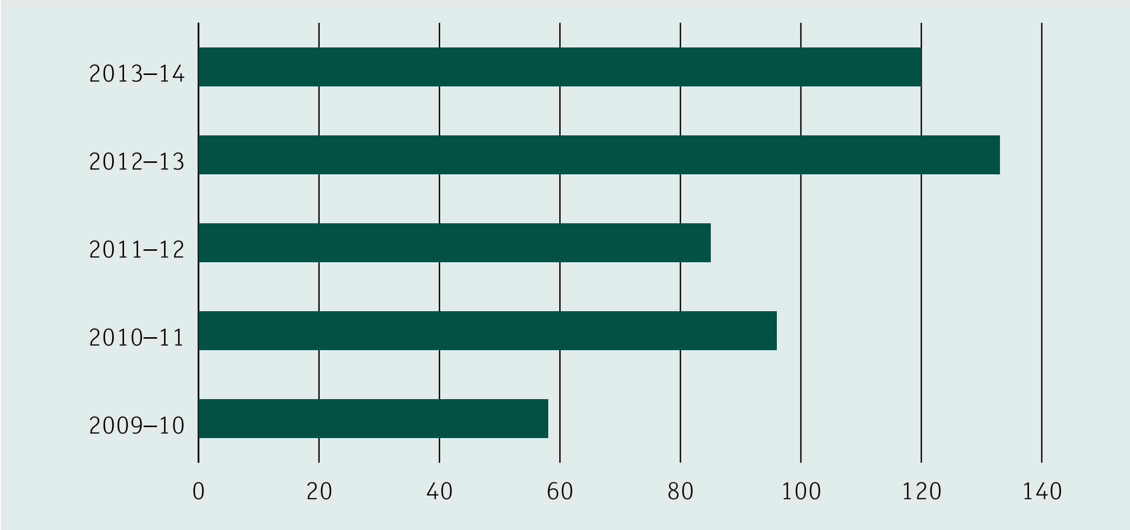


In 2013–14 UKEF supported exports and investments overseas through the issue or renewal of guarantees and insurance policies with an aggregate value of £2,272 million. Buyer credit and supplier credit financing accounted for £2,197 million of support, supplier credit insurance for £28 million and bond support, export working capital and letter of credit guarantee products for £47 million. The exports supported related to 71 countries. The total number of guarantees and insurance policies issued was 619. Net premium income was £120 million. There were claims paid of £4.7 million in respect of new defaults; claims payments of £8.5 million were made in respect of cases already distressed. Recoveries of paid claims were £135 million, including default interest.

Figure 3: Business supported by product type

	Facilities	Value (£ m)
Buyer and supplier credit financing	121	2,197
Supplier credit insurance	222	28
Bond support, export working capital and letter of credit guarantee schemes	276	47

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



Civil aerospace business

Civil aerospace remains an important industrial sector for the UK economy and UKEF provides support for the export of civil aircraft and of aero-engines. This support is principally provided to Airbus and Rolls-Royce and indirectly benefits a large number of other companies, including many SMEs, in the supply chains of both.

UKEF support for the export of Airbus aircraft is provided alongside that of the French and German ECAs, broadly in proportion to their respective work shares. This is usually arranged on a reinsurance basis whereby one of the three ECAs leads a transaction while the other two provide support to the lead ECA. This approach provides Airbus customers with a single portal through which they can obtain ECA support. In certain transactions, however, a co-insurance approach is taken under which each ECA provides direct support for its own work share. UKEF's work share (the percentage of the financing cost of each aircraft supported) typically ranges from 18% to 38%, depending on the aircraft type and the engine.

In 2013–14 UKEF issued guarantees for civil aerospace business amounting to £961 million, generating premium of £60 million and supporting the delivery of 95 aircraft in total. The aircraft were delivered to 22 airlines and operating lessors around the world.

Support was provided for around 15% of the total aircraft delivered by Airbus. This was down from the 23% in 2012–13 and reflected an increase in medium to long-term funding capacity in the commercial bank market.

Bonds issued in the debt capital markets are becoming an increasingly important way of funding export credit transactions, with entities such as pension funds and insurance companies being the source of finance, replacing traditional commercial bank loans. There is a strong prospect over the coming years for some further aircraft transactions being supported through guarantees in respect of bonds issued in financial markets.

UKEF has agreed with the Canadian ECA the principles of a co-operation arrangement to support the future sale of Bombardier's C-Series aircraft, which is partly manufactured in Northern Ireland. UKEF has begun to engage in discussions with Bombardier's customers. Entry into service of the C-Series is expected toward the end of 2015.

The level of premiums paid by airlines for ECA support has increased under the OECD Aircraft Sector Understanding but this has not led to a significant downturn in demand for ECA support. The current level of demand for ECA support is expected to stabilise over coming years, in line with historical norms, although some upward pressure still exists as banks need to strengthen their balance sheets and adjust to new regulatory requirements, including new capital requirements with the introduction of the Basel III regulations.

UKEF's aerospace portfolio at 31 March 2014 comprised 1,088 aircraft, involving over 79 different airlines and lessors. UKEF proactively monitors its portfolio. Annual surveys of aircraft insurance and compliance with financial ratings and ownership covenants were carried out with all agent banks in the year.

Civil (non-aerospace) project exports

In 2013–14 UKEF issued guarantees in respect of £1,310 million of civil business. This represented a 194% increase as compared to that supported in 2012–13. The number and range of potential transactions currently under consideration suggest that demand for support for this class of exports can be expected to continue to rise over the coming years.

Particular demand was seen in a number of markets including Brazil, Ghana, and Russia. UKEF also guaranteed significant business in markets where it has traditionally seen less demand, including for example British Virgin Islands, India and Vietnam.

The UK's expertise in oil exploration is being used by Petrobras, through a $1 billion line of credit guaranteed by UKEF.

Demand from the oil and gas sector remained strong. UKEF continued to provide support under the US$1 billion line of credit put in place with Petrobras Brazil in 2012, with over 60% of this line of credit now used in respect of export contracts benefiting UK exporters. A US$300 million line of credit was also agreed with Reliance Industries Limited of India to assist the expansion of oil refineries at Jamnagar and Dahej. More than 30 UK companies are expected to benefit from this facility.

UKEF also supported a US$700 million loan in respect of the Sadara refinery in Saudi Arabia, the largest limited recourse project financing that UKEF has ever supported. This concluded a considerable engagement process between UKEF and the project company, and represents the first significant project instigated through UKEF's involvement in the government's High Value Opportunities programme.

Sri Lankan bridges constructed by Cleveland Bridge UK with finance support from UKEF.

Support was provided in respect of the Nghi Son Refinery Project in Vietnam, with UKEF guaranteeing some US$207 million of supplies from the UK. In the construction sector, US$49 million of support was issued for: water and sewage treatment plants in the British Virgin Islands; a US$175 million contract for the construction of seven hospitals in Ghana by NMS Infrastructure; and contracts for the supply and installation by Cleveland Bridge and Mabey Bridge of steel bridges in Sri Lanka, with a combined value of around £80 million. In the UAE, UKEF supported two contracts won by Carillion: a US$183 million contract to build a Hard Rock hotel in Abu Dhabi and a US$259 million contract to develop a shopping mall in Dubai.

UKEF also supported a programme of JCB sales in Ghana and Turkey, reinsurance to the French ECA in respect of the supply of a satellite by Astrium to a buyer in Russia, and a fourth tranche of buses supplied by Alexander Dennis to Swift Transport in New Zealand.

An increase in business supported under UKEF's partnership with Sovereign Star (a specialist provider of trade finance) was seen during the year, including a £2.6 million contract between JCB and Unileasing in Azerbaijan for the supply of construction machinery. UKEF supported a total of £3.6 million of business with Sovereign Star, which primarily benefits small and medium-sized exporters in the £2 million to £10 million contract value range.

Figure 5: Percentage of business supported by sector – five year summary

	2013–14	2012–13	2011–12	2010-11	2009–10
Aerospace	42	43	79	62	90
Civil	58	10	21	34	9
Defence	<1	47	<1	4	1

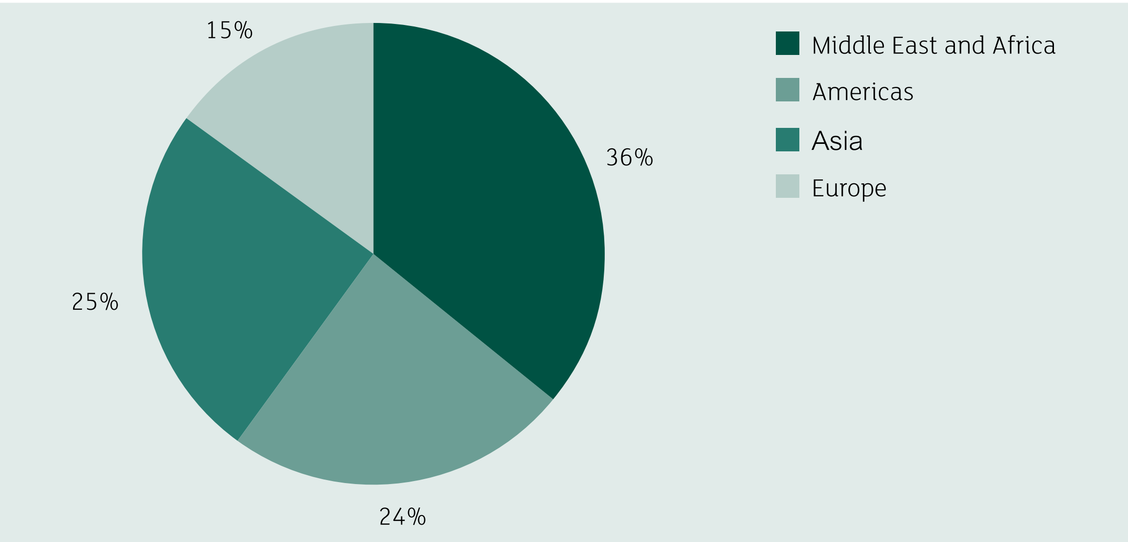
High value opportunities

The government has identified a number of large projects and investments around the world that offer possibilities for UK exporters (both small and large) to secure a share of the contracts on offer. UKEF can play its part by helping to steer the procurement of goods and services towards the UK by supporting loan finance where it is needed by project sponsors.

Over the last few years UKEF has put in place a strategy to proactively market its products and services to overseas buyers, project sponsors and intermediaries. This will raise international awareness of the support UKEF can offer for goods and services sourced from UK exporters. This effort has been boosted the by creation of a new team dedicated to international business development and the appointment of two locally recruited and experienced regional directors based in Istanbul and Rio de Janeiro who respectively cover the Middle East, central Asia, Russia and Central and South America.

Marketing efforts, including attendance at conferences and trade missions, took place in the following countries: Bahrain, Brazil, Bulgaria, France, Ghana, India, Indonesia, Kazakhstan, Malaysia, Romania, Russia, Saudi Arabia, Singapore, South Korea, Spain, Turkey, UAE, USA and Vietnam.

Figure 6: Business supported by region (%) 2013–14



Export credit financing

In recent years, some banks have become constrained in their ability to fund export credit loans, for example, because of a lack of US dollar liquidity (the principal loan currency of UKEF-backed export credits) from banks that have historically supported ECAs and/or funding for loans involving long repayment periods. This has had implications for the ability of banks to provide export credit loans in support of UK capital goods exports.

In 2012–13 HM Treasury announced two products to help ease these problems: the Export Refinancing Facility and the Direct Lending Facility. UKEF worked extensively with HM Treasury and the banks to design and develop these facilities in order to balance the interests of the taxpayer, exporters, overseas buyers and the banks. The Direct Lending Facility became operational in September 2013 on a pilot basis. In the 2014 Budget, the Chancellor outlined changes to the facility that included reducing interest rate levels to the lowest permissible under international rules, doubling the overall lending capacity to £3 billion and making it a permanent scheme. The Export Refinancing Facility was launched in April 2014.

Trade finance and insurance solutions (Short-Term products)

In March 2011, UKEF broadened its business domain, which had previously been confined to supporting the export of capital/semi-capital goods and related services, in order to support all types of exports, including exports sold on short terms of credit (i.e. typically up to one year). In doing so it provided products, collectively referred to as the ‘Short-Term’ products, to meet gaps in the availability of support to exporters from the private market, especially small and medium-sized businesses.

These products are a bond support scheme, to increase the capacity of banks to offer contract bond facilities, and an export working capital scheme, which gives additional capacity to banks who are providing working capital finance to exporters to help them fulfil specific export orders. In addition, UKEF revamped and simplified its export insurance policy which provides credit insurance against risks of non-payment. The letter of credit guarantee scheme, launched in October 2009 in response to the economic downturn, was made a permanent addition to UKEF’s product range in 2012. The products have been improved e.g. by providing more flexible risk sharing arrangements with banks, by providing the ability to assign the credit insurance policy in structured trade finance transactions, through the simplification of application forms and through a reduction in turnaround times.

UKEF helped JCB offer competitive payment terms to its dealer in North Africa.

UKEF has focused on raising awareness of its products with both banks and exporters. In 2012–13, twelve export finance advisers (EFAs) were recruited and based in the English regions and Northern Ireland, Scotland and Wales. This number was increased to 18 during 2013–14 and is planned to grow further to a total of 24 in 2014–15. The EFAs promote awareness of UKEF and its services directly to exporters and also to banks and intermediaries e.g. chambers of commerce. They help exporters to access UKEF schemes and assist with identifying trade finance options, including the wide array of support available in the commercial market. They work alongside teams of UKTI advisers in the English regions and directly with government export support provided in Northern Ireland, Scotland and Wales.

In 2013, the trade finance and insurance solutions division, was established to manage the Short-Term products and the network of EFAs. The promotional work of the EFAs has been further enhanced through the production of printed brochures and product guides and specific awareness campaigns aimed at companies that could have a requirement for UKEF services. A six-month telemarketing campaign was launched in January 2014, targeting over 18,000 UK companies. This has been supported by a regionally focused digital advertising campaign, and by editorials placed in relevant publications and websites.

UKEF helped Micron Sprayers supply efficient agricultural sprayers for use by small-scale cotton farmers in Cameroon.

The number of companies benefiting has grown. Eighty exporters were supported under the Short-Term products in 2013–14, mostly small and medium-sized businesses. This relates to support with a total value of £60 million for exports to over 60 countries. The total contract value of the exports supported exceeded £360 million.

Overseas investment insurance

Under its overseas investment insurance scheme UKEF provides political risk insurance in respect of UK investments made overseas. No new policies were issued during the year.

Claims and Recoveries

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

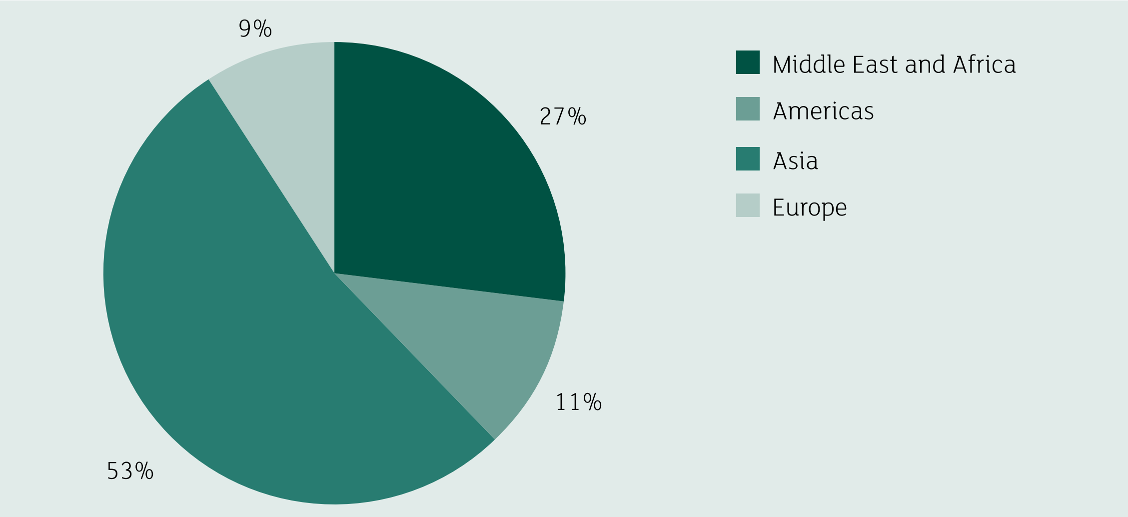
Claims

Payments authorised in 2013–14 totalled £13 million, as against £7 million in the previous year, including payments amounting to £9 million related to defaults on the insured and reinsured Iran portfolio.

Recoveries

Total recoveries of principal and interest on claims paid were £135 million during 2013–14, as against £136 million in the previous year.

Figure 7: Recoveries by region (%) 2013–14



Paris Club activity

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

UKEF received £111 million in rescheduled debt and interest payments in 2013–14, compared to £113 million in 2012–13. A bilateral debt agreement was concluded with Burma reflecting the terms of the January 2013 Paris Club agreement.

As a result of further debt reduction, the amount owed to UKEF under Paris Club arrangements was £1.7 billion at 31 March 2014, compared to £1.8 billion at 31 March 2013.

Non-Paris Club recoveries

Recoveries of £24 million were made during the year, compared to £23 million in 2012–13, including recoveries amounting to £2 million in relation to Iran.

UKEF's distressed airline portfolio, where aircraft have been repossessed or where the lease repayments have been restructured, consisted of 20 aircraft involving three airlines at 31 March 2014. All 20 aircraft remain in operation with their original airlines on restructured leases. This compares to a portfolio of 30 aircraft at 31 March 2013.

Credit Risk Management

UKEF's primary activity involves supporting exports and overseas investments by issuing insurance contracts and guarantees and thereby accepting credit risks. The main objective of UKEF's risk management framework is to identify, assess, price and manage defined risks in accordance with agreed policies and procedures.

Financial objectives

Financial objectives for the credit risk portfolio are set by HM Treasury and compliance is subject to regular review. UKEF continues to meet its financial objectives as reported on pages 48 to 49.

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

Organisational structure

UKEF's organisational structure is functionally-based and separates customer relationship management from the risk and control functions. The customer relationship function undertaken by the business divisions is separated from the financial risk assessment and pricing process carried out by the credit risk group.

The operation of UKEF's credit risk policy is overseen by the risk committee, a sub-committee of the executive committee. It is responsible for advising the accounting officer on the effective management of UKEF's credit risk exposures at the transaction and portfolio level and compliance with policies that have been endorsed by the management board.

Management of credit risk

The risk committee regularly reviews credit risk management reports, including country risk reviews and corporate risk assessments. Adjustments are made to internal risk ratings as and when appropriate. These are used to inform UKEF's risk appetite and pricing for new business and as a guide to setting Expected Loss and provisions.

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

Changes to risk assessment and pricing processes to support new products

During the course of the year, and in order to respond better to the changing mix of export transactions for which support was sought, the risk assessment division was reorganised into four separate areas, each concentrating on a specific category of business. Credit analysts now focus on one of the following sectors: aerospace, project finance, overseas major corporates and SME/MSB business.

In addition a series of call-off contracts was placed with specialist project finance advisory firms. These contracts are designed to provide additional credit risk and structuring resources to UKEF as and when required in connection with complex project finance transactions.

Ratings for sovereign and corporate risk

Since 2012 UKEF has used Standard & Poor's ratings as a base for sovereign risk (subject to judgemental adjustments where this is considered to be appropriate). This bought its approach to classifying and scoring sovereign risk into line with its approach for corporate credit risk. Of the 129 countries rated by both Standard & Poor's and UKEF, UKEF's rating accorded with theirs in 125 instances. UKEF rated a further 95 countries not rated by Standard & Poor's.

Pricing

For business subject to the OECD *Arrangement on Officially Supported Export Credits* (the Arrangement), UKEF applies the OECD minimum premium rates except in the few instances where those minima are insufficient to cover the risk. In practice UKEF has applied the minima to all sovereign risks and the majority of corporate credit risks.

UKEF continues to support the extension of better disciplines to the pricing of medium to long-term business in EU and rich OECD countries which, unlike sovereign and corporate credit business with other countries, are not subject to any prescribed minima under the OECD Arrangement and, during the current downturn, are a field of increasing ECA activity.

Credit risk portfolio

Total exposure on business issued since 1991 fell in 2013–14 from £20.5 billion to £19.6 billion. The main factor in this reduction was the 9.8% strengthening of sterling relative to the US dollar during the year (68% of UKEF's exposure is denominated in US dollars). Had the sterling to the US dollar exchange rate remained at 31 March 2013 levels, exposure would have increased to £21.0 billion.

The overall risk quality of the credit risk portfolio has been maintained at an acceptable level and within financial objectives. Much of UKEF's credit risk in the aerospace sector has the benefit of asset security thereby reducing potential risks of loss. Excluding claims and amounts reinsured by other ECAs, the percentage of the portfolio rated as BBB- or better fell slightly from 58.8% to 56.7%. The portfolio risk measure at the 99.1 percentile of the loss distribution remained materially below the specified risk appetite limit, although falling slightly from £1.22 billion at 31 March 2013 to £1.17 billion at 31 March 2014 (compared to the limit of £2.7 billion).

HM Treasury has doubled UKEF's exposure limit from £25 billion to £50 billion. As such UKEF does not expect to face any portfolio risk capacity constraint on its ability to support new business in 2014–15, although there may be an increasing concentration of risk on particular countries and obligors. UKEF has the latitude to contribute to the achievement of the government's export growth strategy, especially in priority markets and in support of the UKTI's High Value Opportunities programme.

Risk environment

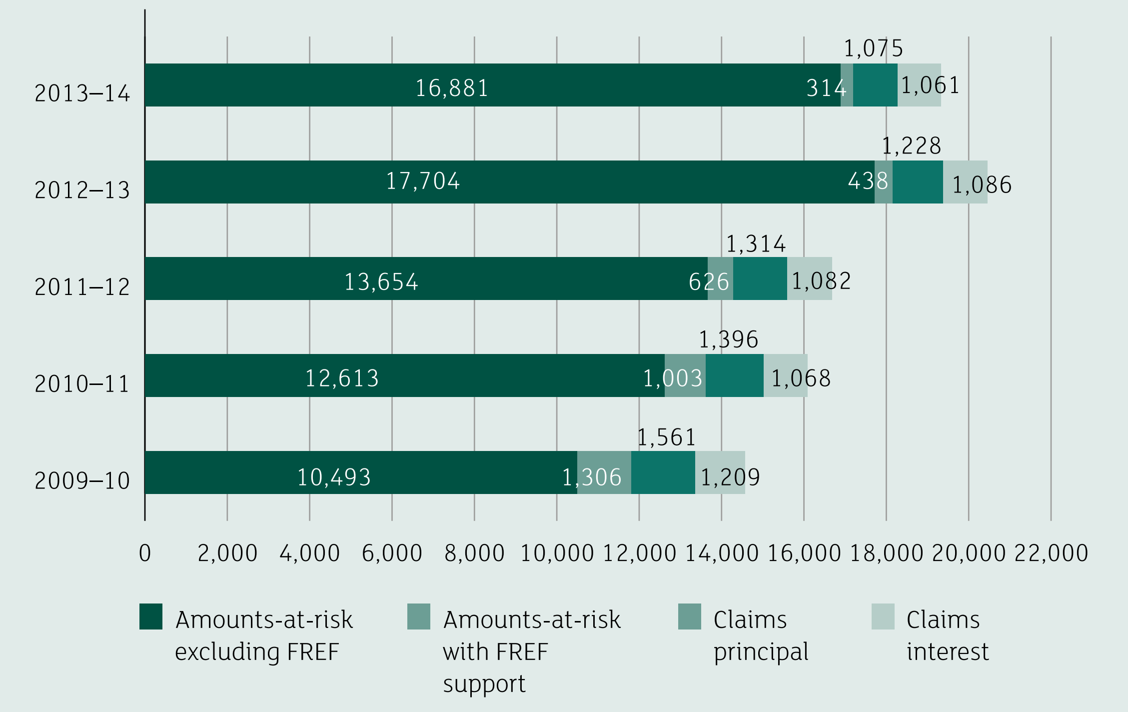
The global economy continued to perform weakly in 2013, with global growth of 3% marginally down on the 3.2% achieved in 2012. There were some signs of strengthening in the second half of 2013 and early 2014. The USA in particular has seen the recovery improve with growth of 3.25% in the second half of 2013. In Europe the eurozone has been weak but has nevertheless returned to positive growth in the second half of 2013. The recovery is centred on core eurozone economies while a number of peripheral countries have continued to contract. Nevertheless, with Ireland and Portugal exiting from IMF/EU/ECB austerity programmes and progress towards fiscal sustainability in Cyprus and Greece, this drag on eurozone growth is easing.

Japan's record of sluggish growth has continued. Emerging markets have been affected by the weak recovery of the advanced economies, resulting in ongoing depressed demand for emerging market exports and, as the USA moved towards 'tapering' its quantitative easing policy, a tightening of financing conditions.

The IMF predicts global growth is likely to rise to 3.6% in 2014 and almost 4% by 2015. This recovery is seen as being driven largely by ongoing recovery in the advanced economies of North America and the eurozone.

Risks that could impact on UKEF's operating environment include a stalling of recoveries in other advanced economies, escalating tensions with Russia and sharply higher European energy costs and shortages, heightened geopolitical risks in the Middle East and North Africa region impacting on oil prices, and tighter financing conditions for emerging markets as the USA steps up 'tapering'.

Figure 8: Credit risk exposure (£m)



International Developments

Officially supported export credits are regulated by a number of international agreements reached within the Organisation of Economic Cooperation and Development (OECD). UKEF represents the UK at meetings of the OECD Export Credit Group (ECG) and of the EU Council Working Group on Export Credits (CWG). The European Commission represents the EU at meetings of the participants to the OECD Arrangements; hence the EU member states and the European Commission meet at the CWG to develop a common EU position.

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

OECD

At the end of 2013, the participants to the OECD Arrangement agreed to new repayment terms for rail infrastructure projects, including rail control, electrification, tracks, rolling stock, and related construction and engineering work. The *Sector Understanding on Export Credits for Rail Infrastructure* lengthens the repayment periods for contracts involving an overall value of more than Special Drawing Rights (SDR) 10 million, with up to 12 years credit available for transactions in high income OECD countries, subject to conditions aimed at complementing the private sector, and up to 14 years for transactions in all other countries.

OECD members are considering a number of other issues, including a possible extension of the *Sector Understanding on Climate Change, Renewable Energy and Water Projects* to include climate adaptation projects and smart grid technology.

Following the adoption of the 2012 *Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* (the Common Approaches), the Environmental Practitioners' Group embarked upon a programme of work to consider reporting of greenhouse gas emissions and how human rights impacts should be addressed by ECAs when they are asked to support projects. The group is due to report to the ECG later this year, leading to the start of a review of the Common Approaches in 2015.

International working group on export credits

In the context of the growth of officially supported exports from non-OECD countries, which are not party to the various OECD agreements, in 2012 the USA and China agreed to establish an International Working Group (IWG) of major providers of export financing to seek progress towards a set of international guidelines on the provision of official export financing. This led to the establishment of a steering committee including Brazil, China, the EU and the USA, to organise the work of the IWG. To date, four IWG meetings have been held with the membership drawn from both OECD and non-OECD countries. Further meetings are planned for 2014.

European Union

The European Commission has banned the provision of short-term credit insurance by government-backed EU ECAs for exports within the EU and to rich OECD countries, known as 'marketable risk' countries, in order to avoid distortion of competition within the single market. In this context 'short-term' means insurance where the pre-credit and repayment period (i.e. the horizon of risk) is less than two years.

A revised *Communication on State aid to short-term export credit insurance* came into force on 1 January 2013 which contains certain flexibilities in recognition that private sector insurance cover may not be available in all parts of the EU for SMEs and for some single risk transactions. Accordingly Member States may apply to the Commission for permission to provide official support for exports to 'marketable risk' countries if they are able to provide sufficient evidence of market failure. Very few EU ECAs have requested an exemption. In addition the Commission may itself decide to remove a country from the list of 'marketable risk' countries. As a temporary measure the Commission initially removed Greece from the list of 'marketable risk' countries until the end of 2013. This was extended until the end of 2014.

People

UKEF appointed a new chief executive, David Godfrey, in September 2013. David had a long association with UKEF in his previous role as a non-executive director on its management board. This made him well placed to understand the challenges facing UKEF and exporters generally, and to lead the department. In October 2013 Stephen Lawrenson joined UKEF as Interim Chief Operating Officer to lead the transformation of UKEF. The executive leadership team was further bolstered by the arrival of Lucy Wylde as General Counsel in January 2014, and the appointment of Cameron Fox as Acting Finance Director in February 2014. In December 2013 UKEF successfully completed the TUPE transfer of nine export finance advisers from UKTI delivery bodies and further increased this headcount to 18 as a result of a successful national recruitment campaign. During the year the total headcount of UKEF increased by nearly 15%. At 31 March 2014 the membership of the management board consisted of eight men and two women, while the senior management team (excluding members of the board) consisted of fifteen men and three women. The total employees consisted of 155 men and 91 women.

In July 2013, the department's London office moved to Westminster having been located in London Docklands for over 20 years. The move will yield significant financial savings and means that UKEF now operates in closer proximity to ministers and other departments e.g. the Department for Business, Innovation & Skills, UKTI and HM Treasury.

The 2013 staff survey results showed that staff engagement was slightly lower than in 2012. The department has responded by identifying the key issues through a series of facilitated sessions with staff, and then tackling those issues. UKEF is also putting plans in place to increase the learning and development opportunities available for all staff, ensuring personal development plans and timetables for formal and informal training are in place. UKEF has also introduced the new Civil Service performance management and appraisal system as well as formal talent profiling. In May 2014, UKEF began consulting with staff on a new pay system to end automatic pay progression, in line with public sector pay policy.

Information Technology

Significant business process analysis and IT activity has been undertaken during the year to support UKEF's new and amended products. A new cloud-hosted application has been implemented for customer relationship management, initially for the trade finance and insurance solutions division. There have been a number of enhancements to the data warehouse to improve the quality and coverage of management and operational reporting. An electronic case management system has also been developed to store case-related information. This will be implemented progressively across the department.

A plan to improve UKEF's overall IT resilience was approved and has started to be implemented. This will significantly improve the reliability and recoverability of all of UKEF's IT systems.

Sustainable Development

Sustainable lending

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

Environmental, social and human rights impacts

Information related to the application of the OECD *Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence*	
Guarantees issued that were screened for environmental, social and human rights (ESHR) impacts	18
Guarantees issued for which an ESHR impact assessment was provided	10
Guarantees issued categorised as Category A (having high potential ESHR impacts), for which the project was expected to align with the relevant international standards at the time of the guarantee being issued	3
Guarantees issued that were categorised as Category B (having medium potential ESHR impacts), for which the project was expected to align with the relevant international standards at the time of the guarantee being issued	7
Guarantees issued categorised as Category A to which environmental conditions were attached	3
Guarantees issued categorised as Category B to which environmental conditions were attached	7
Transactions that UKEF declined to support on ESHR impact grounds	0
Projects reported by UKEF to the OECD under the terms of the Common Approaches for non-compliance with the relevant international standards	0

Civil, non-aerospace cases supported during 2013–14 categorised as A or B for their potential environmental, social and environmental impacts

Market	Exported goods/services	Potential impact category[1]	Compliance with relevant international standards	Estimated GHG emissions
Abu Dhabi	Construction of Hard Rock hotel	B	2012 IFC Performance (PS1, 2, 3, 4 & 6) EHS General Guidelines (2007) EHS Guideline for Tourism and Hospitality Development (2007)	This project will not produce GHGs in excess of 25,000 tonnes CO_2equiv/annum
Brazil	Petrobras Line of Credit; Espirito Santo, Santos and Campos Basins	A	2006 IFC Performance (PS 1, 2, 3, 4 & 6) EHS General Guidelines (2007) EHS Guideline for Offshore Oil and Gas Development (2007) EHS Guideline for Onshore Oil and Gas Development (2007)	Petrobras's GHG emissions for 2012 were 67.4 million tonnes of CO_2equiv, which include the Espirito Santo, Santos and Campos Basins
Dubai	Retail development	B	2012 IFC Performance (PS 1, 2, 3, 4, 5 & 6) EHS General Guidelines (2007)	This project will not produce GHGs in excess of 25,000 tonnes CO_2equiv/annum
Ghana	Kotoka International Airport refurbishment: phase III	B	2006 IFC Performance (PS 1, 2, 3, 4 & 6) EHS General Guidelines (2007) EHS Guideline for Airports (2007)	This project will not produce GHGs in excess of 25,000 tonnes CO_2equiv/annum
Ghana	Seven hospitals	B	2006 IFC Performance (PS 1, 2, 3, 4, 6 & 8) EHS General Guidelines (2007) EHS Guideline for Healthcare Facilities (2007)	This project will not produce GHGs in excess of 25,000 tonnes CO_2equiv/annum
Saudi Arabia	Petrochemical project	A	2006 IFC Performance (1, 2, 3, 4, 5, 6 & 8) General EHS Guideline (2007) EHS Guideline for Large Volume Petroleum Based Organic Chemical Manufacturing (2007) EHS Guideline for Large Volume Inorganic Compounds Manufacturing and Coal Tar Distillation (2007) IFC/EBRD Guidance Note on Worker Accommodation (2009)	GHGs emissions estimated to be 4.24 million tonnes CO_2equiv/year during operations phase

Civil, non-aerospace cases supported during 2013–14 categorised as A or B for their potential environmental, social and environmental impacts

Sri Lanka	Rural bridge project: phase one[1]	B	2006 IFC Performance (1, 2, 3, 4, 6 & 8) EHS General Guidelines (2007)	This project will not produce GHGs in excess of 25,000 tonnes CO_2equiv/annum
Sri Lanka	One and two lane bridges throughout Sri Lanka	B	2006 IFC Performance (1, 2, 3, 4, 6 & 8) EHS General Guidelines (2007)	This project will not produce GHGs in excess of 25,000 tonnes CO_2equiv/annum
Vietnam	Petrochemical plant	A	2006 IFC Performance Standards (1, 2, 3, 4, 5, 6, 7 & 8) EHS General Guidelines (2007) EHS Guidelines for Petroleum Refining (2007) EHS Guidelines for Petroleum Based Polymer Manufacturing (2007) EHS Guidelines for Large Volume Petroleum based Organic Chemicals Manufacturing (2007) EHS Guidelines for Crude Oil and Petroleum Product Terminals (2007) EHS Guidelines for Port, Harbours and Terminals (2007) EHS Guidelines for Thermal Power Plants (2008)	GHG emissions estimated to be 5.9 million tonnes CO_2equiv/annum during the operations phase
Virgin Islands (British)	Desalination and wastewater treatment plant; water storage facility and associated pipeline	B	2006 IFC Performance (1, 2, 3, 4, 5, 6 & 8) EHS General Guidelines (2007) EHS Guideline on Water and Sanitation (2007)	This project will not produce GHGs in excess of 25,000 tonnes CO_2equiv/annum

Notes:

This table includes those cases that fall within the ambit of the OECD Common Approaches and require categorisation. Details on the main processes applied by UKEF in this regard are available on UKEF's website at www.gov.uk/uk-export-finance

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

1 The categorisation indicates the environmental, social and/or human rights impacts that could potentially occur without the deployment of arrangements to mitigate such impacts as defined by the OECD Common Approaches, available from www.oecd.org.

Issued cases where UKEF has contingent liabilities designated as having high potential environmental, social and/or human rights impacts

Year of issue/ Market/ Exporter	Overseas project	Exported goods/services	Alignment with relevant international standards	Comments
2003–04/ Azerbaijan/ BP Exploration (Caspian Sea) Ltd, CB&I John Brown Ltd	Baku-Tbilisi-Ceyhan (BTC) Pipeline	Range of goods and services	No issues	Operation phase
2006–07/Saudi Arabia/Foster Wheeler Energy, Fluor Ltd	Yanbu National Petrochemical Company (Yansab)	Project management, contract, engineering design and procurement services	Remedial Action Plan being developed to manage some pollution issues	Operation phase
2008–09/Saudi Arabia/Fluor Ltd and other UK exporters	Saudi Kayan Petrochemical Co.	Refinery and petrochemical plant	Minor issues, remedial action plan in place	Commissioning phase
2010–11/Russia/ Rolls-Royce Plc	Portovaya Gas Compressor Station	Steam compressor station and associated gas pipeline	Independent monitoring being carried out with regard to pipeline route re-instatement and community engagement	Operation phase
2011–12/Brazil/ Various	Petrobras oil and gas exploration and production facilities in the South Atlantic	Various supplies under a line of credit	No issues	Construction phase

Anti-bribery and corruption

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

Requests for information

The Freedom of Information Act 2000 gave the public rights of access to information held by public authorities.

In 2013–14 UKEF received 99 requests for information under the Act compared with 64 requests received in the previous year.

Requests for information		
Issue	**2013–14**	2012–13
Anti-bribery and corruption procedures	1	0
Defence business	3	3
Environmental information	0	0
Project information and general business matters	25	21
International debt	12	16
Organisation/procurement	58	24
Total	99	64

UKEF responded to 83% of cases within the statutory time limit, compared to 76% in 2012–13.

Sustainability reporting

UKEF has reported annually on sustainable development activities on its estate since 2006. The aim is to operate the estate efficiently and reduce the environmental impact of operations and their associated costs.

The government has established a number of key outcomes to deliver its vision of being the greenest government ever. These aim to significantly reduce the government's environmental impact by reducing emissions of greenhouse gases, reducing waste, reducing water usage and making procurement more sustainable. UKEF reports its performance through the Greening Government Commitments (GGC) (http://sd.defra.gov.uk/gov/green-government/commitments/). The GGC reporting period runs from 2011–12 to 2014–15 with performance measured against the baseline year of 2009–10. The report is prepared in accordance with the Government Financial Reporting Manual: https://www.gov.uk/government/publications/government-financial-reporting-manual-2013-to-2014.

UKEF relocated its main office to Westminster during the reporting year, which significantly reduced its leased floor space area. However, during the relocation, UKEF's leases for both its new and old buildings overlapped, resulting in a negative impact on the sustainability figures reported for the year. UKEF's energy usage, water consumption and waste volumes are not measured separately from other tenants and have been calculated based on the share of floor space.

Summary of performance

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

Area		2009–10 Baseline	2013–14 Performance	% Change
Greenhouse gas emissions from UK estate and domestic travel	Tonnes of CO_2 equivalent (tCO_2e)	487.14	379.55	-22%
Estate waste	Amount (tonnes)	78	95	+22%
Estate water	Consumption (m^3)	2,762	2,250	-19%

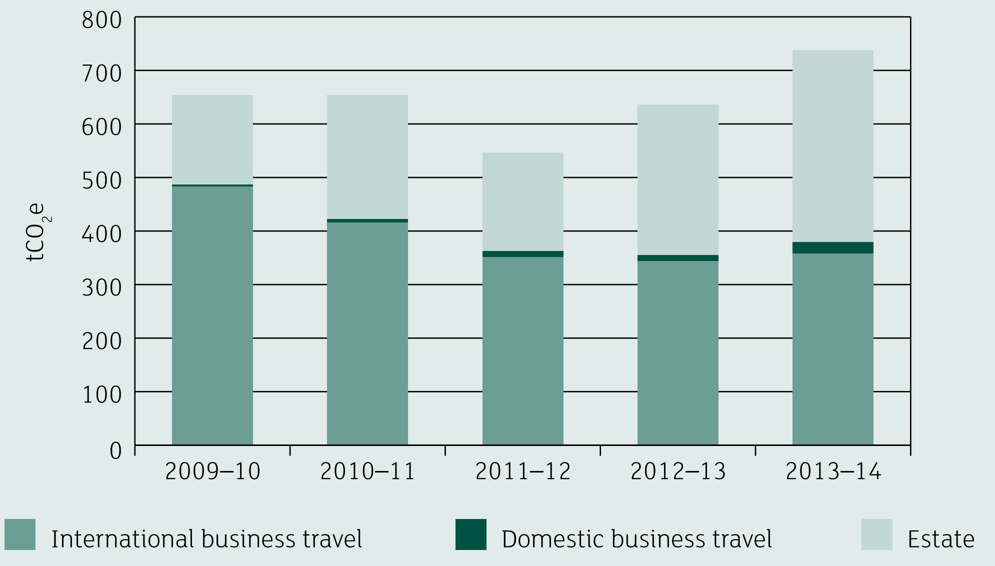
GGC targets do not include emissions from international air travel, but these have been included in UKEF's detailed figures below.

Governance

UKEF's sustainable operations and performance reporting is led by its facilities management team.

Emissions

Figure 9: Emissions – five-year summary



		2009–10	2010-11	2011–12	2012–13	2013–14
Non-financial indicators (tCO_2e)	Total gross emissions	653.49	654.07	545.98	636.13	738.17
	Gross emissions, scope 1 & 2 (direct)	482.78	416.02	351.47	343.62	357.53
	Gross emissions attributable to scope 3: domestic business travel	4.36	6.52	10.36	11.62	22.02
	Gross emissions, scope 3: international business travel	166.35	231.53	184.15	280.89	358.62
Related energy consumption (kWh)	Electricity: renewable	820,476	712,844	606,986	583,349	613,202
	Gas	285,080	229,027	194,892	216,211	224,209
	Whitehall District Heating System	0	0	0	0	162,237
Financial indicators	Expenditure on energy (£)	135,067	79,318	65,360	78,862	113,711
	CRC licence expenditure (2010 onwards) (£)	0	950	1,290	1,290	3,452
	Expenditure on GCOF II (£)	0	2,439	1,139	0	0
	Expenditure on official business travel (£)	157,994	232,647	212,477	358,805	457,809

Definition of terms:

Scope 1 – Direct greenhouse gas (GHG) emissions e.g. fugitive emissions from air conditioning units, gas consumption.

Scope 2 – Indirect energy emissions e.g. electricity consumed supplied by another party, heat supplied through the Whitehall District Heating System.

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

Performance commentary (including measures)

UKEF has a target to reduce its GHG emissions from its estate and UK business-related transport by 25% from a 2009–10 baseline. UKEF's GGC measured emissions increased by 6.8% against the previous year. This was mainly due to energy consumption for UKEF's new and old accommodation being recorded during an overlap period. As well as this, UKEF's new accommodation is a larger and older building with several communal areas shared with other government tenants. As a consequence there is a larger amount of energy consumption proportioned to UKEF than during its previous tenancy. Despite this it is expected that UKEF will still meet the GGC target by 2014–15.

Domestic business travel continued to increase following the further appointment of EFAs based in the English regions plus Scotland, Wales and Northern Ireland (page 20). The EFAs represent UKEF to third parties and are an integral part of UKEF's drive to raise awareness of its products and services. The nature of these outward-facing roles means those EFAs have to undertake significant amounts of travel in order to meet with exporters and intermediaries. Staff are encouraged to use rail travel whenever possible.

The table above includes international air travel, which is not in scope under the GGC targets for GHG reduction. There was a significant increase in business in the civil (non-aerospace) sector which had a consequent impact on the need to travel overseas to negotiate the support arrangements (page 16). At the same time UKEF has sought to raise awareness of its products and services overseas, including in support of UKTI's High Value Opportunities programme (page 18).

Controllable impacts commentary

Before relocation UKEF occupied a significant percentage of floor space in its previous head office and worked with the landlord on sustainability matters, achieving a marked reduction in energy consumption. UKEF is now a minor tenant in 1 Horse Guards Road (1HGR) occupying 8% of the total net internal area. The 1HGR building is managed as a PFI and a number of changes have been introduced over the years to reduce emissions.

UKEF's Cardiff file repository increased its emissions over the year, primarily as a result of increased usage during the second and third quarters during testing of UKEF's business continuity plans.

Overview of influenced impacts

As the landlord, HM Treasury manages the energy supply contract at 1HGR and follows government procurement best practice.

Waste

Figure 10: Waste disposal – five-year summary

			2009–10	2010-11	2011–12	2012–13	2013–14
Non-financial indicators (tonnes)	Total waste		78.62	70.55	82.49	86.25	94.82
	Hazardous waste	Total	N/A	N/A	N/A	N/A	N/A
	Non-hazardous waste	Landfill	0.1	0.1	0.1	0.1	0.1
		Reused/ recycled	65.23	60.41	73.33	77.15	79.11
		Composted	1.06	1.08	1.01	1.40	1.94
		Incinerated with energy recovery	12.23	8.96	8.05	7.6	13.67
Financial indicators	Total disposal cost (£)		22,130	19,790	21,928	21,620	47,527

Performance commentary

UKEF has a target to reduce the amount of waste it generates by 25% against the 2009–10 baseline. UKEF's waste figures for 2013–14 are 22% higher than the baseline. In 2013–14, due to the relocation, there was a significant increase in waste caused by the recycling/re-use of office furniture and other related items (approx. 27 tonnes) which accounted for almost 29% of the annual waste figure in the reporting period. In addition, in preparation for the relocation, existing filing and storage space was reduced through a combination of archiving and disposal (through recycling) of documents, which led to a marked increase in recycled paper waste. Excluding these, UKEF would have shown an overall reduction in waste for 2013–14. It is expected that in its new premises UKEF will meet the GGC target in this area for 2014–15.

Controllable impacts commentary

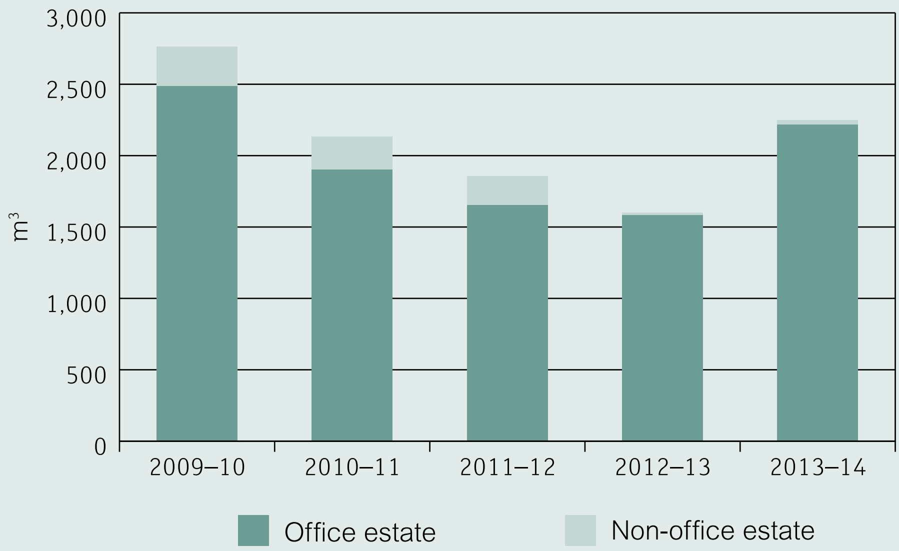
Following the relocation, UKEF moved to a binless environment, with shared recycling points on the office floor. All ICT waste is either recycled or reused through UKEF's contract with the Disposal Services Agency.

Overview of influenced impacts

UKEF will work with its new landlord at 1HGR to find opportunities to improve waste management. UKEF's waste will be measured as a proportion of the total building waste. UKEF will roll out an electronic case management system in 2014–15, which is expected to reduce paper usage.

Water consumption

Figure 11: Water consumption – four-year summary



			2009–10	2010-11	2011–12	2012–13	2013–14
Non-Financial indicators (m^3)	Water consumption (office estate)	Supplied	2,488	1,901	1,654	1,582	2,218
		Abstract	N/A	N/A	N/A	N/A	N/A
		Per FTE*	8.8	7.3	7.2	7.5	8.6
	Water consumption (non-office estate)	Supplied	273.98	231.63	201.12	18.43	31.60
		Abstract	N/A	N/A	N/A	N/A	N/A
Financial indicators	Water supply costs (office estate) (£)		2,848	5,155	3,041	3,228	4,195
	Water supply costs (non-office estate) (£)		824	697	710	156	197

Performance commentary (including measures)

** includes contractors and office visitors*

The GGC target is to reduce water consumption from a 2009–10 baseline, measured against best practice benchmarks:

a. ≥6m^3 water consumption per FTE: poor practice

b. 4m^3 to 6m^3 per FTE: good practice

c. ≤4m^3 per FTE: best practice

Controllable impacts commentary
UKEF did not meet the good practice benchmark; its consumption is >6m^3 per FTE. As with waste measurement, UKEF's water is not measured separately from other tenants and UKEF reports water consumption as being a proportion of the whole building at 1HGR.
Overview of influenced impacts
At the Cardiff file repository the water meter is monitored on a monthly basis.

Sustainable procurement

UKEF uses existing framework agreements which have been centrally procured through the Government Procurement Service. Additionally UKEF's key facilities management suppliers have sustainable objectives and environmental policies in place committing to sustainable development. UKEF's annual spend on contracts is relatively small and does not necessitate liaison with other government departments to develop pan-government contracts.

Biodiversity and natural environment

UKEF's Westminster office and its Cardiff file repository have no access to or control over external land. Therefore UKEF does not have a biodiversity plan.

Climate change adaptation

Given its small size UKEF does not have an adaptation plan.

Notes:

UKEF paid for water and waste services through an annual service charge at its previous London office. The figures used above have been apportioned to departmental costs based on floor occupancy of 18.64%.

All 1HGR utility payments (including water, waste and energy) are included in the set annual lease payments. The figures used above have been apportioned to departmental costs based on floor occupancy of 8.07%.

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

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

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

Export Guarantees Advisory Council Annual Report

The Export Guarantees Advisory Council is a non-departmental public body (NDPB) established under the Export and Investment Guarantees Act 1991. Its role is to give advice to the Secretary of State for Business, Innovation and Skills at his request on matters related to UKEF. The Secretary of State has a statutory duty to consult the Council on matters related to the provision of reinsurance by UKEF to the private credit insurance market. In practice, the Council provides advice to Ministers on the policies that UKEF applies when doing business particularly related to:

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

The Council's advice is provided in the context of the government's export strategy and the role UKEF plays in helping to fulfil it, particularly that it does so in line with the government's ethical policies and international obligations as they relate to ECAs.

The Council does not have executive powers and therefore is not involved in decision-taking by UKEF in the provision of support for particular export transactions. It carries out retrospective reviews of export transactions UKEF has supported to understand how its principles and policies are applied in practice, provides assurance and, as appropriate, gives advice on how these might be further developed.

Members of the Council are appointed by Ministers. The members are:

Chair

Andrew Wiseman (Partner, Harrison Grant Solicitors)

Members

Gillian Arthur (Head of Philanthropy Services, Sanne Group)

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

Alexandra Elson (Policy Manager, Shell Plc)

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

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

John Newgas (Consultant, Sagwen Computer Consultancy)

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

Members of the Council are not remunerated and provide their time on a voluntary basis. Its direct cost in 2013-2014 was less than £4,000.

During 2013–14, the Council met on five occasions. Separately, it met with the Minister of State for Trade and Investment.

One meeting was devoted to the government's triennial review of the Council. The government's policy is to review the need for, and the governance of, NDPBs every three years. UKEF conducted such a review of the Council and in doing so consulted the Council. The Council made no comment as to its future but gave advice on factors that the government should consider taking into account in reaching a view. UKEF also consulted other interested parties. The outcome concluded that the Council still had a role to play in supporting Ministers in the exercise of their responsibilities for UKEF and that it should continue to provide advice and assurance in line with its existing terms of reference. A number of recommendations were made to bring the Council's governance into line with the Cabinet Office's best practice guidelines for NDPBs. The recommendations also took into account an internal audit review of the Council that had been undertaken during the year.

At each of its meetings, the Council met with senior officials from UKEF including its chief executive who routinely provided a briefing on current issues and developments to provide context to the Council's deliberations and lines of inquiries upon which it could provide advice in fulfilment of its terms of reference. UKEF officials provided briefings on particular issues and export transactions supported. The Council also met with the Minister. It is the practice of the Council to also meet with interested parties to understand their issues of interest in UKEF and to help shape the Council's agenda.

During the year the Council met the British Exporters' Association (BExA) a trade lobby group that campaigns for the interests of British exporters. BExA welcomed the expansion of UKEF's business domain to assist exports sold on short terms of credit and the introduction of new products and services. It was supportive of the initiative to deploy a network of export finance advisers based around the country and the efforts being made to raise awareness of UKEF amongst the exporting community. BExA produces an annual comparison report on the products and services offered by ECAs and reported that it now benchmarked UKEF more favourably as a result of the changes made. BExA recognised UKEF's responsibilities to apply policies and practices to fulfil its international obligations with respect to anti-bribery, environmental standards etc. but made clear it would seek to ensure that these were not applied more onerously than other ECAs given its concern that British exporters should compete on a level playing field.

The Council also met with Transparency International (TI) a non-governmental organisation (NGO) whose activities centre on combating corruption including in international trade. TI has previously examined the policies and practices of ECAs in regards to their anti-bribery policies in line with their obligations under the *OECD Recommendation on Bribery and Officially Supported Export Credits* (the OECD Bribery Recommendation). TI has a wealth of information to assist UKEF in its fulfilment of the OECD Bribery Recommendation and the Council encouraged engagement between UKEF and TI to draw upon its resources to help UKEF fulfil its anti-bribery due diligence on applications for support and to assist staff training.

The Council carried out an annual review of the application of UKEF's anti-bribery and corruption policies in compliance with UKEF's obligations under the OECD Bribery Recommendation. It also considered UKEF's practices in conducting "know your customer" checks and adverse history due diligence in respect of applications it receives for support. The broadening of UKEF's business domain has meant that it is now serving a wider community of exporters, many of whom are SMEs. Not all operate anti-bribery policies and therefore UKEF can help to play a broader role in the deterrence of corrupt activity by encouraging such companies to adopt appropriate anti-bribery management systems and signpost them to external resources, including TI.

As part of its review of UKEF's anti-bribery policies and practices, the Council particularly examined the support provided to BAE Systems in respect of the supply of Typhoon aircraft to Oman and the supply of bridges to Sri Lanka by Mabey Bridge Limited. The Council was satisfied that UKEF had carried out comprehensive due diligence in respect of both companies and the export contracts in line with the OECD Bribery Recommendation.

The Council also examined new projects that UKEF supported to understand how it had applied the OECD Common Approaches. It reviewed UKEF support for the Sadara Petrochemical project, an integrated chemicals complex costing over US$19 billion being constructed in Jubail Industrial City II in Saudi Arabia. UKEF support had been provided alongside six other ECAs. UKEF took the lead role in undertaking the ESHR due diligence of the project. The project was classified 'Category A' i.e. as a project having potentially high ESHR impacts, as defined by the OECD Common Approaches. The Council reviewed the process by which the project had been screened, classified and assessed by UKEF's Environmental Advisory Unit (EAU) and UKEF's conclusion that the project would meet international ESHR standards. Given the size of the project, essentially an integration of 26 individual projects, which required substantial labour resources for its construction, the Council paid particular attention to the worker conditions and social issues connected with the project. The Council was satisfied that UKEF had properly categorised the project and benchmarked it against the IFC Performance Standards. The Council examined the arrangements to undertake monitoring of ESHR issues during the construction and operational phases of the project and will be looking at this in 2014–15 to be assured that the project remains aligned with international standards.

At a number of its meetings, the Council considered human rights issues. The Council noted the publication by the government in September 2013 of its action plan *Good Business: Implementing the UN Guiding Principles on Business and Human Rights* to which UKEF had contributed. The Council also considered the work being undertaken by UKEF in the OECD Environmental Practitioner's Group to fulfil a mandate in the 2012 OECD Common Approaches to review how project related human rights impacts are being addressed and should be further addressed including the adoption of human rights due diligence tools. The Council considered a report published by Amnesty International entitled *A History of Neglect: UK Export Finance and Human Rights*, which was critical of UKEF's record of considering the human rights impacts of the projects it had supported. The Council noted that projects highlighted by Amnesty dated from many years previously. The Council considered there appeared to be a lack of knowledge and understanding of how the OECD Common Approaches works and the human rights due diligence that UKEF carries out in line with the relevant international ESHR standards. The Council encouraged UKEF to make information available to raise awareness and knowledge and welcomed the subsequent publication by UKEF of a guide to the OECD Common Approaches and a note on its approach to human rights on projects.

The Council reviewed the activities of the EAU during 2013. The Council noted that the workload of the EAU had remained high as a result of rising demand for UKEF support and the increase in the number of projects now subject to monitoring following the provision of support. The EAU has arrangements to obtain advice where specialist ESHR knowledge is required and to provide additional resource to manage peaks in workload. The EAU also plays an important role in representing UKEF at the OECD's Environmental Practitioners' Group meetings, where it works with representatives of other ECAs to advise the OECD's Export Credit Group on ESHR matters and make recommendations on how standards could be developed.

The Council reviewed (in May 2013) UKEF's handling of information requests made under the Freedom of Information Act and the Environmental Information Regulations. The Council noted that in 2012–13, while the total number of requests had fallen from the previous year, the proportion of those answered within statutory deadlines had also fallen. While recognising this reflected a higher concentration of complex requests that involved the need to consult external parties, the Council encouraged UKEF to improve its timeliness in handling requests in 2013-14[1].

1 In 2013-14, UKEF responded to 83% of cases within the statutory time limit, compared to 76% in 2012-13. See page 35 for more details.

During the year, the Council was briefed by UKEF on the recovery of sovereign debts rescheduled under the auspices of Paris Club rescheduling agreements following default on payment of original debts. The majority of the original debts related to export contracts supported in the 1970s and 1980s. This matter was the subject of attention by NGOs such as the Jubilee Debt Campaign who called for an audit of the debts to be carried out and for debts to be cancelled. It led to information about the debts being disclosed by UKEF through parliamentary questions and freedom of information requests. In the light of this, the Council planned to meet the Jubilee Debt Campaign during 2014–15 as part of its engagement with parties interested in UKEF.

The Council's terms of reference, register of members interests, minutes of its meetings, the triennial review report and contact details can be found on the government's website at www.gov.uk/government/organisations/export-guarantees-advisory-council. For further information on the work of the Council please contact the council secretary on +44(0)20 7271 8101 or email enquiries@ukef.gsi.gov.uk.

Andrew Wiseman
Chair

Performance against Financial Objectives

UKEF derives its statutory authority from the Export and Investment Guarantees Act 1991 (the Act).

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

Financial objectives
Overall summary: all targets were achieved throughout the year.

Financial Objectives on guarantee and insurance business issued since 1991	
Objective and description	**Results**
Maximum Commitment This measure places a cap on the maximum amount of nominal risk exposure (that is, the total amount of taxpayers' money that may be put at risk by UKEF).	**Met** The highest recorded maximum exposure in the year was £21.65 billion, against a notional maximum commitment of £50 billion[1] (unadjusted for foreign exchange movements).
Risk Appetite Limit This limit places a constraint on UKEF's appetite for risk at the 99.1 percentile of UKEF's estimated ten-year loss distribution.	**Met** UKEF's 99.1 percentile of the ten-year loss distribution did not exceed £1.24 billion, against a notional Risk Appetite Limit of £2.7 billion (adjusted for foreign exchange movement).
Reserve Index This index ensures that UKEF has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5% level of confidence.	**Met** The reserve index did not fall below 4.51 in the year, against a target of 1.00.
Pricing Adequacy Index This index tests whether over time UKEF earns sufficient premium income to cover all its risk and operating costs. It is measured over three different periods:	
(i) past two years and present financial year:	**Met** This index for 2013–14 was 1.73, against a target of 1.00.
(ii) previous, present and next year:	**Met** This index did not fall below 1.64, against a monthly target of 1.00.

Financial Objectives on guarantee and insurance business issued since 1991	
(iii) present year and next two years:	**Met** This index did not fall below 1.59, against a monthly target of 1.00.
Premium to Risk Ratio This measure ensures that each year UKEF charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to administrative costs.	**Met** This ratio did not fall below 2.00, against a target of 1.35.

Financial objectives on guarantee and insurance business issued since 1991	
Objective and description	**Results**
All FREF Portfolios[2] 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.

Note 1: This limit was increased from £25 billion to £50 billion in December 2013.

Note 2: The FREF scheme closed for new business on 31 March 2011.

Statutory Limits

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

The latter is expressed in SDR. The Act requires reporting of commitments against these limits.

The table shows the statutory limits at 31 March 2014 and 31 March 2013 and the outstanding commitments against them:

				At 31 Mar 2014				**At 31 Mar 2013**
	Sterling	**Foreign Currency**	**Sterling Equivalent**	**Sterling Total**	**Sterling**	**Foreign Currency**	**Sterling Equivalent**	**Sterling Total**
	£m	SDRm	£m	£m	£m	SDRm	£m	£m
Section 6(1) amounts								
Statutory Limit	**35,000**	**30,000**	**27,861**	**62,861**	**35,000**	**30,000**	**29,719**	**64,719**
Assets (see Note below)	–	–	–	–	–	–	–	–
Liabilities	2,102	18,422	17,108	19,211	1,985	18,650	18,475	20,460
Total Commitments	**2,102**	**18,422**	**17,108**	**19,211**	**1,985**	**18,650**	**18,475**	**20,460**
Section 6(3) amounts								
Statutory Limit	**15,000**	**10,000**	**9,287**	**24,287**	**15,000**	**10,000**	**9,906**	**24,906**
Assets (see Note below)	–	–	–	–	–	–	–	–
Liabilities	13	10	9	22	15	17	17	32
Total Commitments	**13**	**10**	**9**	**22**	**15**	**17**	**17**	**32**

Note: interest equalisation arrangements, cross currency swaps and hedge swaps which are "in the money" constitute assets and as such are not scored against the statutory limits. The value of these assets at the dates of the return is detailed in the following table.

	At 31 Mar 2014				At 31 Mar 2013			
	Sterling	**Foreign Currency**	**Sterling Equivalent**	**Sterling Total**	**Sterling**	**Foreign Currency**	**Sterling Equivalent**	**Sterling Total**
	£m	SDRm	£m	£m	£m	SDRm	£m	£m
Section 6(1) amounts								
Assets	**3**	**14**	**13**	**16**	**7**	**21**	**21**	**28**
Section 6(3) amounts								
Assets	**104**	–	–	**104**	**138**	–	–	**138**

List of Guarantees and Insurance Policies Issued

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Abu Dhabi					
Carillion Construction Ltd	Aabar Investments PJS	Hotel	Medium	BC	139,508,716[3]
Hughes Safety Showers Ltd	National Petroleum Construction Co	Showers	–	BSS	40,144
Hughes Safety Showers Ltd	TR Abu Dhabi	Showers	–	BSS	23,093
Oasys Technologies Ltd	UPP Abu Dhabi	Collation equipment	–	BSS	85,200
Algeria					
Enterprise Control Systems Ltd	General Directorate of National Security	Helicopter downlink receiver stations	–	BSS	210,789
Australia					
Barton Firtop Engineering Co Ltd	Chevron Australia Pty Ltd	Strainers	–	BSS	177,967
Barton Firtop Engineering Co Ltd	JKC Ichthys	Strainers	–	BSS	807,519
Caley Ocean Systems Ltd	Subsea Australia Pty Ltd	Deepwater lowering system	–	BSS	379,000
Flexible Engineered Solutions Ltd	McDermott Australia Pty Ltd	Offshore fluid transfer system	–	BSS	240,387
JDR Cable Systems Ltd	ConocoPhilips Pty Ltd	Riser umbilical and infield umbilical	–	BSS	415,461
Azerbaijan					
JCB Sales Ltd	Unileasing Leasing Co CJSC	Construction vehicles	–	SCF	2,496,148
Bosnia & Herzegovina					
Premier Tank Services Ltd	Rafinerija Nafte Brod AD	Sealing system for floating roof	–	BSS	14,720
Roughton International Ltd	Deloitte Advisory Services doo	Consultancy services	–	BSS	16,534
Brazil					
Dolphin Drilling Ltd	Petrobras	Oil and gas exploration	High	BC	85,917,860

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Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Subsea 7 International Contracting Ltd	Petrobras	Oil and gas exploration	High	BC	296,470,129
Saab Seaeye Ltd	Belocean Engineering Netherlands	Lynx remotely operated vehicles	–	SCF	688,887
Cameroon					
Micron Sprayers Ltd	Cameroon National Confederation of Cotton Producers	Sprayers	–	BSS	593,085
Chile					
Airbus SAS	LATAM Airlines Group SA	Airbus aircraft	–	BC	38,318,343
Hughes Safety Showers Ltd	Xstrata Tintaya SA	Showers	–	BSS	10,836
China					
Airbus SAS	China Export Import Bank	Airbus aircraft	–	BC	21,946,395
Airbridge International Agencies Ltd	China Southern Airlines Co Ltd	Freight handling services	–	BSS	240,000
Caley Ocean Systems Ltd	Laurel Technologies Co Ltd	A-frame and cylinders	–	BSS	53,767
Hughes Safety Showers Ltd	CTCI Corporation	Showers	–	BSS	5,379
Hughes Safety Showers Ltd	China Chengda Engineering Co Ltd	Showers	–	BSS	5,218
JDR Cable Systems Ltd	CNOOC Energy Technology & Services	Cables	–	BSS	359,896
Lanemark International Ltd	Beijing Pioneer Petrochemical (Hong Kong) Co Ltd	Reformer burner package	–	BSS	20,090
PBC Enterprises	Sanmark Corp (China)	Blackcurrant seeds	–	EWCS	25,555
Phoenix Scientific Industries Ltd	China East Resources Import & Export Co	Gas atomiser	–	BSS	59,400
Salt Separation Services Ltd	Cosco Nantong Shipyard	Water purification system	–	BSS	107,502
Techflow Marine Ltd	CNOOC Energy Technologies & Services	Stern offloading system	–	BSS	174,373

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Cyprus					
Mantis Deposition Ltd	The University of Cyprus	Scientific equipment	–	BSS	57,619
Czech Rep					
Zeeko Ltd	Instruments Research and Development	High precision polishing machines	–	EWCS	161,210
Denmark					
Aartoft Ltd	ArkitektGruppen Orestad Syd A/S	Bathroom pods	–	BSS	26,602
Aartoft Ltd	GVL Enterprise A/S	Bathroom pods	–	BSS	5,537
Apex Fluid Engineering Ltd	Desmi Pumping Technology A/S	Centrifugal pumps	–	BSS	40,000
British Converting Solutions Ltd	Sydbank Leasing A/S	Box making, printing and gluing machinery	–	BSS	116,667
Flomat Bagfilla International Ltd	Unilver Produktion APS	Valves	–	BSS	51,163
Mount Packaging Systems Ltd	Flugger A/S	Filling system	–	BSS	137,983
Dubai					
Airbus SAS	Emirates	Airbus aircraft	–	BC	144,692,714
Carillion Construction Ltd	Meraas Malls LLC	Residential, retail and entertainment mall	Medium	BC	163,221,198[3]
JDR Cable Systems Ltd	McDermott Middle East Inc	Sub Sea intervention valves umbilicals	–	BSS	353,724
R J Herbert Engineering Ltd	IO Systems Ltd	Automated tray return systems	–	EWCS	400,000
Ecuador					
BCB International Ltd	Dirección General del Material	Inflatable body armour suits	–	BSS	59,082
See note 4	See note 4	Surveillance equipment	–	EXIP	158,414

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Egypt					
Jorin Ltd	ENPPI	Water separation monitoring and control data	–	BSS	67,243
See note 4	See note 4	Wheel loaders	–	EXIP	296,314
Eritrea					
Eduteq Ltd	Ministry of Education	Vocational education and training project	–	BSS & EWCS	1,265,994
Fiji					
Airbus SAS	Air Pacific	Airbus aircraft	–	BC	48,769,172
Finland					
Kiln Flame Systems Ltd	Stora Enso OYJ	Rotary kiln burners	–	BSS	287,698
France					
Altek Europe Ltd	Constellium Neuf Briach Smelting Plant	Stirrer system	–	BSS	13,750
EPS Pipeworks Ltd	Axima Refrigeration	Carbon and stainless steel pipework	–	BSS	148,800
Georgia					
Roughton International Ltd	Ministry of Regional Development	Consultancy services	–	BSS	56,097
Germany					
ASE PLC	Adam Opel AG	IT system	–	EWCS	416,000
Boomeco Ltd	Weener Energie GmbH & Co	Recycled woodchips	–	BSS	68,295
ICEoxford Ltd	Max Planck Institut fur Chemische	Cryogenic equipment	–	BSS	71,288
KGD Enterprises Ltd	Westfalia Seperator Group GmbH	Removal system	–	BSS	1,085,838
Mantis Deposition Ltd	Technische Universitaet Darmstadt	Scientific equipment	–	BSS	159,307
Phoenix Scientific Industries Ltd	Samsung C&T Deutschland GmbH	Gas atomiser	–	BSS	170,118
Salt Separation Services Ltd	Meyer Werft GmbH	Reverse osmosis plants	–	BSS	341,421

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Tetronics (International) Ltd	Duesmann & Hensel Recycling GmbH	Furnace platform	–	BSS	1,000,000
Van Tongeren International Ltd	PCK Raffinerie GmbH	Cyclone separators	–	BSS	18,950
ViperSubsea LLP	Onesubsea GmbH	Hydraulic and chemic distribution connection equipment	–	BSS	683,448
Ghana					
Eduteq Ltd	Oil and Gas Capacity Building Project	Drilling fluid laboratory equipment	–	BSS	325,171
Mourne Ltd	Ghana Airports Co Ltd	Upgrade of Kotoka airport	Medium	BC	24,694,915[3]
NMS Infrastructure Ltd	Ministry of Health	Hospitals	Medium	BC	134,124,262
Unatrac Ltd	PW Mining International Ltd	Earthmoving equipment	–	SCF	4,828,298
Wagtech Projects Ltd	Energy Commission	Refrigeration performance testing laboratory	–	BSS	130,983
See note 4	See note 4	Fire suppression system	–	EXIP	42,750
See note 4	See note 4	Earthmoving equipment	–	EXIP	113,967
Greece					
Van Tongeren International Ltd	Hellenic Petroleum SA	Cyclone separators	–	BSS	32,000
See note 4	See note 4	Set top box software	–	EXIP	689,631
See note 4	See note 4	Stainless steel	–	EXIP	147,001
See note 4	See note 4	Animal health products	–	EXIP	193,447
See note 4	See note 4	Diesel generators	–	EXIP	351,091
See note 4	See note 4	Cheese	–	EXIP	306,920
See note 4	See note 4	Health remedies	–	EXIP	190,625
See note 4	See note 4	Machinery	–	EXIP	1,351,487

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
See note 4	See note 4	Gas barrier resin	–	EXIP	531,482
See note 4	See note 4	Electrical appliances	–	EXIP	149,273
See note 4	See note 4	Automotive spare parts	–	EXIP	375,445
See note 4	See note 4	Canned lubricants	–	EXIP	96,412
See note 4	See note 4	Security alarms	–	EXIP	75,185
See note 4	See note 4	Chrome	–	EXIP	882,975
See note 4	See note 4	Medical packaging	–	EXIP	80,801
Hong Kong					
See note 4	See note 4	Translation services	–	EXIP	4,098
India					
Airbus SAS	Interglobe Aviation Pte Ltd (IndiGo)	Airbus aircraft	–	BC	69,645,511
Compact Engineering	Emami Paper Mills Ltd	Dryers and spares for a multilayer and coated board machine	–	BSS	68,736
Darlow Lloyd Group Ltd	TATA Steel Ltd	Mill scale and mill sludge plant	–	BSS	439,678
Flomat Bagfilla International Ltd	Reliance Industries Ltd	Bag filler and conveying equipment	–	BSS	101,800
Griffon Hoverwork Ltd	Indian Coast Guard	Hovercraft	–	BSS	3,748,322
JDR Cable Systems Ltd	Larsen & Toubro	Cables	–	BSS	561,690
Pyrolytech Ltd	Motherson Automotive Technologies Eng	Furnace	–	BSS	18,600
Roughton International Ltd	National Highways Authority of India	Consultancy services	–	BSS	53,802
Spirotech-SRD Group Ltd	Reliance Industries Ltd	Screw conveyors	–	EWCS	650,000

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Indonesia					
Crabtree of Gateshead	PT Bank Central Asia Tbk	Metal printing machinery	–	LCGS	864,000
Iraq					
See note 4	See note 4	Construction and agricultural machinery	–	EXIP	326,008
Ireland					
Airbus SAS	Avolon	Airbus aircraft	–	BC	5,693,837
Airbus SAS	AWAS Aviation Capital Ltd	Airbus aircraft	–	BC	54,420,840
Airbus SAS	CIT Aerospace International	Airbus aircraft	–	BC	9,539,335
Aylesbury Automation Ltd	Tente Ireland Ltd	Automatic robot assembly cell	–	BSS	42,063
Italy					
Hughes Safety Showers Ltd	Saipem Energy Services SpA	Showers	–	BSS	11,461
Hughes Safety Showers Ltd	MOC c/o Tecnimont SpA	Showers	–	BSS	12,877
HVAC & Refrigeration Engineering Ltd	Rosetti Marino SpA	Air handling units	–	BSS	33,600
William Hare Ltd	Technip Italy SpA	Fabricated structural steelwork	–	BSS	543,568
Kazakhstan					
Airbus SAS	Air Astana	Airbus aircraft	–	BC	27,679,416
Kenya					
FMA Process Engineering Ltd	Kenya Breweries Ltd	Fermenting vessels and tanks	–	BSS	101,856
Korea, Republic of					
Airbus SAS	Korean Airlines Co Ltd	Airbus aircraft	–	BC	33,044,916
Barton Firtop Engineering Co Ltd	Hyundai Heavy Industries Co Ltd	Strainers	–	BSS	1,622,117
Corrotherm International Ltd	Hyundai Engineering & Construction Co	Pipes	–	BSS	94,160

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
DPS (Bristol) Ltd	Hyundai Heavy Industries Co Ltd	Compression platform	–	BSS	403,092
Griffon Hoverwork Ltd	Public Procurement Service	Hovercraft	–	BSS	1,992,226
Hughes Safety Showers Ltd	Daewoo Engineering & Construction Co Ltd	Showers	–	BSS	7,577
Hughes Safety Showers Ltd	SK Engineerig & Construction Co	Showers	–	BSS	12,827
Hughes Safety Showers Ltd	Daelim Industrial Co Ltd	Showers	–	BSS	2,458
Hughes Safety Showers Ltd	GS E&C Corporation	Showers	–	BSS	15,645
Hughes Safety Showers Ltd	Samsung Engineering Co Ltd	Showers	–	BSS	9,662
JDR Cable Systems Ltd	Hyundai Heavy Industries Co Ltd	Umbilicals	–	BSS	350,898
Locker Heatshielding Ltd	Samsung Heavy Industries	Offshore heat shielding system	–	BSS	57,870
Plextek Ltd	Defense Acquisition Program Administration	Ground surveillance radar systems	–	BSS	1,265,250
Techflow Flexibles	Seadrill Offshore AS	High pressure hoses	–	EWCS	200,534
Van Tongeren Internatinal Ltd	Hyundai Heavy Industries Co Ltd	Cyclone separators	–	BSS	68,500
Wozair Ltd	Hyundai Heavy Industries Co Ltd	Fans and dampers	–	BSS	1,391,356
Kuwait					
Building Design Partnership Ltd	Kuwait Municipality	Urban planning services	–	BSS	87,016
The Micha Design Co Ltd	SunPower Tenesol SAS-SPTN	Solar power charge controllers	–	EWCS	153,335
Lebanon					
See note 4	See note 4	Bomb blast curtains	–	EXIP	638,400
Lesotho					
Roughton International Ltd	Ministry of Public Works and Transport	Consultancy services	–	BSS	9,836

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Libya					
See note 4	See note 4	Plant and machinery spares	–	EXIP	1,933,401
See note 4	See note 4	Wallpaper	–	EXIP	120,000
See note 4	See note 4	Channel head and shell for heat exchanger	–	EXIP	201,782
See note 4	See note 4	Thermal fluid heating equipment	–	EXIP	14,013
See note 4	See note 4	Voltage stabilisers	–	EXIP	14,815
See note 4	See note 4	Dose rate monitors	–	EXIP	7,471
Luxembourg					
Caley Ocean Systems Ltd	Dredging and Maritime Management SA	Turntable system	–	BSS	258,750
Extronics Ltd	John Zink International (Luxembourg) Sarl	Electronic goods	–	BSS	22,842
Malaysia					
Airbus SAS	Airasia Berhad	Airbus aircraft	–	BC	38,995,316
Airbus SAS	Airasia X	Airbus aircraft	–	BC	45,128,625
Malta					
Cathodic Protection Co Ltd	Mecap Ltd	Transformer rectifiers	–	BSS	136,497
Flight Calibration Services Ltd	Malta International Airport PLC	Flight inspection services	–	BSS	16,534
Mexico					
Pims of London Ltd	Petroleus Mexicanos (PEMEX)	Technical reports	–	EWCS	77,500
Van Tongeren International Ltd	Technip de Mexico	Cyclone separators	–	BSS	46,487
Moldova					
Roughton International Ltd	State Road Administration of Moldova	Consultancy services	–	BSS	74,399

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Mozambique					
FMA Process Engineering Ltd	Diageo Supply Marracuene Limitada	Design, manufacture and supply of plant	–	BSS	248,000
Netherlands					
Hughes Safety Showers Ltd	BP Raffinaderji Rotterdam BV	Showers	–	BSS	23,673
Hughes Safety Showers Ltd	Shell Iraq Petroleum Development BV	Showers	–	BSS	9,302
Icon Connect Ltd	Amels BV	Audio visual equipment	–	BSS	76,058
Industrial Tomography Systems Ltd	Van Oord Ship Management BV	Tomography system	–	BSS	200,000
Lanemark International Ltd	Technip Benelux BV	Gas burners	–	BSS	19,060
MAATS Tech Ltd	IHC Offshore & Marine BV	Two carousel systems	–	EWCS	350,000
Phoenix Scientific Industries Ltd	BASF Nederland BV	Melt spinner system	–	BSS	90,855
Salt Separation Services Ltd	Total E&P Nederland	Water purification system	–	BSS	39,902
William Hare Ltd	Etileno XXI Services BV	Fabricated structural steelwork	–	BSS	1,099,572
New Zealand					
Alexander Dennis Ltd	Swift Transport Ltd	Buses	Low	SCF	19,092,364
Griffon Hoverwork Ltd	Auckland International Airport	Hovercraft	–	BSS	647,998
Nigeria					
See note 4	See note 4	Pipes	–	EXIP	573,931
Norway					
Techflow Flexibles	Aker Solutions	High pressure hoses	–	EWCS	487,706
Techflow Flexibles	National Oilwell Varco AS	High pressure hoses	–	EWCS	199,802
Techflow Flexibles	Vinje Industri AS	High pressure hoses	–	EWCS	103,037

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Oman					
ACDC LED Ltd	Zubair Electric LLC	Architectural light fittings	–	BSS	108,740
Altek Europe Ltd	Oman Aluminium Processing Industries LLC (OAPIL)	Model 500 dross press and associated items	–	BSS	11,755
Barton Firtop Enginnering Co Ltd	Galfar Engineering and Contracting	Strainers	–	BSS	112,000
Panama					
Airbus SAS	Avianca Holdings SA	Airbus aircraft	–	BC	68,773,262
Peru					
FPE Global Holdings Ltd	Empresa Agroindustrial Case Grande	Valves	–	BSS	39,596
Roughton International Ltd	Provias Nacional del Minsitero	Consultancy services	–	BSS	120,331
Philippines					
Airbus SAS	Philippine Airlines Inc	Airbus aircraft	–	BC	63,379,553
Qatar					
Click Netherfield Ltd	Poltrona Frau Qatar	Museum showcases	–	EWCS	500,000
Gustafson Porter LLP	Lusail Real Estate Development Co	Landscape design services	–	BSS	288,006
Hughes Safety Showers Ltd	SNC Lavalin International Inc	Showers	–	BSS	9,541
Russian Federation					
Airbus SAS	VEB Leasing	Airbus aircraft	–	BC	29,836,471
Astrium Ltd	Russian Space Communication Co	Satellite	–	BC	38,550,223
Ineos Commercial Services Ltd	ZapSibNeftekhim LLC	Process design for petrochemical plant	–	BC	33,573,664
Pims of London Ltd	OMV Petrom	Risk software for oil pipeline	–	BSS	20,280
Pultrex Ltd	Nanotechnology Centre of Composites	Mandrel extractor & pultrusion machine	–	BSS	272,382
See note 4	See note 4	Wind tunnel	–	EXIP	427,376

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
See note 4	See note 4	Cooking appliances	–	EXIP	73,853
See note 4	See note 4	Ignition cables	–	EXIP	687,232
Saudi Arabia					
Event Communications Ltd	Drake and Scull International	Exhibition works	–	BSS	340,701
Fluor Ltd	Sadara Chemical Co	Petrochemical complex	High	BC	474,844,716
Hughes Safety Showers Ltd	JGC Gulf Internatinal Ltd	Showers	–	BSS	914
Hughes Safety Showers Ltd	Tecnicas Reunidas Gulf Co Ltd	Showers	–	BSS	1,886
North East Surrey College of Technology	The College of Excellence Company	Training and vocational education	–	BSS	5,250,378
See note 4	See note 4	Gas turbine air filters	–	EXIP	197,101
Serbia					
Altek Europe Ltd	Impol Seval AD	Dross press	–	BSS	90,000
See note 4	See note 4	Set top box hardware	–	EXIP	2,173,296
Sierra Leone					
Roughton International Ltd	Sierra Leone Roads Authority	Consultancy services	–	BSS	145,979
Roughton International Ltd	The NAO of the European Development Fund	Consultancy services	–	BSS	176,198
Singapore					
Airbus SAS	BOC Aviation Pte Ltd	Airbus aircraft	–	BC	26,748,171
Mantis Deposition Ltd	Research Instruments Pte Ltd	Scientific equipment	–	BSS	272,000
Techflow Flexibles Ltd	Keppel Fels	High pressure hoses	–	EWCS	804,792
Techflow Flexibles Ltd	PPL Shipyard Pte Ltd	High pressure hoses	–	EWCS	237,689
Techflow Flexibles Ltd	SBI Offshore Ltd	High pressure hoses	–	EWCS	143,238

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Spain					
Hughes Safety Showers Ltd	TR Jubail Refinery	Showers	–	BSS	6,325
Kiln Flame Systems Ltd	Alcoa Inc	Ring manifolds and gas valve trains	–	BSS	112,778
MCPS Ltd	Dragados SA	Aluminium anodes	–	BSS	84,521
Sri Lanka					
Cleveland Bridge UK Ltd	Ministry of Economic Development	Bridges	Medium	BC & BIP	46,643,226
Mabey Bridge Ltd	Ministry of Ports and Highways	Bridges	Medium	BC	50,189,150
Roughton International Ltd	Ministry of Ports and Highways	Consultancy services	–	BSS	145,094
See note 4	See note 4	Medical diagnostic tests and equipment	–	EXIP	3,662
Switzerland					
Arcade (UK) Ltd	The European Organisation for Nuclear Research	Pumps	–	BSS	63,761
Flexible Engineered Solutions Ltd	Single Buoy Moorings Inc	Hydraulic and electrical slab plate	–	BSS	110,920
Taiwan					
Industrial Penstocks Ltd	Oriental Petrochemical (Taiwan) Co	Valves	–	BSS & EWCS	299,197
Tanzania					
Diak Technical Export Ltd	Tanzania Electricity Supply Co	Turbine governors	–	BSS	35,482
Thailand					
Airbus SAS	Thai Airasia	Airbus aircraft	–	BC	15,347,444
Design & Projects Int Ltd	MT JV (Thailand) Co Ltd	Railway maintenance equipment	–	BSS	1,338,358
Tunisia					
Airbus SAS	Tunisair	Airbus aircraft	–	BC	14,411,369

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Turkey					
Airbus SAS	Turkish Airlines Inc	Airbus aircraft	–	BC	87,566,006
Apollo Sheeters Ltd	Umur Basim ve Kirtasiye Sanayi ve Ticaret AS	Paper cutting machinery	–	SCF	433,432
JCB Sales Ltd	SIF Otomotiv	Excavation equipment	–	BC	30,143,754
Sims Group UK Ltd	Turkiye Vakiflar Bankasi TAO	Shredded steel scrap	–	LCGS	3,099,781
Ukraine					
See note 4	See note 4	Customised nickel based alloy	–	EXIP	1,441,625
United Arab Emirates					
Airbus SAS	Air Arabia PJSC	Airbus aircraft	–	BC	21,249,919
Cathodic Protection Co Ltd	Petrofac Offshore Capital Projects	Pumps	–	BSS	39,844
Hughes Safety Showers Ltd	Petrofac International Ltd	Showers	–	BSS	86,510
JDR Cable Systems Ltd	Petrofac International Ltd	Riser umbilical and infield umbilical	–	BSS	914,640
United States of America					
Airbus SAS	Aviation Capital Group Corp	Airbus aircraft	–	BC	29,632,638
Vee Bee Filtration UK Ltd	Bechtel Oil, Gas & Chemicals Inc	Filtration equipment	–	BSS	202,937
Winkworth Machinery Ltd	Wriglet Inc	Blade mixers	–	BSS	110,133
Vanuatu					
Roughton International Ltd	Ministry of Finance and Economic Development	Consultancy services	–	BSS	89,974
Roughton International Ltd	Ministry of Infrastructure and Public Utilities	Consultancy services	–	BSS	178,616

Figure 12: List of Guarantees and Insurance Policies Issued

Market/ Exporter/ Investor	Buyer/Airline/ Operating Lessor	Project/Goods and Services	Case Impact[1]	Product[2]	UKEF Max Liability, £
Vietnam					
Airbus SAS	Vietnam Airlines Corporation	Airbus aircraft	–	BC	66,129,892
Various	Nghi Son Refinery and Petrochemical Ltd	Petroleum refining and petrochemical plant	High	BC	196,357,734[3]
Virgin Islands (British)					
Biwater International Ltd	Biwater (BVI) Ltd	Desalination plant	Medium	BC	31,382,246
Yemen					
Ledbury Welding and Engineering Ltd	Yemen LNG Co Ltd	Fuel tanks	–	BSS	55,454
	Total				**£2,796 million**

Notes:

1. Indicates the category of environmental, social and/or human rights impacts that could potentially occur without the deployment of arrangements to mitigate such impacts as defined by the OECD Common Approaches, available from www.oecd.org.
2. Product key: BIP – bond insurance policy; BSS – bond support scheme; BC – buyer credit; EXIP – export insurance policy; EWCS – export working capital scheme; LCGS – letter of credit guarantee scheme; SCF – supplier credit finance.
3. Guarantee issued but not effective at 31 March 2014.
4. Details not disclosed e.g. for reasons of commercial confidentiality.

UK Export Finance

Accounts 2013-14

At 31 March 2014

The Accounting Officer authorised these financial statements for issue on
10 June 2014

HC15

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Directors' Report

Accounts: UK Export Finance

Overall Results

UK Export Finance (UKEF) issues guarantees and insurance against loss for or on behalf of exporters of goods and services and overseas investors from the UK, and supports the provision of Fixed Rate Export Finance (FREF) (which closed for new business on 31 March 2011). UKEF achieved an operating surplus for the year ended 31 March 2014 of £50 million, as compared to £135 million for the year to 31 March 2013. The reduction in net operating income for the year was largely caused by:

- a reduction in the release from the underwriting funds closed in the current year to £14 million in 2013-14, compared to £34 million in 2012-13;
- a reduction in the release of provisions for Recoverable Claims to £15 million in 2013-14, compared to £38 million in 2012-13;
- a decrease in net investment return to £36 million in 2013-14, compared to £49 million in 2012-13 largely resulting from decreased interest income from underwriting activities of £23 million in 2013-14 compared to £38 million in 2012-13; and
- A foreign exchange loss of £32 million for 2013-14 compared to a gain of £18 million in 2012-13.

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

Statutory Powers

UKEF is the operating name of the Export Credits Guarantee Department which 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 UKEF to provide Overseas Investment Insurance.

Under Section 3 of the Act, UKEF 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 UKEF considers appropriate and states that its powers are exercisable only with the consent of HM Treasury. Section 13 requires UKEF to consult the Export Guarantees Advisory Council (EGAC) when determining whether reinsurance support should be provided by UKEF to the private credit insurance market.

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

Ministers

The Ministers who had responsibility in relation to UKEF during the year ended 31 March 2014 and up to the date of these Accounts were:

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

Lord Livingston of Parkhead, Minister of State for Trade and Investment from 11 December 2013.

Lord Green of Hurstpierpoint, Minister of State for Trade and Investment to 10 December 2013.

Accounting Officer of UKEF and the Management Board

UKEF's Accounting Officer is Mr David Godfrey (from 9 September 2013). Mr David Havelock was UKEF's Accounting Officer up to 8 September 2013.

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 UKEF so that it achieves its business and financial objectives within agreed resources and budgets. The Management Board consisted of the Accounting Officer and the following:

Executive Members:

Mr David Godfrey, Chief Executive (from 9 September 2013)
Mr David Havelock, Acting Chief Executive (up to 8 September 2013) and Credit Risk Director
Mr Cameron Fox, Finance Director (from 22 February 2014)
Mr Nigel Addison Smith, Finance Director (up to 21 February 2014)
Mr Steve Dodgson, Business Director
Ms Sue Johnson, Head of Resources Division (up to 19 December 2013)
Ms Lucy Wylde, General Counsel (from 6 January 2014)
Mr Charles Redfearn, Acting General Counsel (from 31 August 2013 to 5 January 2014)
Mr Nicholas Ridley, General Counsel (up to 30 August 2013)

Non-Executive Members:

Mr Guy Beringer, Chairman
Mr David Godfrey (up to September 8 2013)
Mr David Harrison (retired from the Management Board on 31 March 2012 but continues to be a member of the Audit Committee)
Mr Amin Mawji (from 25 July 2013)
Sir Eric Peacock

BIS Shareholder Executive representative:

Ms Fiona Jane Macgregor (from 25 September 2013)

UK Trade & Investment representative:

Mr Jon Harding

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

Activities of UKEF

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

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

There are no other entities included within the Accounting boundary. Guaranteed Export Finance Corporation PLC (GEFCO), a special purpose company which refinances certain of UKEF's export finance loans, is not consolidated, this is in accordance with the Government Financial Reporting Manual (FReM) (see Note 22).

Accounts[1] 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 UKEF's Underwriting Activities, Account 4 covers Export Finance Activities.

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

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

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

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

Foreign Content

The amount of foreign content supported by UKEF during the period was £501 million.

Payment Policy

UKEF's payment policy is that all invoices should be paid on the contractual due date or, where there is no contractual provision, within thirty days of receipt. This policy is in accordance with the requirements laid down in Managing Public Money and follows the Confederation of British Industry code on prompt payment of commercial debt. For the year to 31 March 2014 UKEF paid 99.9 per cent of invoices within the policy requirement, compared to 99.5% for the year to 31 March 2013. In addition, UKEF follows guidance issued that all government departments should plan to make payments within five working days. At 31 March 2014 the creditor days outstanding were 6.7 days, compared to 6.8 days at 31 March 2013.

Days Lost Due to Absence

UKEF's Attendance Management Policy encourages a culture where good attendance is expected and valued. UKEF recognises that from time to time, absences for medical reasons are unavoidable. UKEF 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 2013 to 31 March 2014, the average working days lost per full time employee was 6.1 days. This is a decrease from the previous year's figure of 7.0 days. The average figure also compares favourably with the most recently published Civil Service average figure of 7.4 days.

[1] Account 5 is in the process of being established and will be used for, amongst other activities the direct lending facility. There was however no activity in 2013-14.

Further Information on UKEF Activities

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

Strategic Report

UKEF is required by the FReM to prepare an annual report alongside the accounts containing the matters dealt with in a Strategic Report as set out in Chapter 4A of Part 15 of the Companies Act 2006, as interpreted below for the public sector context. The contents of this report can be found in the annual report section of this document.

Audit

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

Management Commentary

Five Year Summary

	2013-14 £m	2012-13 £m	2011-12 £m	2010-11 £m	2009-10 £m
Overall Value of Guarantees and Insurance Policies:					
Issued - Net of Reinsurance	**2,272**	**4,295**	**2,318**	**2,924**	**2,206**
Amounts at Risk - Gross of Reinsurance	**17,195**	**18,142**	**14,280**	**13,616**	**11,799**
Statement of Comprehensive Net Income:					
Premium Income Net of Reinsurance	**120**	**133**	**85**	**96**	**58**
Staff, other administration and operating costs	**26**	**20**	**20**	**22**	**26**
Net Operating Income – total	**50**	**135**	**147**	**204**	**272**
– Account 1	18	66	53	56	103
– Account 2	19	59	85	130	140
– Account 4	13	10	9	18	29
Statement of Cash Flows:					
Claims Recoveries – total	**108**	**98**	**90**	**123**	**151**
– Account 1	38	36	32	46	31
– Account 2	70	62	58	77	120
Interest Recoveries in the year – total	**27**	**38**	**38**	**66**	**54**
– Account 1	23	30	29	44	23
– Account 2	4	8	9	22	31
Claims Paid – total	**13**	**7**	**6**	**30**	**48**
– Account 2	13	7	6	30	48
Net Cash Flow from Operating Activities – total	**205**	**274**	**192**	**265**	**212**
– Account 1	59	66	56	84	44
– Account 2	138	198	124	148	137
– Account 4	8	10	12	33	31
Statement of Financial Position:					
Recoverable Claims before provisioning	**1,075**	**1,228**	**1,314**	**1,396**	**1,561**
– Account 1	609	675	716	748	853
– Account 2	466	553	598	648	708
Recoverable Claims after provisioning	**605**	**711**	**750**	**780**	**833**
– Account 1	284	317	321	324	344
– Account 2	321	394	429	456	489
Interest on Unrecovered Claims after provisioning	**146**	**155**	**151**	**154**	**169**
– Account 1	145	153	148	152	163
– Account 2	1	2	3	2	6
Underwriting Funds - Net of Reinsurance	**542**	**478**	**396**	**380**	**406**
– Account 1	-	-	-	1	1
– Account 2	542	478	396	379	405
Direct Funding balance	**104**	**138**	**178**	**230**	**330**

Management Commentary

Account 1

Account 1 relates to guarantees and insurance business issued before 1991 (including those issued by the part of UKEF 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, UKEF provides prudently against the possible non-recovery of debts. All debts are actively pursued, with recovery action often spread over long periods. Where the outlook for recovery improves, the level of provision is reduced accordingly, releasing profit to the Statement of Comprehensive Net Income. The key results (rounded to the nearest million) are:

- In the recent past, the majority of Net Operating Income for Account 1 was generated when recoveries of claims and interest exceeded the book value net of provisions. During 2013-14 the Operating income was £18 million, a reduction from Operating income of £66 million in 2012-13.

- Recoveries of claims paid were £38 million (including Egypt £13 million, Iraq £10 million, Indonesia £7 million, Serbia £4 million, Vietnam £1 million and Ecuador £1 million), compared to £36 million in 2012-13.

- Recoveries of interest on claims paid were £23 million (including Iraq £10 million, Serbia £7 million, Ecuador £2 million and Egypt £2 million), compared to £30 million in 2012-13.

- 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 £675 million in 2012-13 to £609 million during the year, while those for net claims decreased from £317 million in 2012-13 to £284 million during the same period.

- Interest on net Unrecovered Claims has decreased from £153 million in 2012-13 to £145 million.

Account 2

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

- The total of guarantees and insurance policies that were issued and effective during the year was £2,272 million compared to £4,291 million at March 31 2013. In addition £524 million was issued but was not yet not effective at 31 March 2014, compared to £4 million at 31 March 2013.

- Net Premium Income was £120 million, compared to £133 million in 2012-13.

- Net Operating Income was £19 million, compared to £59 million in 2012-13. The reduction in net operating income was caused largely by a smaller release from funds closing in the current year of £14 million in 2013-14, compared to £34 million in 2012-13 and by a foreign exchange loss of £15 million in 2013-14 compared to a gain of £8 million in 2012-13.

- Claims authorised and paid or payable during the year increased to £13 million from £7 million in 2012-13.

- Claim Recoveries for the year were £70 million (of which Indonesia represented £58 million, Canada £9 million and Iran £2 million), compared to £62 million in 2012-13.

- Gross Claims balances were £466 million, as against £553 million in 2012-13. Net Claims balances were £321 million, compared to £394 million in the previous year.

Account 3

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

There were no new guarantees issued or claims made on this Account during the year. There was no income for the year, as was the case for 2012-13 and all exposure on this Account has run off.

Account 4

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

- The Direct Funding balance represents the funds loaned by HM Treasury to reduce the cost of FREF. The balance continued to reduce during the year to £104 million from £138 million in 2012-13, as regular instalments were made.

- Net Operating Income increased to £13 million in 2013-14 from £10 million in 2012-13.

All Accounts

Operating expenses increased to £26 million in 2013-14 compared to £20 million in 2012-13. This was due to increased headcount and therefore staff costs as well as other administration costs.

For the reasons set out above (see Account 1 and 2), the major asset of UKEF, being Net Recoverable Claims, decreased from £711 million in 2012-13 to £605 million during the year. Gross claims also reduced from £1.2 billion to £1.1 billion.

Due to the weakening of the USD over the Financial Year by 10% there has been an FX loss of £32 million (due to UKEF's USD asset exposure).

Future Developments

UKEF is expanding its capability to deliver services to exporters through its Short Term products, Direct Lending and Export Refinancing Facilities as well as through support for the High Value Opportunities initiative in conjunction with UKTI. UKEF shall be undertaking internal organisational changes aimed at enhancing our product and service capabilities, whilst improving our operational efficiency and the robustness of our operating platforms, particularly our IT infrastructure.

UKEF will also be undertaking further market research to allow us to make better informed decisions about market gaps and inefficiencies, as well as product development. This should develop a much higher level of awareness of UK Export Finance among the exporting and export finance communities. By building on our current portfolio of products and services, including our Short Term products and support, together with an increased direct lending capacity and launch of our Export Refinancing Facility, UKEF will be well positioned to develop and serve its customer base.

The above initiatives will require a further increase in staff numbers of around 10%.

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

Financial Risk Management

The objectives and policies of UKEF for the management of financial risks and its exposure to those risks, where material, are disclosed within Note 21 to these Accounts entitled 'Risk Management: Financial Instruments and Insurance Contracts'.

Explanation of Variances between Estimate and Outturn Summary

Parliament sets a limit on the annual amount of resource and capital that UKEF can consume through the Supply Estimate process. This table below compares UKEF's estimate with actual outturn. Further information on the Supply Estimate is available on UKEF's website at www.gov.uk/uk-export-finance.

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

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

Summary:

	SOPS Note			
Budget spending:				
	SOPS2(a)	21,965	21,827	138
	SOPS2(a)	49,337	(71,878)	121,215
Net Resource Outturn & Net Operating Cost / (Income)		**71,302**	**(50,051)**	**121,353**
Budget spending:				
	SOPS2(b)	330	168	162
	SOPS2(b)	4,508	(33,585)	38,093
Capital Total Payments / (Receipts)		**4,838**	**(33,417)**	**38,255**

Significant highlights:

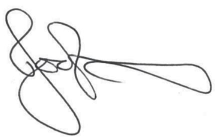
All UKEF income and expenditure is classified as either DEL or AME and there is no non-budget.

Resource - Note SOPS2(a);

AME £121.2 million - This variance is largely due to provision movements, interest, as well as underwriting fund movements which are all difficult to forecast.

Capital - Note SOPS2(b);

AME £38.1 million – This variance is largely due to the new Direct Lending facility. However as the product was new in 2013-14 it was and remains difficult to forecast the likely take up.



D Godfrey

Accounting Officer
UK Export Finance
10 June 2014

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act, 2000, HM Treasury has directed UKEF 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 UKEF 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 UKEF. 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 UKEF's assets, are set out in 'Managing Public Money' published by HM Treasury.

Departmental Remuneration Report

Remuneration Policy

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

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

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

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

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

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

Remuneration Committee

The Remuneration Committee is responsible for overseeing the performance management and pay of Executive Directors of the Management Board. The 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 UK Export Finance. Specifically, the Committee:

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

As at 31 March 2014, the membership is:

- Guy Beringer – Non-Executive Chair
- Sir Eric Peacock – Non-Executive Director
- Amin Mawji OBE – Non-Executive Director

The Chief Executive attends meetings, other than discussion of his own performance. A representative from Human Resources acts as Secretary.

Service Contracts

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

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

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

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

Salary and Pension entitlements for Executive Directors

The salary and pension entitlements of the most senior management (Board members) of UK Export Finance are set out in the table below. As well as the current members of the UK Export Finance Management Board, this table also includes the former members who left the department during the year or ceased to be a member.

Single total figure of remuneration (audited information)

Officials	Salary £'000		Bonus payments £'000		Pension Benefits[2] £'000		Total £'000	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
David Godfrey *Chief Executive*[3]	110-115 *(245-250 full-year equivalent)*	0	0	0	0	0	110-115	0
Nigel Addison Smith *Finance Director*[4]	100-105 *(110-115 full-year equivalent)*	110-115	0	0	27	3	125-130	115-120
Steve Dodgson *Director, Business Group*	110-115	105-110	0	0	5	1	115-120	105-110
Cameron Fox *Acting Finance Director*[5]	65-70	55-60	5-10	5-10	0	0	70-75	60-65
David Havelock *Director, Credit Risk Group*[6]	135-140	130-135	10-15	10-15	24	40	170-175	185-190
Sue Johnson OBE *Head of Resources Division*[7]	60-65 *(85-90 full-year equivalent)*	80-85	5-10	0	-4	0	70-75	80-85
Nicholas Ridley *General Counsel*[8]	50-55 *(130-135 full-year equivalent)*	130-135	0	0	-2	22	50-55	150-155
Lucy Wylde *General Counsel*[9]	35-40 *(155-160 full-year equivalent)*	0	0	0	0	0	35-40	0

[2] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.
[3] David Godfrey was appointed as CEO from 9 September 2013. Prior to this he was a non-executive Director on UK Export Finance's Management Board. The fee's David received as a non-executive Director are reported on page 83
[4] Nigel Addison Smith resigned with effect from 21 February 2014
[5] Cameron Fox was appointed Acting Finance Director from 22 February 2014
[6] David Havelock was Acting Chief Executive from 15 November 2012 to 8 September 2013
[7] Sue Johnson retired with effect from 31 December 2013
[8] Nicholas Ridley left with effect from 30 August 2013
[9] Lucy Wylde was appointed General Counsel from 6 January 2014

Notes:

- 'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these accounts.

- Bonuses are based on performance levels attained and are made as part of the appraisal process. Due to the nature of the performance appraisal system bonuses are paid in the year following the year for which the performance has been assessed. Therefore, the bonuses reported in 2013-14 relate to performance in 2012-13 and the comparative bonuses reported for 2012-13 relate to the performance in 2011-12.

- There were no benefits in kind paid to Executive Directors during the year 2013-14.

Civil Service Pensions

Officials	Accrued pension at pension age as at 31/3/14 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/3/14 £'000	CETV at 31/3/13[10] £'000	Real increase in CETV £'000	Employer contribution to partnership pension account Nearest £100
David Godfrey	0	0	0	0	0	0
Nigel Addison Smith	15-20	0-2.5	255	217	17	0
Steve Dodgson	50-55 plus lump sum of 160-165	0-2.5 plus lump sum of 0-2.5	1,142	1,068	4	0
Cameron Fox	0	0	0	0	0	0
David Havelock	15-20	0-2.5	305	274	21	0
Sue Johnson OBE	40-45 plus lump sum of 130-135	0-2.5 plus lump sum of 0-2.5	936	928	2	0
Nicholas Ridley	20-25 plus lump sum of 65-70	0-2.5 plus lump sum of 0-2.5	523	508	7	0
Lucy Wylde	0	0	0	0	0	0

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

Employee contributions are salary-related and range between 1.5% and 6.25% of pensionable earnings for **classic** and 3.5% and 8.25% for **premium**, **classic plus** and **nuvos**. Increases to employee

[10] The actuarial factors used to calculate CETVs were changed in 2013/14. The CETVs at 31/3/13 and 31/3/14 have been calculated using the new factors for consistency. The CETV at 31/3/13 therefore differs from the corresponding figure in last year's report.

contributions have been applied from 1 April 2014. 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 his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Fees paid to Non-Executive Directors

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

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

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

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

Non-executive member	Fees for 2013-14 £000	Fees for 2012-13 £000
Guy Beringer *Chair of Management Board*	45-50	45-50
David Godfrey[12] *Member of Management Board and Audit Committee*	5-10 (10-15 full-year equivalent)	10-15
Amin Mawji OBE *Member of Management Board* *Chair of Audit Committee*	10-15 (15-20 full-year equivalent)	-
Sir Eric Peacock *Member of Management Board* *Audit Committee Member*	10-15	10-15

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

As a Chief Operating Officer, Shareholder Executive, Fiona-Jane MacGregor does not receive a fee for her attendance at UK Export Finance Management Board meetings.

[11] The Shareholder Executive is a body that reports to the Cabinet Secretary and is responsible for the oversight of Government-owned businesses.
[12] David Godfrey was appointed as Chief Executive from 9 September 2013

Pay Multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

	2013-14	2012-13
Band of Highest Paid Director's Remuneration[13] (£000)	245-250	150-155
Median Total[14] (£)	36,670	36,864
Remuneration Ratio[15]	6.8	4.1

The banded remuneration of the highest-paid director in UK Export Finance in the financial year 2013-14 was £245,000-£250,000 full-year equivalent (2012-13, £150,000-£155,000). This was 6.8 times (2012-13, 4.1) the median remuneration of the workforce, which was £36,670 (2012-13, £36,864).

In 2013-14, 0 (2012-13, 0) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £16,000 to £250,000 (2012-13, £16,000-£155,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

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

In comparing this year with last, the increase in the ratio between the highest paid director and the median salary of the workforce for 2013-14 relates to the appointment of a new director during this year with a higher salary, and the resignation midway through last year of the highest paid director, replaced temporarily by an individual having lower total remuneration.

[13] The banded, full time equivalent, annualised of the highest paid director as at 31 March 2014
[14] The median, full time equivalent total remuneration of the staff, excluding the highest paid director as at 31 March 2014
[15] The pay multiple (ratio) between the highest paid director and all other staff

Reporting of Civil Service and other compensation schemes – exit packages

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

Exit package cost band	2013-14			2012-13		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages
Less than £10,000	-	-	-	-	-	-
£10,000 - £25,000	-	1	1	-	1	1
£25,000 - £50,000	-	-	-	-	-	-
£50,000 - £100,000	-	-	-	-	-	-
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
Greater than £200,000	-	1	1	-	-	-
Total number of exit packages	-	2	2	-	1	1
Total resource cost £'000	-	356	356	-	12	12

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.

Off-payroll engagements

Table 1: For all off-payroll engagements as of 31 March 2014, for more than £220 per day and that last for longer than six months.

	UK Export Finance
No. of existing engagements as of 31 March 2014	31
Of which...	
No. that have existed for less than one year at time of reporting.	23
No. that have existed for between one and two years at time of reporting.	5
No. that have existed for between two and three years at time of reporting.	1
No. that have existed for between three and four years at time of reporting.	1
No. that have existed for four or more years at time of reporting.	1

Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014, for more than £220 per day and that last for longer than six months

	UK Export Finance
No. of new engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014	27
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	18
No. for whom assurance has been requested	0
No. for whom assurance has been received	0
No. for whom assurance has not been received	0
No. that have been terminated as a result of assurance not being received.	0

Table 3: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2013 and 31 March 2014

	UK Export Finance
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	0
No. of individuals that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both off-payroll and on-payroll engagements.	0

D Godfrey

Accounting Officer
UK Export Finance
10 June 2014

Governance Statement

Introduction

1. As Accounting Officer for Export Credits Guarantee Department (ECGD), operating as UK Export Finance (UKEF), I am responsible to Ministers and Parliament for the management of the Department's operations including the stewardship of financial resources and assets. This statement sets out how this responsibility has been discharged for the period 1st April 2013 to 31st March 2014. I became Accounting Officer on the 9th September 2013. This Governance Statement therefore provides my report since that date and takes account of the interim Governance Statement by my predecessor.

2. The statement covers two main components:

   i) the organisational arrangements for managing operations, constituting corporate governance;

   ii) the nature of UKEF's business and its vulnerabilities and resilience to challenges, requiring risk management and controls.

Background

3. UKEF's role is to provide support to exporters principally in the form of insurance and guarantees to banks. In doing so it complements the provision of such support from the private market and takes account of the Government's export strategy which includes specific goals to:

   i) substantially increase the support provided to medium-sized businesses;

   ii) enhance support for small companies wishing to export;

   iii) strengthen our efforts in high growth markets.

4. In delivering the UK Government Export Strategy, UKEF seeks to:

   i) pro-actively engage with buyers and exporters without displacing the private markets;

   ii) provide a standard quality of service that is responsive to new business with a focus on solutions within the bounds of acceptable risk;

   iii) maintain the confidence of Ministers, Parliament and customers;

   iv) effectively communicate what we do to interested parties.

5. For 2014 -15, the key areas for delivery by UKEF are to:

   i) operate within the policy and financial objectives set by Government and International Obligations that relate to ECAs;

   ii) respond to the increasing demand for support in an environment of global economic uncertainty and funding constraints;

   iii) increase the awareness and improve processes and delivery of its Short-Term products;

   iv) more pro-actively engage with buyers and project sponsors in the pursuit of project exports including working with UKTI on its High Value Opportunities (HVOs) initiative;

   v) implement the Direct Lending Facility and the Export Refinancing Facility to help ensure the availability of funding for export credit loans;

   vi) implement organisational restructuring and increase staff resources to meet these demands;

vii) enhance operational efficiency through improvements to systems to cope with the increasing business volumes including an Electronic Case Management System; and

viii) implement the Civil Service Reform Plan.

Scope of responsibility

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

    i) leadership – to ensure that the Department fulfils its statutory purposes, implements the policies set for it by Ministers, adheres to international agreements that relate to the operations of export credit agencies and applies regulation that pertains to being a Department of State and to do so efficiently, effectively and economically;

    ii) internal control – to maintain a sound system of risk management and internal control that supports UKEF's operations while safeguarding public funds and departmental assets.

Governance Framework

Ministers

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

HM Treasury

8. Under the Consent, HM Treasury gives authority to UKEF to carry out its functions under the Act and requires UKEF to comply with specified financial objectives. HM Treasury issued a new Consent 2013-14. As necessary, it also requires UKEF to obtain authority from HM Treasury to support export contracts for which it does not have delegated authority. A process exists to manage the Department's compliance with the Consent operated by the Chief Executive's Office.

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

Shareholder Executive

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

Executive Committee

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

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

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

    ii) Change Board, which advises on whether UKEF's investment in systems, processes and infrastructure is appropriate and effectively targeted and managed, and represents value for money;

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

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

Executive Directors

14. The Finance Director is responsible for finance and accounting. IT and business change transferred to the Chief Operating Officer in year.

15. The Director of the Business Group is responsible for delivery of civil and aero products to exporters, banks and investors and for ensuring that the provision of support complies with its legal framework, international agreements, policies and practices.

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

17. A new role of Chief Operating Officer (COO) was introduced in September 2013. The COO is responsible for strategic and business planning, the change agenda, marketing, communications, IT, health and safety, facilities management, estates, procurement and security, and latterly Human Resources. He is not a member of the Management Board.

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

19. Although not an Executive Director, the Head of Trade Finance and Insurance Solutions reports directly to me on the delivery of short-term products to medium and smaller sized exporters and on the network of Export Finance Advisors. He attends the Executive Committee meetings and is responsible for ensuring that UKEF support complies with its legal framework, international agreements, policies and practices.

20. There have been three changes to appointments to the EC in year. After the retirement of the General Counsel, a permanent appointment was made. The HR Director also retired and the responsibilities have been subsumed into the Chief Operating Officers role. Finally, the Finance Director resigned and the post has been temporarily filled by the extant Financial Controller.

Management Board

21. In discharging my responsibilities, I am advised by UKEF's Management Board of which I am a member. Its membership consists of the members of the Executive Committee (see paragraphs 11 - 20 above) except for the Chief Operating Officer, Non-Executive Directors and representatives from UK Trade and Investment and the Shareholder Executive (from September 2013). It is led by a Non-Executive Chairman.

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

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

    i) strategic vision and business planning;

    ii) management of legal issues;

    iii) staff resourcing, succession planning and staff engagement;

    iv) aerospace business performance and Short-Term products business development;

    v) Main Estimates and Autumn reforecasts and quarterly financial performance;

    vi) credit risk policy, claims scenarios and provisions;

    vii) management information.

    The board has not conducted a formal review of its own effectiveness during 2013-14, but such a review is scheduled for 2014-15.

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

    i) Audit Committee, which examines and reviews the adequacy of the arrangements for accounting, enterprise risk management and control. The Audit Committee is kept informed about the adequacy and effectiveness of Management's internal control systems by Internal Audit and Assurance Division. I attend the Audit Committee meetings, as does the Finance Director, the Head of Internal Audit and Assurance and an official from the National Audit Office. The Chair formally reports the outcome of each meeting to the Management Board;

    ii) Remuneration Committee, which deals with the remuneration of members of the Senior Civil Service in UKEF.

25. The Management Board met seven times in the period in question. The minutes of its meetings are published on UKEF's website. The Audit Committee met five times. Until his appointment as CEO, David Godfrey, a Non-Executive Director acted as Interim Chair of the Audit Committee. He was replaced by Amin Mawji as AC Chair on 25 July 2013 who was also appointed as a Non-Executive Director of the Management Board.

26. Attendance by members was as follows: Management Board – 89 percent; Audit Committee – 88 percent; and Remuneration Committee – 100 percent.

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

Risk management and Control

Credit risk associated with support for exports and investment overseas

28. UKEF's primary statutory purpose is to assume financial risks – principally defaults on the project of export contract and the associated loan. In doing so, UKEF accepts credit risks which create contingent liabilities for the Exchequer. Credit risk is the risk of claims being made against UKEF and of suffering ultimate loss in the form of irrecoverable claims, arising from the defaults of obligors or counterparties against which UKEF has financial exposure.

29. UKEF accepts risks where the private market is unwilling and/or lacks risk capacity. As a result, UKEF's credit risk portfolios are necessarily more skewed, concentrated and risky than those typically found in the private market. The financial outcome is difficult to predict, taking into account the long run nature of much of the risks accepted and the constraints in UKEF's ability to diversify, transfer or swap risks.

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

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

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

Operational risk

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

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

35. Operational risk management policies and practices have been the responsibility of the Chief Executive's Office. However, as UKEF expands its operating mandate, and as the volume and value of transactions increases, so will the operational risks. Against this background, an operational risk officer has been appointed to oversee and enhance the current operational risk management framework.

Scope of risk management

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

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

38. The Executive Committee and the Audit Committee separately review the enterprise risk register no less than twice a year.

Programmes and projects

39. Programmes and projects are governed under formal programme and project management disciplines which include the regular review of programme and project risks. This is overseen by the Change Board and the Project Management Office.

Information risks

40. The Senior Information Risk Officer is responsible for information risk. The Department's Security Officer is responsible for the security policy and practices. Information Asset Owners are appointed who are responsible for the identification of information assets, their location, use and protection. Access to sensitive information is restricted. Staff are trained in information security so that they understand the risks associated with handling information within, and outside, UKEF. Procedures are in place to respond to requests for information under freedom of information legislation which gives the public the right of access.

41. Information security risk is regularly reviewed. UKEF baselined its security response against the Governments Information Assurance Maturity Model in June 2013; it found that there were some areas for improvement but that overall, security risk was being appropriately managed. Any significant information risks are reported to the Senior Information Risk Officer, including any data breaches and the remedial action taken. Independent sources of assurance are provided to the Information Security and Assurance Committee, including the results of disaster recovery testing, penetration testing and accreditation of core services.

42. UKEF has not identified any data losses, corruption or breaches of information security during the period, except as noted below under significant issues.

Risk Mitigation

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

Mapping of key processes

i) continuing a programme of work to document, improve and clarify key internal processes and controls, particularly in the development of new products and where a change to operations is planned;

Documentation of policy, processes and procedures

ii) Business Group manuals are being reviewed and brought up to date. Work continues on developing the operational processes and manuals for Direct Lending and Export Refinancing Facility;

Staff

iii) New staff members have been appointed across the department on permanent and temporary contracts to relieve workload pressure, meet skill shortages and address succession planning. Key areas to benefit include Marketing, Business Group, TFIS, Operations and General Counsel’s office.

Review of effectiveness

44. The system of internal control has been in place throughout the period. Effectiveness has been reviewed on the basis of:

i) reports on the enterprise risk management process from the Chief Executive’s Office to determine whether the management of risks at a strategic and operational level is being addressed effectively by the Department;

ii) reports on programmes and projects from the Change Board;

iii) reports on information security management from the Information Security Assurance Committee;

iv) advice on actual or potential legal risk by the General Counsel;

v) reports on security risks by the Departmental Security Officer;

vi) reports from the Head of Internal Audit and Assurance on the adequacy and effectiveness of the control framework operating within UKEF; and

vii) reports from the external auditors.

Significant issues

45. The following significant issues are highlighted because without being effectively addressed, there is a risk that the operational plan for 2014-15 would be put at risk:

Sufficiency of staff skills and resource

i) The widening of UKEF's business domain; the launch of new products; the need to raise market awareness at home and overseas; and the continuing caution being exercised by some banks to certain credit risks has continued to cause demand for UKEF support for exports to increase. Accordingly, the increase in workload has created pressure on staff resources, particularly in respect of certain key skills and in developing areas such as Trade Finance and Insurance Solutions and Marketing. Given the small size of the Department and the technical nature of its activities, there are key person dependencies. A number of very experienced staff are due to retire in 2014. A recruitment exercise has been completed to increase the permanent staff by 20% in 2013-14. Interim staff with specific skills have been appointed on contract to meet particular needs and provide protection against risks associated with staff turnover, skills shortage and to support succession planning. Further recruitment is taking place and a learning and development strategy is being implemented to address the skills gap currently being covered by interim staff. However, development of staff will take time. The employment of the current level of interim staff and the development of the necessary skills will be kept under review with a view to reducing the associated risks as soon as practical.

Policies and Manuals

ii) The expansion of UKEF's business domain and the introduction of new products mean that its policies, processes and procedures continue to be under development. Documentation needs to be finalised and staff need to receive training in these areas. A programme of work has been put in place to review and update policies and manuals as the basis for ongoing training and development of staff to ensure compliance with UKEF, legal, regulatory and government policies on an ongoing basis.

Relocation

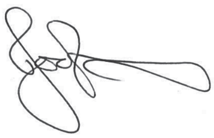
iii) UKEF moved premises from London Docklands to Whitehall in July 2013 and simultaneously moved its IT hardware to a service centre in Bridgend. While the IT was being re-established some equipment suffered a significant failure. Business Continuity Plans were followed until the IT was re-established. However, issues were encountered in recovering certain documents. Some of the documents are held in other data locations and some are held in hard copy form. UKEF has not experienced any problems so far in being able to access alternative copies. The corruption of the data did not result in a breach of security or any unauthorised release of information. However, the potential for such a significant failure to occur and result in a loss of some documents has caused a review of IT resilience and plans are in place to update the technology in 2014.

Direct Lending and Export Refinancing Facility

iv) The Direct Lending Scheme was launched in September 2013. Export Refinancing remained under development. These schemes required UKEF to put in place new procedures and expertise e.g. for loan negotiation and loan administration. Third-party support was arranged to provide assurance on these new processes, to ensure they follow tried and tested commercial practices. The Direct lending capability has been widened and this will require new procedures and increased resources/expertise which is currently being taken forward. The system of internal control remains under development for both products and is due to be finalised in June 2014.

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

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



D Godfrey
Accounting Officer
UK Export Finance
10 June 2014

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 (trading as UK Export Finance) for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2014 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2014 and of its net resource outturn and net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter – Significant Uncertainty

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

Date

Statement of Parliamentary Supply

For the year ended 31 March 2014

Summary of Resource and Capital Outturn 2013-14

		2013-14							2012-13
		Estimate			Outturn			Voted outturn compared with Estimate: savings/ (excess)	Outturn
		Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Departmental Expenditure Limit									
- Resource	SOPS2(a)	21,965	-	21,965	21,827	-	21,827	138	22,858
- Capital	SOPS2(b)	330	-	330	168	-	168	162	640
Annually Managed Expenditure									
- Resource	SOPS2(a)	49,337	-	49,337	(71,878)	-	(71,878)	121,215	(157,813)
- Capital	SOPS2(b)	4,508	-	4,508	(33,585)	-	(33,585)	38,093	(40,488)
Total Budget		**76,140**	**-**	**76,140**	**(83,468)**	**-**	**(83,468)**	**159,608**	**(174,803)**
Total Resource		71,302	-	71,302	(50,051)	-	(50,051)	121,353	(134,955)
Total Capital		4,838	-	4,838	(33,417)	-	(33,417)	38,255	(39,848)
Total		**76,140**	**-**	**76,140**	**(83,468)**	**-**	**(83,468)**	**159,608**	**(174,803)**

Net cash requirement 2013-14

		2013-14	2013-14		2012-13
	Note	Estimate	Outturn	Outturn compared with Estimate: savings/ (excess)	Outturn
		£'000	£'000	£'000	£'000
Total	SOPS4	**(189,769)**	**(238,569)**	**48,800**	**(312,374)**

Administration Costs 2013-14

		2013-14	2013-14	2012-13
	Note	Estimate £'000	Outturn £'000	Outturn £'000
Total		**21,965**	**21,827**	**22,858**
Of which:				
Staff costs	*7*		*12,769*	*11,601*
Other costs	*8*		*9,058*	*11,257*

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

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

The notes on pages 99 to 104 form part of the Statement of Parliamentary Supply.

Notes to the Departmental Resource Accounts (Statement of Parliamentary Supply)

SOPS1 Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system, and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government’s objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are a number of differences as detailed below. A reconciliation of the department’s outturn as recorded in the SoPS compared to the IFRS-based Statement of Comprehensive Net Income (SoCNI) is provided in SoPS note 3.1.

SOPS1.3 Provisions - Administration and Programme expenditure

Provisions recognised in IFRS-based accounts are not recognised as expenditure for national accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and national accounts, additional data entries are made in the Statement of Parliamentary Supply across AME and DEL control totals, which do not affect the SoCNI. As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the Statement of Parliamentary Supply was different from that reported in the IFRS-based accounts.

SOPS2 Analysis of net outturn by section

SOPS2(a) Resource

	2013-14										2012-13
	Administration			Programme			Outturn Total	Estimate Total	Outturn compared with Estimate: savings/ (excess)	Outturn compared with Estimate, adjusted for virements	Outturn Total
	Gross	Income	Net	Gross	Income	Net	Net	Net			Net
Note	SOPS6	SOPS5		SOPS6	SOPS5						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)											
A Export Credit Guarantees and Investments	28,897	(7,070)	21,827	-	-	-	21,827	21,965	138	138	22,858
Total	28,897	(7,070)	21,827	-	-	-	21,827	21,965	138	138	22,858
Voted spending in Annually Managed Expenditure (AME)											
B Export Credits	-	-	-	92,265	(150,854)	(58,589)	(58,589)	50,894	109,483	109,483	(146,986)
C Fixed Rate Export Finance Assistance	-	-	-	10,587	(16,269)	(5,682)	(5,682)	6,281	11,963	11,732	(828)
D GEFCO Loans and interest equalisation	-	-	-	1,321	(8,928)	(7,607)	(7,607)	(7,838)	(231)	-	(9,999)
Total	-	-	-	104,173	(176,051)	(71,878)	(71,878)	49,337	121,215	121,215	(157,813)
Total Resource	28,897	(7,070)	21,827	104,173	(176,051)	(71,878)	(50,051)	71,302	121,353	121,353	(134,955)

Explanation of variances between estimate and outturn:

A The Spending Review 2010 Settlement enables UKEF to transfer some premium income from Resource AME to Resource DEL up to a Voted limit to cover operating cost increases arising from high levels of business activity. The 2013-14 Main Estimate set that limit at £12 million. Of that, £7 million has been utilised in 2013-14. The above figures are shown net.

B Export Credits £109.5 million – the variance largely relates to a change in economic outlook with regard to the recoverability of insurance assets.

C Fixed Rate Export Finance Assistance £12.0 million – this relates to changes in fair value of financial instruments.

SOPS2(b) Capital

	2013-14					2012-13
			Outturn	Estimate		Outturn
	Gross	Income	Net	Net	Net total compared with Estimate	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)						
A Export Credit Guarantees and Investments	168	-	168	330	162	640
Total	168	-	168	330	162	640
Voted spending in Annually Managed Expenditure (AME)						
D GEFCO Loans and interest equalisation	-	(33,585)	(33,585)	(25,492)	8,093	(40,488)
E Direct Lending	-	-	-	30,000	30,000	-
Total	-	(33,585)	(33,585)	4,508	38,093	(40,488)
Total Capital	168	(33,585)	(33,417)	4,838	38,255	(39,848)

Explanation of variances between estimate and outturn:

A Export Credit Guarantees and Investments – £0.2 million due to IT expenditure on projects not being incurred as originally expected.

D GEFCO Loans and interest equalisation - £8.1 million this reflects timing differences with regards settlement.

E Direct Lending - £30 million due to the fact the Direct Lending facility had a lower take up than provided for in the Estimate.

SOPS3 Reconciliation of outturn to net operating income and against Administration Budget

SOPS3.1 Reconciliation of net resource outturn to net operating income

	Note	2013-14 Outturn £'000	2012-13 Outturn £'000
Total resource outturn in Statement of Parliamentary Supply:			
Budget		50,051	134,955
Non-Budget		-	-
Resource outturn	SOPS2(a)	50,051	134,955
Net Operating Income in Statement of Comprehensive Net Income		50,051	134,955

SOPS3.2 Outturn against final Administration Budget and Administration net operating costs

	Note	2013-14 Outturn £'000	2012-13 Outturn £'000
Estimate - Administration costs limit		**21,965**	**22,858**
Outturn - Gross administration costs	SOPS2(a)	28,897	24,461
Outturn - Income relating to administration costs	SOPS2(a)	(7,070)	(1,603)
Outturn - Net administration costs		**21,827**	**22,858**
Reconciliation to net operating income:			
Less provisions utilised & adjustments (transfer from Programme - AME):			
Staff Early Retirement		(502)	(444)
Onerous Lease & Dilapidations		(2,099)	(2,526)
Premium income offset		6,972	467
Staff & Other Administration net operating costs		**26,198**	**20,355**
Of which:			
Staff costs	7	*12,267*	*11,157*
Other costs	8	*13,931*	*9,198*

SOPS4 Reconciliation of Net Resource Outturn to Net Cash Requirement

	SOPS Note	2013-14 Estimate £'000	2013-14 Outturn £'000	2013-14 Variance £'000
Budget spending:				
Departmental Expenditure Limit (DEL)	SOPS2(a)	21,965	21,827	138
Annually Managed Expenditure (AME)	SOPS2(a)	49,337	(71,878)	121,215
Net Resource Outturn & Net Operating Cost / (Income)		**71,302**	**(50,051)**	**121,353**
Budget spending:				
Departmental Expenditure Limit (DEL)	SOPS2(b)	330	168	162
Annually Managed Expenditure (AME)	SOPS2(b)	4,508	(33,585)	38,093
Capital Total Payments / (Receipts)		**4,838**	**(33,417)**	**38,255**

	SOPS Note	2013-14 Estimate £'000	2013-14 Outturn £'000	2013-14 Variance £'000
Resource Outturn	SOPS2(a)	71,302	(50,051)	121,353
Capital Outturn	SOPS2(b)	4,838	(33,417)	38,255
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation & amortisation of Fixed and Intangible Assets		(800)	(663)	(137)
Other non cash items		(35,518)	(220)	(35,298)
New provisions and adjustments to previous provisions		(165,549)	2,803	(168,352)
Adjustments to reflect movements in working balances:				
Increase/(Decrease) in receivables		17,657	(183,032)	200,689
(Increase)/Decrease in payables		(81,699)	26,011	(107,710)
Net cash requirement		**(189,769)**	**(238,569)**	**48,800**

SOPS5 Income

The analysis of income summarised within the analysis of net resource outturn (SOPS2a) is as follows:

	Note	2013-14 Total £'000	2012-13 Total £'000
Rent and premium administration income	8	98	1,136
Premium income offset	8	6,972	467
Resource Total Departmental Expenditure Limits (DEL) Income		**7,070**	**1,603**
Net premium income		119,641	133,105
Interest receivable	4	22,781	38,246
Claims credit for the year	5	15,404	38,213
Foreign exchange gain	6	-	17,892
Interest equalisation support income	3	1,356	1,922
Interest income from GEFCO loans	3	7,572	9,681
Movement in fair value of FREF derivatives	3	16,269	15,517
Premium income offset	8	(6,972)	(467)
Resource Total Annually Managed Expenditure (AME) Income		**176,051**	**254,109**
Total Income for the year		**183,121**	**255,712**

SOPS6 Gross costs

The analysis of gross costs summarised within the analysis of net resource outturn (SOPS2a) is as follows:

	Note	2013-14 Total £'000	2012-13 Total £'000
Staff excluding changes in provision	7	12,769	11,601
Other Costs excluding changes in provision	8	16,128	12,860
Total Departmental Expenditure Limits (DEL) Gross Costs		**28,897**	**24,461**
Changes in insurance liabilities (net of reinsurance)	19	63,163	82,816
Foreign exchange loss	6	31,703	-
Movement in fair value of credit default swap derivatives	3	-	157
Interest equalisation support costs	3	1,321	1,604
Movement in fair value of FREF derivatives	3	10,587	14,689
Staff early retirement provision movement	7	(502)	(444)
Other onerous lease & dilapidation provision movement	8	(2,099)	(2,526)
Total Annually Managed Expenditure (AME) Gross Costs		**104,173**	**96,296**
Total Gross Costs for the year		**133,070**	**120,757**

Statement of Comprehensive Net Income

For the year ended 31 March 2014

	Note	2013-14 £'000	2012-13 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		180,565	209,728
Less ceded to reinsurers		(60,924)	(76,623)
Net premium income		**119,641**	**133,105**
Net investment return	3	22,781	38,089
Claims credit for the year	5	15,404	38,213
Net foreign exchange gain	6	-	17,892
Total income		**157,826**	**227,299**
Expenses			
Changes in insurance liabilities (net of reinsurance)	19	(63,163)	(82,816)
Staff costs	7	(12,022)	(10,599)
Other administration and operating costs	8	(13,652)	(8,738)
Net foreign exchange loss	6	(31,703)	-
Total expenses		**(120,540)**	**(102,153)**
Net income arising from Export Credit Guarantees and Insurance Activities		**37,286**	**125,146**
Export Finance Assistance			
Income			
Net investment return	3	13,289	10,827
Total income		**13,289**	**10,827**
Expenses			
Staff costs	7	(245)	(558)
Other administration and operating costs	8	(279)	(460)
Total expenses		**(524)**	**(1,018)**
Net Income arising from Export Finance Assistance Activities		**12,765**	**9,809**
Net operating income for the year		**50,051**	**134,955**

All income and expenditure is derived from continuing operations.

The notes on pages 109 to 153 form part of these accounts.

Statement of Financial Position

As at 31 March 2014

	Note	31 March 2014	31 March 2013
		£'000	£'000
Non-current assets:			
Plant and equipment	9(a)	512	750
Intangibles	9(b)	64	321
Financial assets			
Fair value through profit or loss	10(a)	8,077	16,604
Loans and receivables	10(b)	74,997	104,170
Insurance contracts			
Insurance assets	11	656,123	791,375
Reinsurers' share of insurance liabilities	12	295,636	237,425
Insurance and other receivables	13	6,661	10,189
Total non-current assets		**1,042,070**	**1,160,834**
Current assets:			
Financial assets			
Fair value through profit or loss	10(a)	7,487	10,352
Loans and receivables	10(b)	30,395	35,202
Insurance contracts			
Insurance assets	11	95,193	74,992
Insurance and other receivables	13	9,755	10,448
Cash and cash equivalents	14	232,938	305,103
Total current assets		**375,768**	**436,097**
Total assets		**1,417,838**	**1,596,931**
Current liabilities:			
Financial liabilities			
Fair value through profit or loss	16	(6,220)	(9,321)
Payable to Consolidated Fund	17	(232,938)	(305,103)
Provisions	18(b)	(357)	(2,610)
Insurance and other payables	18(a)	(20,231)	(41,417)
Total current liabilities		**(259,746)**	**(358,451)**
Non-current assets plus net current assets		**1,158,092**	**1,238,480**
Non-current liabilities			
Financial liabilities			
Fair value through profit or loss	16	(11,462)	(24,578)
Insurance contracts			
Insurance liabilities	19	(837,279)	(715,905)
Provisions	18(b)	(500)	(848)
Total non-current liabilities		**(849,241)**	**(741,331)**
Assets less liabilities		**308,851**	**497,149**
Taxpayers' equity			
Exchequer Financing		(2,872,165)	(2,642,127)
Cumulative Trading Surplus		3,181,997	3,144,711
General Fund		(981)	(5,435)
Total taxpayers' equity		**308,851**	**497,149**

The notes on pages 109 to 153 form part of these accounts.

D Godfrey

Accounting Officer
UK Export Finance
10 June 2014

Statement of Cash Flows

For the year ended 31 March 2014

	Note	2013-14 £'000	2012-13 Restated £'000
Cash flows from operating activities			
Net operating income		50,051	134,955
Adjustments for non-cash transactions:			
Depreciation & amortisation			
Depreciation of fixed assets	8	389	661
Amortisation of intangible assets	8	274	392
Other:			
Audit fees	8	220	220
Provisions:			
Iinsurance liabilities net of reinsurance movement	19	63,163	82,816
Claims Provision Movement	11(a)	(47,423)	(47,115)
Interest on Claims Movement	11(b)	(15,942)	30
Early Retirement, Onerous lease and Dilapidations movement	18(b)	(2,601)	(2,970)
Movements in Working Capital other than cash:			
Claims assets before provisions	11(a)	153,139	85,482
Interest on claims assets before provisions	11(b)	25,277	(3,866)
Loans & receivables excluding capital loans	10(b)	395	736
Insurance & other receivables	13	4,221	(11,494)
Payables, Insurance Liabilities and Accruals	18(a)	(21,186)	34,727
Financial assets held at fair value	10(a)	11,392	7,778
Financial Liabilities held at fair value	16	(16,217)	(9,826)
Net cash inflow from operating activities		205,152	272,526
Cash flows from investing activities			
Fixed and Intangible assets			
Purchase of plant, equipment and intangibles	9	(168)	(640)
Export Finance Loans:			
Recoveries	22	33,585	40,488
Net cash inflow from investing activities		33,417	39,848
Net cash inflow total		238,569	312,374
Payments to the Consolidated Fund of amounts:			
relating to the prior year	14	(305,103)	(233,616)
relating to current year	14	(5,631)	(7,271)
Net decrease in cash and cash equivalents in the year after adjusting for payments to the Consolidated Fund not relating to supply		(72,165)	71,487
Cash and cash equivalents at the beginning of the year	14	305,103	233,616
Cash and cash equivalents at the end of the year	**14**	**232,938**	**305,103**

Certain prior year comparatives have been reclassified to conform to the current year's presentation.

The notes on pages 109 to 153 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2014

	Note	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2012		(2,340,186)	3,019,565	(5,031)	674,348
Changes in taxpayers' equity for 2012-13					
Non-Cash Adjustments:					
Auditors' remuneration	8	220	-	-	220
Movements in Reserves:					
Transfers between reserves		10,213	-	(10,213)	-
Recognised in Statement of Comprehensive Net Income		-	125,146	9,809	134,955
Total recognised income and expense for 2012-13		10,433	125,146	(404)	135,175
CFER arising in year payable to the consolidated fund and transferred into current liabilities		(312,374)	-	-	(312,374)
Balance at 31 March 2013		(2,642,127)	3,144,711	(5,435)	497,149
Changes in taxpayers' equity for 2013-14					
Non-Cash Adjustments:					
Auditors' remuneration	8	220	-	-	220
Movements in Reserves:					
Transfers between reserves		8,311	-	(8,311)	-
Recognised in Statement of Comprehensive Net Income		-	37,286	12,765	50,051
Total recognised income and expense for 2013-14		8,531	37,286	4,454	50,271
CFER arising in year payable to the consolidated fund and transferred into current liabilities	SOPS4	(238,569)	-	-	(238,569)
Balance at 31 March 2014		**(2,872,165)**	**3,181,997**	**(981)**	**308,851**

The notes on pages 109 to 153 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 2013-14 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 UKEF to prepare an additional primary statement with supporting notes. This Statement of Parliamentary Supply shows outturn against Estimate in terms of net resource, capital and cash requirement, and administration costs.

In accordance with IFRS 4 Insurance Contracts, UKEF has applied existing accounting practices for insurance contracts. Additionally, UKEF 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 UKEF operates is the United Kingdom and, therefore, its functional and presentational currency is Pounds Sterling. Items included in the UKEF financial statements are measured and presented in Pounds Sterling.

Future accounting developments

The 2013-14 FReM applies financial reporting standards that are effective for the financial year.

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

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

- IFRS 9 Financial Instruments – this standard is designed to replace IAS 39 and amends some of the requirements of IFRS 7 Financial Instruments. The effective date of IFRS 9 was 1 January 2015; this has since been revoked with no mandatory effective date in place. A new effective date will be decided upon closer to the completion of the project.

The amendments and interpretations below are not expected to have any significant impact on UKEF'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.

Major FReM changes for 2014-15

UKEF has reviewed the major FReM changes for 2014-15 and determined there are no changes that will have a significant impact on the Department's 2014-15 financial statements.

(B) Use of estimates

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

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

Due to the long-term nature of the risk underwritten, the outcome of UKEF'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** – UKEF 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, UKEF 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 UKEF 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 UKEF for the purpose of giving a true and fair view has been selected. The particular policies adopted by UKEF are described below. These have been applied consistently in dealing with items considered material to the accounts.

UKEF 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 UKEF 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 UKEF are described below.

(D) Insurance contracts

Product classification

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

Fund Basis of Accounting for insurance contracts

UKEF 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, UKEF considers it to be the most appropriate method to account for its insurance contracts.

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

Liability adequacy test

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

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

- **Political:** risks associated with a sovereign country which could potentially affect every supported transaction in that country due to both political risks (such as war, government interference) and economic risks; and
- **Buyer:** risks directly associated with buyers, borrowers or guarantors, e.g. insolvency.

Premium income

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

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

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

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

Interest receivable – underwriting activities

UKEF 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 UKEF considers that it is no longer practicable or cost effective to pursue recovery, recoverable claims are formally abandoned and the amounts are deducted from recoverable assets and written off to the Income Statement for the year if and to the extent that existing provisions are not adequate to cover such amounts.

Reinsurance assets

In the normal course of its business, UKEF 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 represent insurance premiums ceded to reinsurers, less any claims made by UKEF on reinsurance contracts. 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. UKEF’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 comprises of interest income receivable for the year, movement in provisions for amortised cost on loans and receivables, GEFCO administration fees and residual margin payments to counterparty lenders, and changes in unrealised gains and losses on financial assets classified as ‘fair value through profit or loss’.

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

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

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

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

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

UKEF receives the following types of interest:

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

UKEF pays the following type of interest:

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

(F) Operating expenses

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

(G) Foreign exchange

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

(H) Plant and equipment and intangible assets

i. Plant and equipment

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

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

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

ii. Intangible assets

Intangible assets includes 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 UKEF beyond one year. All other costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. The depreciated historical cost is used as a proxy for depreciated replacement cost which itself is a proxy for fair value.

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

iii. Impairment review

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

(I) Leases

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

(J) Consolidated Fund

Amounts payable

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

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

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

(K) Exchequer financing

To reflect the long-term nature of UKEF'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 UKEF'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. UKEF 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, UKEF 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 10. '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

UKEF 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 10 . 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 UKEF are traded over-the-counter (OTC). OTC derivatives are individually negotiated between contracting parties and include swaps. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the Statement of Financial Position, as they do not represent the potential gain or loss associated with such transactions.

Interest rate swaps and credit default swaps

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

(N) Financial liabilities

Financial liabilities at 'fair value through profit or loss' are recognised both initially and subsequently at their fair value, with any resultant gains or loss recognised in the Statement of Comprehensive Net Income. The net gain or loss recognised in the Statement of Comprehensive Net Income incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 16.

(O) Provisions

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

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

(i) The onerous lease provisions are created when UKEF pays rental costs on a vacant floor or part-floor and there is either no sub-lease in place or a sub-lease at less than full recovery to UKEF. 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) UKEF 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*, UKEF discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

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

(Q) Financial guarantee contracts

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

(R) Cash and cash equivalents

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

2 Segmental information

UKEF applies IFRS 8 – *Operating Segments*, as adapted for the public sector. UKEF 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, UKEF'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 UKEF (which was privatised on 1 December 1991) for which UKEF retains all contingent liabilities ('Insurance Services Business').

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

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

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

i. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2014

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Income					
Gross premium income	-	180,565	-	-	180,565
Less ceded to reinsurers	-	(60,924)	-	-	(60,924)
Net premium income	**-**	**119,641**	**-**	**-**	**119,641**
Net investment return income	19,120	3,661	-	13,289	36,070
Claims credit for the year	16,172	-	-	-	16,172
Changes in insurance liabilities net of reinsurance	42	-	-	-	42
Total income	**35,334**	**123,302**	**-**	**13,289**	**171,925**
Expenses					
Net claims charge for the year	-	(768)	-	-	(768)
Changes in insurance liabilities net of reinsurance	-	(63,205)	-	-	(63,205)
Staff costs	(491)	(11,531)	-	(245)	(12,267)
Other administration and operating costs	(557)	(13,095)	-	(279)	(13,931)
Net foreign exchange losses	(16,391)	(15,312)	-	-	(31,703)
Total expenses	**(17,439)**	**(103,911)**	**-**	**(524)**	**(121,874)**
Net income	**17,895**	**19,391**	**-**	**12,765**	**50,051**

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

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

iii. Additional segmental information

For the year ended 31 March 2014, 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 £16.3 million. In 2012-13 there was one customer who accounted for more than 10% of the total premium revenue.

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

iv. Segmental Statement of Financial Position at 31 March 2014

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Total £'000
Non-current assets:					
Plant and equipment	-	512	-	-	512
Intangible assets	-	64	-	-	64
Financial assets					
Fair value through income	-	-	-	8,077	8,077
Loans and receivables	-	-	-	74,997	74,997
Insurance contracts					
Insurance assets	386,703	269,420	-	-	656,123
Reinsurers' share of insurance liabilities	-	295,636	-	-	295,636
Insurance and other receivables	-	6,661	-	-	6,661
Total non-current assets	**386,703**	**572,293**	**-**	**83,074**	**1,042,070**
Current assets:					
Financial assets					
Fair value through income	-	-	-	7,487	7,487
Loans and receivables	-	-	-	30,395	30,395
Insurance contracts					
Insurance assets	42,051	53,142	-	-	95,193
Insurance and other receivables	-	9,755	-	-	9,755
Cash and cash equivalents	58,878	137,795	-	36,265	232,938
Total current assets	**100,929**	**200,692**	**-**	**74,147**	**375,768**
Total assets	**487,632**	**772,985**	**-**	**157,221**	**1,417,838**
Current liabilities:					
Financial liabilities					
Financial liabilities held at fair value	-	-	-	(6,220)	(6,220)
Payable to Consolidated Fund	(58,878)	(137,795)	-	(36,265)	(232,938)
Provisions	-	(357)	-	-	(357)
Insurance and other payables	(471)	(19,675)	-	(85)	(20,231)
Total current liabilities	**(59,349)**	**(157,827)**	**-**	**(42,570)**	**(259,746)**
Non-current assets plus net current assets	**428,283**	**615,158**	**-**	**114,651**	**1,158,092**
Non-current liabilities					
Financial liabilities					
Financial liabilities held at fair value	-	-	-	(11,462)	(11,462)
Insurance liabilities	(18)	(837,261)	-	-	(837,279)
Provisions	-	(500)	-	-	(500)
Total non-current liabilities	**(18)**	**(837,761)**	**-**	**(11,462)**	**(849,241)**
Assets less liabilities	**428,265**	**(222,603)**	**-**	**103,189**	**308,851**
Taxpayers' equity					
Exchequer Financing	(1,037,718)	(1,836,935)	(101,682)	104,170	(2,872,165)
Cumulative Trading Surplus	1,465,983	1,614,332	101,682	-	3,181,997
General Fund	-	-	-	(981)	(981)
Total taxpayers' equity	**428,265**	**(222,603)**	**-**	**103,189**	**308,851**

v. Segmental Statement of Financial Position at 31 March 2013

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

3 Net investment return

	Note	Account 1	Account 2	2013-14 Total	2012-13 Total
		£'000	£'000	£'000	£'000
Export Credit Guarantees and Insurance					
Interest income	4	19,120	3,661	22,781	38,246
Total Income		**19,120**	**3,661**	**22,781**	**38,246**
Loss in fair value of Credit Default Swaps derivatives		-	-	-	(157)
Total Costs		**-**	**-**	**-**	**(157)**
Net Income		**19,120**	**3,661**	**22,781**	**38,089**

	Note	2013-14 Total	2012-13 Total
		£'000	£'000
Export Finance Assistance			
Interest equalisation support income		1,356	1,922
Interest income on GEFCO loans	22	7,572	9,681
GEFCO loans and interest equalisation income		8,928	11,603
Gain in fair value of derivatives		16,269	15,517
Total Income		**25,197**	**27,120**
GEFCO loans and interest equalisation costs		(1,321)	(1,604)
Loss in fair value of derivatives		(10,587)	(14,689)
Total Costs		**(11,908)**	**(16,293)**
Net Income		**13,289**	**10,827**

4 Interest receivable

	Note	Account 1	Account 2	2013-14 Total	2012-13 Total
		£'000	£'000	£'000	£'000
Interest arising from claims					
- interest charged in the year	11(b)	26,332	11,954	38,286	52,154
- net increase in provisions for unrecovered interest	11(b)	(7,271)	(8,294)	(15,565)	(13,955)
Interest arising from claims net of provisions		19,061	3,660	22,721	38,199
Other Interest		59	1	60	47
Interest credit for the year		**19,120**	**3,661**	**22,781**	**38,246**

Other Interest includes bank interest on balances with commercial banks.

5 Claims credit for the year

	Note	Account 1 £'000	Account 2 £'000	2013-14 Total £'000	2012-13 Total £'000
Claims authorised and paid in the year	11(a)	-	(13,301)	(13,301)	(6,968)
Expected recoveries on claims authorised and paid in the year		-	5,510	5,510	4,023
Provision on claims authorised and paid in the year		-	(7,791)	(7,791)	(2,945)
Net decrease in provisions for claims authorised and paid in previous years		(16,172)	7,023	23,195	41,158
Claims credit for the year	11(a)	**16,172**	**(768)**	**15,404**	**38,213**

There is no reinsurance element included within the figures above.

6 Foreign exchange (loss)/gain

	Note	Account 1 £'000	Account 2 £'000	2013-14 Total £'000	2012-13 Total £'000
Export Credit Guarantees and Insurance					
Unrealised foreign exchange gain/(loss) arising on:					
- recoverable claims after provisions	11(a)	(10,404)	(13,935)	(24,339)	14,048
- recoverable interest on claims after provisions	11(b)	(6,438)	(56)	(6,494)	3,668
- insurance premium receivables		-	(664)	(664)	16
Net unrealised foreign exchange gain/(loss) for year		(16,842)	(14,655)	(31,497)	17,732
Realised foreign exchange gain/(loss)		451	(657)	(206)	160
Net foreign exchange gain/(loss) for year		**(16,391)**	**(15,312)**	**(31,703)**	**17,892**

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

Currency	Currency equivalent to £1 31 March 2014	31 March 2013
Euro	1.21	1.18
Japanese Yen	171.68	142.76
US Dollars	1.67	1.52

7 Staff numbers and costs

A. Staff costs consist of:

	2013-14 £'000	2012-13 £'000
Departmental Expenditure Limit (Outturn - DEL / Administration)		
Gross Costs:		
Salaries and Wages	9,473	8,439
Social Security Costs	876	785
Early Retirement Payments	684	734
Other Pension Costs	1,736	1,643
Total DEL / Administration Gross Costs	12,769	11,601
Annually Managed Expenditure (Outturn - AME / Programme)		
Gross Costs:		
Early Retirement Provision utilisation & adjustment	(502)	(444)
Total AME / Programme Gross Costs	**(502)**	**(444)**
Total Staff Administrative Gross & Net Costs	**12,267**	**11,157**
Of which:		
Departmental Expenditure Limit (DEL)	12,769	11,601
Annually Managed Expenditure (AME)	(502)	(444)
Of which:		
Export Credit Guarantees and Insurance	12,022	10,599
Export Finance Assistance	245	558

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

For 2013-14, employers’ contributions of £1,703,348 were payable to the PCSPS (2012-13 £1,652,386) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013-14 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers’ contributions of £31,425 (2012-13: £20,350) 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 £2,059 (2012-13: £1,457), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £220 (2012-13: £ Nil).

B. The average number of full-time equivalent persons employed (including senior management) was 202 (2012-13: 188) and the year end position was 220. The average full time equivalent of temporary agency, interim, specialist contractor and consultant workers during the year was 24 (2012-13: 13).

8 Other administrative and operating costs

	2013-14 £'000	2012-13 £'000
Departmental Expenditure Limit (Outturn - DEL / Administration)		
Gross Costs:		
IT	2,904	2,648
Indirect staff and personnel expenses	3,263	1,306
Business promotion	377	28
Rent, Onerous Lease and Dilapidations Payments	3,414	3,550
Other establishment costs	562	1,463
Underwriting expenses	47	170
Claims and recovery expenses	124	259
Other administration costs	3,866	1,626
Audit fees	220	220
Depreciation	389	661
Amortisation	274	392
Travel, subsistence and hospitality	688	537
Total DEL / Administration Gross Costs	**16,128**	**12,860**
Income:		
Rent and premium administration income	(98)	(1,136)
Premium income offset	(6,972)	(467)
Total DEL / Administration Income	**(7,070)**	**(1,603)**
Total DEL / Administration Net Costs	**9,058**	**11,257**
Annually Managed Expenditure (Outturn - AME / Programme)		
Gross Costs:		
Onerous Lease and Dilapidations Provisions utilisation & adjustment	(2,099)	(2,526)
Total AME / Programme Gross	**(2,099)**	**(2,526)**
Income:		
Premium income offset	6,972	467
Total AME / Programme Net Costs	**4,873**	**(2,059)**
Total Other Administrative Net Costs	**13,931**	**9,198**
Of which:		
Departmental Expenditure Limit (DEL)	9,058	11,257
Annually Managed Expenditure (AME)	4,873	(2,059)
Of which:		
Export Credit Guarantees and Insurance	13,652	8,738
Export Finance Assistance	279	460
Included in the above figures:		
Minimum lease payments under operating leases recognised as expense in the year	35	5,519

9 Plant and equipment, and intangible assets

(a) Plant and equipment

	IT equipment £'000	Leasehold improvements £'000	Total £'000
Cost:			
Balance at 1 April 2013	5,139	3,126	8,265
Disposals	(4,357)	(3,023)	(7,380)
Additions	150	1	151
Balance at 31 March 2014	**932**	**104**	**1,036**
Accumulated Depreciation:			
Balance at 1 April 2013	4,614	2,901	7,515
On Disposals	(4,357)	(3,023)	(7,380)
Charge for the Year	259	130	389
Balance at 31 March 2014	**516**	**8**	**524**
Carrying amount:			
31 March 2014	**416**	**96**	**512**
31 March 2013	525	225	750

(b) Intangible assets

	Software £'000
Cost	
Balance at 1 April 2013	**1,163**
Disposals	(12)
Additions	17
Balance at 31 March 2014	**1,168**
Accumulated Amortisation	
Balance at 1 April 2013	842
On Disposals	(12)
Charge for the Year	274
Balance at 31 March 2014	**1,104**
Carrying amount:	
31 March 2014	**64**
31 March 2013	321

The disposals in the year are as a result of:

1. The move of UKEF's head office from Harbour Exchange to 1 Horse Guards Road.
2. Additional outsourcing of IT Hardware arrangements.

10 Financial assets

(a) Fair value through profit or loss

	31 March 2014 £'000	31 March 2013 £'000
Export Finance Assistance		
Interest rate derivatives in relation to Export Finance Loan Guarantees	15,564	26,956
Total	**15,564**	**26,956**
Falling due:		
- within one year	7,487	10,352
- after more than one year	8,077	16,604

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

(b) Loans and receivables

	Note	31 March 2014 £'000	31 March 2013 £'000
Export Finance Loans due from GEFCO	22	104,170	137,755
Export Finance Interest due from GEFCO	22	950	1,211
Export Finance Interest on FREF loans due from DFID		220	333
Other Export Finance Receivables		52	73
Total		**105,392**	**139,372**
Falling due:			
- within one year		30,395	35,202
- after more than one year		74,997	104,170

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 £ 117,624,000 (2012-13: £159,706,000).

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

11 Insurance assets

	31 March 2014 £'000	31 March 2013 £'000
Recoverable claims	605,429	711,145
Interest on unrecovered claims	145,887	155,222
Total	**751,316**	**866,367**
Falling due:		
- within one year	95,193	74,992
- after more than one year	656,123	791,375

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 2012	716,180	597,386	1,313,566
Claims approved in the year	-	6,968	6,968
Recoveries made in the year	(35,982)	(61,614)	(97,596)
Recoveries abandoned in the year	(13,687)	-	(13,687)
Foreign exchange movements	8,879	9,954	18,833
Balance at 31 March 2013	**675,390**	**552,694**	**1,228,084**
Reclassifications & transfers from interest on unrecovered claims	(1,104)	(734)	(1,838)
Claims approved in the year	-	13,301	13,301
Recoveries made in the year	(37,637)	(70,607)	(108,244)
Recoveries abandoned in the year	(12,076)	(12,912)	(24,988)
Foreign exchange movements	(15,296)	(16,074)	(31,370)
Balance at 31 March 2014	**609,277**	**465,668**	**1,074,945**
Recoverable claims - provisions			
Balance at 1 April 2012	395,033	169,021	564,054
Release of provisions in the year	(26,125)	(12,088)	(38,213)
Recoveries abandoned in the year	(13,687)	-	(13,687)
Foreign exchange movements	2,970	1,815	4,785
Balance at 31 March 2013	**358,191**	**158,748**	**516,939**
Release of provisions in the year	(16,172)	768	(15,404)
Recoveries abandoned in the year	(12,076)	(12,912)	(24,988)
Foreign exchange movements	(4,892)	(2,139)	(7,031)
Balance at 31 March 2014	**325,051**	**144,465**	**469,516**
Net recoverable claims as at:			
- 31 March 2014	**284,226**	**321,203**	**605,429**
- 31 March 2013	317,199	393,946	711,145
- 31 March 2012	321,147	428,365	749,512

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 2012	995,822	86,204	1,082,026
Interest charged in the year	36,131	16,023	52,154
Interest received in the year	(30,242)	(7,789)	(38,031)
Recoveries abandoned in the year	(21,544)	-	(21,544)
Foreign exchange movements	11,149	138	11,287
Balance at 31 March 2013	991,316	94,576	1,085,892
Reclassifications & transfers to recoverable claims	1,104	734	1,838
Interest charged in the year	26,332	11,954	38,286
Interest received in the year	(22,641)	(4,759)	(27,400)
Recoveries abandoned in the year	(18,481)	-	(18,481)
Foreign exchange movements	(19,287)	(233)	(19,520)
Balance at 31 March 2014	**958,343**	**102,272**	**1,060,615**
Interest on unrecovered claims - provisions			
Balance at 1 April 2012	846,942	83,698	930,640
Increase in provisions in the year	4,957	8,998	13,955
Recoveries abandoned in the year	(21,544)	-	(21,544)
Foreign exchange movements	7,519	100	7,619
Balance at 31 March 2013	837,874	92,796	930,670
Increase in provisions in the year	7,271	8,294	15,565
Recoveries abandoned in the year	(18,481)	-	(18,481)
Foreign exchange movements	(12,849)	(177)	(13,026)
Balance at 31 March 2014	**813,815**	**100,913**	**914,728**
Net interest on unrecovered claims as at:			
- 31 March 2014	**144,528**	**1,359**	**145,887**
- 31 March 2013	153,442	1,780	155,222
- 31 March 2012	148,880	2,506	151,386

12 Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 2012	158,996
Movements summary:	
Addition to the underwriting funds in the year	76,623
Net decrease in open cash funds	(694)
Net decrease in open credit funds	3,350
Other fund movements	22
Net decrease in insurance liabilities on closed funds	(872)
Total Movements	*78,429*
Balance at 31 March 2013	**237,425**
Movements summary:	
Addition to the underwriting funds in the year	60,924
Net decrease in open cash funds	(740)
Net decrease in open credit funds	-
Other fund movements	(1)
Net decrease in insurance liabilities on closed funds	(1,972)
Total Movements	*58,211*
Balance at 31 March 2014	**295,636**

Movements are summarised within Note 19.

13 Insurance and other receivables

	31 March 2014 £'000	31 March 2013 £'000
Insurance premium receivables	15,739	19,324
Prepayments and accrued income	677	1,313
	16,416	**20,637**
Falling due:		
- within one year	9,755	10,448
- after more than one year	6,661	10,189
Of which:		
- other central government bodies	0	0
- bodies external to government	16,416	20,637

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

14 Cash and cash equivalents

	£'000
Balance at 1 April 2012	233,616
Net cash inflow to ECGD	312,374
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(233,616)
in respect of amounts received in the current year	(7,271)
Balance at 31 March 2013	**305,103**
Net cash inflow to ECGD	238,569
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(305,103)
in respect of amounts received in the current year	(5,631)
Balance at 31 March 2014	**232,938**

Cash and cash equivalents comprise:	31 March 2014 £'000	31 March 2013 £'000
Government Banking Service	222,204	287,797
Commercial banks and cash in hand	10,734	17,306
Total	**232,938**	**305,103**

15 Reconciliation of Net Cash Requirement to decrease in cash

	2013-14 £'000	2012-13 £'000
Net cash requirement due to the Consolidated Fund	238,569	312,374
Total payable to the Consolidated Fund	238,569	312,374
Payments to the Consolidated Fund - current year	(5,631)	(7,271)
Amounts due to the Consolidated Fund received and not paid over	232,938	305,103
Payments to the Consolidated Fund - prior year	(305,103)	(233,616)
Increase/(Decrease) in cash	**(72,165)**	**71,487**

16 Financial liabilities at fair value

	31 March 2014	31 March 2013 Restated
	£'000	£'000
Export Finance Assistance		
Interest rate derivatives in relation to Export Finance Loan Guarantees	5,797	12,143
Interest rate derivative contracts entered into for hedging purposes	11,885	21,756
Total	**17,682**	**33,899**
Falling due:		
- within one year	6,220	9,321
- after more than one year	11,462	24,578

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

Certain prior year comparatives have been reclassified to conform to the current year's presentation.

17 Payable to the Consolidated Fund

	31 March 2014	31 March 2013
	£'000	£'000
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	232,938	305,103
Total	**232,938**	**305,103**
Falling due:		
- within one year	232,938	305,103

The balance due within one year represents UKEF's bank balance as at March 31 2014.

18 Insurance and other payables, and provisions

(a) Insurance and other payables

	31 March 2014 £'000	31 March 2013 £'000
Insurance payables - amounts due to policyholders	151	166
Income tax and National Insurance	283	231
Other payables	4,425	22,503
Accruals	15,372	18,517
Total	**20,231**	**41,417**
Falling due:		
- within one year	20,231	41,417
Of which:		
- other central government bodies	483	1,438
- bodies external to government	19,748	39,979

(b) Provisions

	31 March 2014 £'000	31 March 2013 £'000
Onerous Lease Provision	-	2,099
Early Departure Provision	857	1,359
Total	**857**	**3,458**
Falling due:		
- within one year	357	2,610
- after more than one year	500	848

	Dilapidations Provision £'000	Onerous Lease Provision £'000	Early Departure Provision £'000	Total £'000
Balance at 31 March 2012	875	3,750	1,803	6,428
Additions	-	-	290	290
Utilisation	(455)	(1,651)	-	(2,106)
Cash paid	(420)	-	(734)	(1,154)
Balance at 31 March 2013	-	2,099	1,359	3,458
Additions	-	-	182	182
Releases	-	(2,099)	-	(2,099)
Cash	-	-	(684)	(684)
Balance at 31 March 2014	**-**	**-**	**857**	**857**

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

19 Insurance liabilities

Each underwriting fund for an underwriting year is set at the higher of (i) the current Expected Loss, as defined below, on amounts at risk on unexpired insurance contracts, or (ii) accumulated premiums plus interest earned, less administration costs and provisions made for the unrecoverable proportion of paid claims. Premium income credited to a provision is net of any reinsurance premium ceded to re-insurers where UKEF, 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 UKEF'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 2012	110	554,550	-	554,660
Movements:				
Addition to the underwriting funds in the year	-	190,703	-	190,703
Release of excess funds - cash	-	(694)	-	(694)
Release of excess funds - credit	-	(30,286)	-	(30,286)
Other fund movements	-	47	-	47
Change in insurance liabilities on closed funds	(50)	1,525	-	1,475
Total Movements	*(50)*	*161,295*	*-*	*161,245*
Balance at 31 March 2013	**60**	**715,845**	**-**	**715,905**
Movements:				
Addition to the underwriting funds in the year	-	154,520	-	154,520
Release of excess funds - cash	-	(1,175)	-	(1,175)
Release of excess funds - credit	-	(13,627)	-	(13,627)
Other fund movements	-	823	-	823
Change in insurance liabilities on closed funds	(42)	(19,125)	-	(19,167)
Total Movements	*(42)*	*121,416*	*-*	*121,374*
Balance at 31 March 2014	**18**	**837,261**	**-**	**837,279**
Insurance liabilities - Net of reinsurance				
Balance at 1 April 2012	110	395,554	-	395,664
Movements:				
Addition to the underwriting funds in the year	-	114,080	-	114,080
Release of excess funds - cash	-	-	-	-
Release of excess funds - credit	-	(33,636)	-	(33,636)
Other fund movements	-	25	-	25
Change in insurance liabilities on closed funds	(50)	2,397	-	2,347
Total Movements	*(50)*	*82,866*	*-*	*82,816*
Balance at 31 March 2013	**60**	**478,420**	**-**	**478,480**
Movements:				
Addition to the underwriting funds in the year	-	93,596	-	93,596
Release of excess funds - cash	-	(435)	-	(435)
Release of excess funds - credit	-	(13,627)	-	(13,627)
Other fund movements	-	824	-	824
Change in insurance liabilities on closed funds	(42)	(17,153)	-	(17,195)
Total Movements	*(42)*	*63,205*	*-*	*63,163*
Balance at 31 March 2014	**18**	**541,625**	**-**	**541,643**
Summary of movements:				
2012-13				
Gross changes in insurance liabilities	*(50)*	*161,295*	*-*	*161,245*
Reinsurers' share of changes in insurance liabilities	*-*	*(78,429)*	*-*	*(78,429)*
Changes in insurance liabilities (net of reinsurance)	***(50)***	***82,866***	***-***	***82,816***
2013-14				
Gross changes in insurance liabilities	*(42)*	*121,416*	*-*	*121,374*
Reinsurers' share of changes in insurance liabilities	*-*	*(58,211)*	*-*	*(58,211)*
Changes in insurance liabilities (net of reinsurance)	***(42)***	***63,205***	***-***	***63,163***

Movements in reinsurance are analysed within Note 12

Claims development tables

The tables below present the development of the underwriting funds balances for fund years 2004-05 to 2013-14. Credit fund years before 2005-6 are closed years as are cash fund years before 2011-12.

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

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

Table 1: Development of insurance liabilities, gross of reinsurance

	2004-05 fund year £'000	2005-06 fund year £'000	2006-07 fund year £'000	2007-08 fund year £'000	2008-09 fund year £'000	2009-10 fund year £'000	2010-11 fund year £'000	2011-12 fund year £'000	2012-13 fund year £'000	2013-14 fund year £'000
Account 2										
Credit funds										
At end of year	19,512	53,095	24,845	23,265	28,485	79,484	124,015	102,375	162,261	154,281
One year later	17,232	53,521	25,178	23,265	29,123	79,483	124,110	102,493	163,284	
Two years later	13,033	54,141	25,178	20,003	29,123	79,481	124,150	102,494		
Three years later	13,476	54,141	22,476	20,003	29,123	79,481	124,150			
Four years later	13,476	83,609	22,476	20,042	29,123	79,481				
Five years later	14,531	83,601	22,734	20,003	29,123					
Six years later	14,531	83,677	22,734	20,003						
Seven years later	14,531	83,604	22,734							
Eight years later	14,533	83,601								
Nine years later	906									
Cash funds										
At end of year	12,902	22,935	21,255	20,423	7,963	693	1,242	819	28,441	239
One year later	13,554	23,131	21,684	16,901	7,120	693	1,175	819	28,441	
Two years later	14,004	23,416	21,684	20,371	4,590	694	1,175	819		
Three years later	280	266	73	6	232	-	-			
Four years later	120	-	53	1	244	-				
Five years later	-	230	-	-	221					
Six years later	1	9	-	-						
Seven years later	-	6	-							
Eight years later	-	3						-	-	-
Nine years later	-									
Credit fund total	906	83,601	22,734	20,003	29,123	79,481	124,150	102,494	163,284	154,281
Cash fund total	-	3	-	-	221	-	-	819	28,441	239
Account 2 total	906	83,604	22,734	20,003	29,344	79,481	124,150	103,313	191,725	154,520
Gross fund before paid claims	**906**	**83,604**	**22,734**	**20,003**	**29,344**	**79,481**	**124,150**	**103,313**	**191,725**	**154,520**
Cumulative paid claims - Account 2	-	-	-	-	-	-	(198)	-	-	-
Gross fund total	**906**	**83,604**	**22,734**	**20,003**	**29,344**	**79,481**	**123,952**	**103,313**	**191,725**	**154,520**

Gross Funds Summary:	funds 2004-05 to 2013-14 open £'000	funds 2004-05 to 2013-14 closed £'000	funds 2004-05 to 2013-14 total £'000	funds years to 2003-04 closed £'000	funds grand total £'000
Account 2:					
Credit fund total	779,151	906	780,057	15,612	795,669
Cash fund total	29,499	224	29,723	12,067	41,790
Account 2 total	808,650	1,130	809,780	27,679	837,459
Account 1 total	-	-	-	18	18
Gross fund before paid claims	**808,650**	**1,130**	**809,780**	**27,697**	**837,477**
Cumulative paid claims - Account 2	(198)	-	(198)		(198)
Gross fund total	**808,452**	**1,130**	**809,582**	**27,697**	**837,279**

Table 2: Development of insurance liabilities, net of reinsurance

	2004-05 fund year £'000	2005-06 fund year £'000	2006-07 fund year £'000	2007-08 fund year £'000	2008-09 fund year £'000	2009-10 fund year £'000	2010-11 fund year £'000	2011-12 fund year £'000	2012-13 fund year £'000	2013-14 fund year £'000
Account 2										
Credit funds										
At end of year	15,937	49,916	16,468	20,086	25,798	34,653	76,308	67,158	85,638	93,357
One year later	13,657	50,342	16,801	20,086	26,433	35,363	76,399	67,275	86,662	
Two years later	9,458	50,962	16,801	20,003	26,433	35,262	76,412	67,277		
Three years later	9,901	50,962	17,278	20,003	26,433	35,362	76,412			
Four years later	9,901	65,011	17,278	20,042	26,433	35,362				
Five years later	14,531	65,003	17,536	20,003	26,433					
Six years later	14,531	65,079	17,536	20,003						
Seven years later	14,531	65,006	17,536							
Eight years later	14,533	65,002								
Nine years later	906									
Cash funds										
At end of year	12,902	22,935	21,255	20,423	7,963	693	1,242	819	28,441	239
One year later	13,554	23,131	21,684	16,901	7,120	693	431	819	28,441	
Two years later	14,004	23,416	21,684	16,001	4,590	-	436	819		
Three years later	280	266	73	6	232	-	1			
Four years later	120	-	53	-	244	-				
Five years later	-	230	-	-	221					
Six years later	1	10	-	-						
Seven years later	-	6	-							
Eight years later	-	3								
Nine years later	-									
Credit fund total	906	65,002	17,536	20,003	26,433	35,362	76,412	67,277	86,662	93,357
Cash fund total	-	3	-	-	221	-	1	819	28,441	239
Account 2 total	906	65,005	17,536	20,003	26,654	35,362	76,413	68,096	115,103	93,596
Net fund before paid claims	**906**	**65,005**	**17,536**	**20,003**	**26,654**	**35,362**	**76,413**	**68,096**	**115,103**	**93,596**
Cumulative paid claims - Account 2	-	-	-	-	-	-	(198)	-	-	-
Net fund total	**906**	**65,005**	**17,536**	**20,003**	**26,654**	**35,362**	**76,215**	**68,096**	**115,103**	**93,596**

Net Funds Summary:	funds 2004-05 to 2013-14 open £'000	funds 2004-05 to 2013-14 closed £'000	funds 2004-05 to 2013-14 total £'000	funds years to 2003-04 closed £'000	funds grand total £'000
Account 2:					
Credit fund total	488,044	906	488,950	11,080	500,030
Cash fund total	29,499	225	29,724	12,069	41,793
Account 2 total	517,543	1,131	518,674	23,149	541,823
Account 1 total	-	-	-	18	18
Net fund before paid claims	**517,543**	**1,131**	**518,674**	**23,167**	**541,841**
Cumulative paid claims - Account 2	(198)	-	(198)		(198)
Net fund total	**517,345**	**1,131**	**518,476**	**23,167**	**541,643**

Table 3: Schedule of Expected Loss

As part of its liability adequacy testing process, UKEF 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 UKEF for the inherent risk that actual losses may significantly exceed the Expected Loss. The derived Expected Loss is not therefore regarded by UKEF 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.

	2004-05 fund year £'000	2005-06 fund year £'000	2006-07 fund year £'000	2007-08 fund year £'000	2008-09 fund year £'000	2009-10 fund year £'000	2010-11 fund year £'000	2011-12 fund year £'000	2012-13 fund year £'000	2013-14 fund year £'000
Account 2										
Credit funds										
At end of year	15,937	30,697	9,322	12,203	14,077	29,302	34,350	32,460	33,987	34,208
One year later	13,657	19,534	12,143	14,080	14,549	26,329	28,410	28,421	26,790	
Two years later	8,354	21,915	12,812	19,337	11,946	20,725	24,153	20,398		
Three years later	8,771	21,910	7,061	17,415	10,156	14,483	15,338			
Four years later	6,853	27,686	5,326	8,934	8,491	10,479				
Five years later	4,150	16,157	2,919	6,252	5,757					
Six years later	2,915	18,974	1,883	4,288						
Seven years later	8,022	24,991	1,072							
Eight years later	3,105	20,189								
Nine years later	906									
Cash funds										
At end of year	11,008	4,955	20,718	20,423	7,963	544	311	71	8,860	69
One year later	1,089	851	1,841	21	7,120	109	1	12	7,314	
Two years later	516	622	173	6	4,590	-	1	12		
Three years later	280	266	73	6	232	-	1			
Four years later	120	-	53	-	244	-				
Five years later	-	230	-	-	221					
Six years later	1	10	-	-						
Seven years later	-	6	-							
Eight years later	-	3								
Nine years later	-									
Credit fund total	906	20,189	1,072	4,288	5,757	10,479	15,338	20,398	26,790	34,208
Cash fund total	-	3	-	-	221	-	1	12	7,314	69
Account 2 total	906	20,192	1,072	4,288	5,978	10,479	15,339	20,410	34,104	34,277
Expected Loss total	**906**	**20,192**	**1,072**	**4,288**	**5,978**	**10,479**	**15,339**	**20,410**	**34,104**	**34,277**

Expected Loss Summary:	funds 2004-05 to 2013-14 open £'000	funds 2004-05 to 2013-14 closed £'000	funds 2004-05 to 2013-14 total £'000	funds years to 2003-04 closed £'000	funds grand total £'000
Account 2:					
Credit fund total	138,519	906	139,425	11,080	150,505
Cash fund total	7,395	225	7,620	12,069	19,689
Account 2 total	145,914	1,131	147,045	23,149	170,194
Account 1 total	-	-	-	18	18
Expected Loss total	**145,914**	**1,131**	**147,045**	**23,167**	**170,212**

20 Movement in exchequer financing

The resources consumed by UKEF 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 UKEF’s voted net cash requirement. By the provisions of Section 14(2) of the Export and Investment Guarantees Act, 1991 (the “Act”), UKEF 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.

21 Risk management: financial instruments and insurance contracts

This note describes the nature and extent of the risks for UKEF arising from financial instruments and insurance contracts and how UKEF manages them. UKEF 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);

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

d) Liquidity risk; and

e) Risk measurement.

To ensure that its risk management is effective, UKEF 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 UKEF, 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 UKEF’s risk management objectives, policies and procedures for the effective recognition, assessment, monitoring and reporting of the risks that it faces.

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

(a) Market risk

Market risk is the risk of adverse financial impact due to changes in the fair value or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates and other prices. UKEF is exposed to market risk through its holdings of interest rate derivatives held in support of its Fixed Rate Export Finance (FREF) scheme. In addition UKEF has a significant exposure to foreign currency risk, primarily due to holding US dollar denominated insurance assets in the form of net unrecovered claims. UKEF is not authorised by HM Treasury to hedge its exposure to foreign currency risk (refer Note 21 (a) (ii) and (c) (iii)). In addition there is some foreign exchange market risk which is explained in Note 21 (a) (ii).

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

Support is provided in the form of interest make up (IMU) arrangements between UKEF and the lending bank under Export Finance Loans. These IMU arrangements are effectively interest rate swaps between UKEF and the lending bank. The lending bank provides funding for the export loan at a floating rate (usually LIBOR plus a margin). UKEF 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, UKEF receives the difference from the lender.

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

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

Sensitivities to movements in interest rates were:

	1% increase in interest rates £'000	1% decrease in interest rates £'000
As at 31 March 2014		
Interest rate swap arrangements on Export Finance Loan Guarantees	(775)	228
Interest rate derivative contracts entered into for hedging purposes	2,516	(2,616)
Net impact on profit or loss	**1,741**	**(2,388)**
As at 31 March 2013		
Interest rate swap arrangements on Export Finance Loan Guarantees	(1,328)	1,226
Interest rate derivative contracts entered into for hedging purposes	4,549	(4,740)
Net impact on profit or loss	**3,221**	**(3,514)**

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 2014		
Interest rate swap arrangements on Export Finance Loan Guarantees	(15)	-
Net impact on profit or loss	**(15)**	**-**
As at 31 March 2013		
Interest rate swap arrangements on Export Finance Loan Guarantees	-	-
Net impact on profit or loss	**-**	**-**

The maturity profile of UKEF'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 2014				
Interest rate swap arrangements on Export Finance Loan Guarantees	50,467	99,000	11,408	160,875
Interest rate derivative contracts entered into for hedging purposes	63,625	77,670	18,136	159,431
As at 31 March 2013				
Interest rate swap arrangements on Export Finance Loan Guarantees	77,532	147,747	27,648	252,927
Interest rate derivative contracts entered into for hedging purposes	80,278	148,108	24,545	252,931

(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 UKEF'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. UKEF 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 21 (c) (iii) below).

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

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

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
As at 31 March 2014				
Financial assets:				
Fair value through profit or loss	3,250	9,220	3,094	15,564
Loans and receivables	105,392	-	-	105,392
Insurance and other receivables	10,253	5,669	494	16,416
Financial liabilities:				
Fair value through profit or loss	(8,357)	(7,185)	(2,140)	(17,682)
Insurance and other payables	(12,963)	(6,774)	(494)	(20,231)
As at 31 March 2013				
Financial assets:				
Fair value through profit or loss	6,751	15,068	5,137	26,956
Loans and receivables	139,372	-	-	139,372
Insurance and other receivables	11,227	8,454	956	20,637
Financial liabilities:				
Fair value through profit or loss	(16,419)	(13,356)	(4,124)	(33,899)
Insurance and other payables	(13,313)	(17,747)	(10,357)	(41,417)

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

(b) Credit risk

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

UKEF 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.

Investment grade is defined as a credit rating of BBB minus or above.

Credit concentration risk (financial counterparty)

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

(c) Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. The main insurance risk facing UKEF 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

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

Underwriting funds

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

The Expected Loss on UKEF’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 2014:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at risk, gross of reinsurance			
Account 2			
Asset-backed	6,944,472	4,392,269	11,336,741
Other	4,661,104	612,005	5,273,109
	11,605,576	**5,004,274**	**16,609,850**
Amounts at risk, net of reinsurance			
Account 2			
Asset-backed	2,406,844	4,392,269	6,799,113
Other	4,102,134	612,005	4,714,139
	6,508,978	**5,004,274**	**11,513,252**
Expected Loss, gross of reinsurance			
Account 2			
Asset-backed	75,188	72,578	147,766
Other	51,442	58,765	110,207
	126,630	**131,343**	**257,973**
Expected Loss, net of reinsurance			
Account 2			
Asset-backed	10,261	72,578	82,839
Other	28,590	58,765	87,355
	38,851	**131,343**	**170,194**

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

	Investment grade Restated £'000	Non-investment grade Restated £'000	Total £'000
Amounts at risk, gross of reinsurance			
Account 2			
Asset-backed	8,113,254	4,239,964	12,353,218
Other	4,653,941	576,902	5,230,843
	12,767,195	**4,816,866**	**17,584,061**
Amounts at risk, net of reinsurance			
Account 2			
Asset-backed	3,444,487	4,239,963	7,684,450
Other	3,919,990	576,902	4,496,892
	7,364,477	**4,816,865**	**12,181,342**
Expected Loss, gross of reinsurance			
Account 2			
Asset-backed	78,388	72,178	150,566
Other	59,502	77,517	137,019
	137,890	**149,695**	**287,585**
Expected Loss, net of reinsurance			
Account 2			
Asset-backed	18,086	72,178	90,264
Other	27,383	77,517	104,900
	45,469	**149,695**	**195,164**

Certain prior year comparatives have been reclassified to conform to the current year's presentation.

Amounts at risk on Accounts 1 and 3 were £10,069,000 and £Nil respectively at 31 March 2014 (31 March 2013: £18,224,000 and £Nil respectively).

Expected Loss on Accounts 1 and 3 were £18,000 and £Nil respectively at 31 March 2014 (31 March 2013: £60,000 and £NIL respectively).

There is no reinsurance on Accounts 1 and 3.

Insurance assets – unrecovered claims

When a default event occurs, UKEF 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 UKEF'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 2014.

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims at 31 March 2014 - gross			
Account 1	39,543	569,734	609,277
Account 2	267,034	198,634	465,668
	306,577	**768,368**	**1,074,945**
Recoverable claims at 31 March 2014 - net of provisions			
Account 1	38,357	245,869	284,226
Account 2	258,819	62,384	321,203
	297,176	**308,253**	**605,429**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Interest on unrecovered claims at 31 March 2014 - gross			
Account 1	144	958,199	958,343
Account 2	1,019	101,253	102,272
	1,163	**1,059,452**	**1,060,615**
Interest on unrecovered claims at 31 March 2014 - net of provisions			
Account 1	140	144,388	144,528
Account 2	955	404	1,359
	1,095	**144,792**	**145,887**

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

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

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

(c)(ii) Credit concentration risk

UKEF assesses its concentration risk, and its exposure to catastrophic loss, through controls which set limits for exposure to individual countries. Additionally, the Risk Committee reviews large corporate risks on a case-by-case basis taking into account UKEF'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 UKEF Account 2 portfolio as at 31 March 2014. The values have been presented based upon the geographical location of the ultimate obligor.

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2					
Asset-backed	6,263,167	1,408,633	1,139,098	2,525,843	11,336,741
Other	1,091,215	644,441	3,110,696	426,757	5,273,109
	7,354,382	**2,053,074**	**4,249,794**	**2,952,600**	**16,609,850**
Amounts at Risk, net of reinsurance					
Account 2					
Asset-backed	1,725,539	1,408,633	1,139,098	2,525,843	6,799,113
Other	532,245	644,441	3,110,696	426,757	4,714,139
	2,257,784	**2,053,074**	**4,249,794**	**2,952,600**	**11,513,252**
Expected Loss, gross of reinsurance					
Account 2					
Asset-backed	83,715	12,876	13,735	37,440	147,766
Other	30,608	15,513	55,447	8,639	110,207
	114,323	**28,389**	**69,182**	**46,079**	**257,973**
Expected Loss, net of reinsurance					
Account 2					
Asset-backed	18,788	12,876	13,735	37,440	82,839
Other	7,756	15,513	55,447	8,639	87,355
	26,544	**28,389**	**69,182**	**46,079**	**170,194**

The following table provides an indication of the concentration of credit risk within the UKEF Account 2 portfolio as at 31 March 2013:

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2					
Asset-backed	6,582,466	1,776,652	1,265,423	2,728,677	12,353,218
Other	1,195,469	397,401	3,144,101	493,872	5,230,843
	7,777,935	**2,174,053**	**4,409,524**	**3,222,549**	**17,584,061**
Amounts at Risk, net of reinsurance					
Account 2					
Asset-backed	1,913,698	1,776,652	1,265,423	2,728,677	7,684,450
Other	461,518	397,401	3,144,101	493,872	4,496,892
	2,375,216	**2,174,053**	**4,409,524**	**3,222,549**	**12,181,342**
Expected Loss, gross of reinsurance					
Account 2					
Asset-backed	82,106	15,242	16,201	37,017	150,566
Other	40,628	15,893	72,604	7,894	137,019
	122,734	**31,135**	**88,805**	**44,911**	**287,585**
Expected Loss, net of reinsurance					
Account 2					
Asset-backed	21,804	15,242	16,201	37,017	90,264
Other	8,509	15,893	72,604	7,894	104,900
	30,313	**31,135**	**88,805**	**44,911**	**195,164**

(c)(iii) Foreign currency risk

A material proportion of UKEF's insurance guarantees and policies are written in US Dollars, exposing UKEF to significant foreign currency risk. As noted above, UKEF 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 UKEF's insurance assets at 31 March 2014:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	778,769	288,497	7,679	1,074,945
- Provisions	(392,432)	(70,802)	(6,282)	(469,516)
Interest on unrecovered claims				
- Gross	855,042	192,368	13,205	1,060,615
- Provisions	(770,516)	(131,079)	(13,133)	(914,728)
Net insurance assets at 31 March 2014	**470,863**	**278,984**	**1,469**	**751,316**

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2014 is as follows:

- 10% movement would increase / increase the carrying value by £27,898,000 (31 March 2013 by £31,484,000).
- The sensitivity of insurance assets denominated in other currencies is not considered significant.

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

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

(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, UKEF 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 UKEF'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	1,921,581	8,281,363	5,762,482	654,493	16,619,919
Less: Amounts at Risk ceded to reinsurers	(549,019)	(2,324,764)	(2,024,277)	(198,538)	(5,096,598)
Net amounts at risk at 31 March 2014	**1,372,562**	**5,956,599**	**3,738,205**	**455,955**	**11,523,321**

	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Total £'000
Accounts 1 - 3					
Gross Amounts at Risk	2,152,716	8,422,035	6,460,097	567,436	17,602,284
Less: Amounts at Risk ceded to reinsurers	(589,905)	(2,321,326)	(2,241,975)	(249,513)	(5,402,719)
Net amounts at risk at 31 March 2013	**1,562,811**	**6,100,709**	**4,218,122**	**317,923**	**12,199,565**

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

(e) Risk measurement

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

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

Sensitivity testing and scenario analysis
A central part of UKEF'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 UKEF'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 UKEF's portfolio from movements in the main factors that determine the insurance risk faced by the organisation.

The table below sets out the impact of the movements indicated on: (i) total Expected Loss on Account 2 insurance contracts in issue and current as at 31 March 2014, and (ii) on the Statement of Comprehensive Net Income after taking into account utilisation of the underwriting fund.

	Across the board ratings downgrade by		Increased persistence	Reduced recovery rates
	1 notch £'000	**2 notches £'000**	**+ 2 years £'000**	**-20% £'000**
As at 31 March 2014:				
- Increase in Expected Loss	62,113	140,287	2,885	22,668
- Impact on net income for the year	2,034	4,551	74	1,079

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

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

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

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

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

22 Related party transactions

UKEF 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 UKEF's Management Board or their related parties has undertaken any material transactions with UKEF during the year.

There have been transactions between UKEF 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 2014, First Securitisation Company Limited holds 49,999 of its shares with the one remaining share being held by Capita IRG Trustees Limited. GEFCO has three Directors: two appointed by Capita IRG Trustees Limited and the other appointed by Lloyds Banking Group Plc (Lloyds).

Between the financial years 1986-87 and 2002-03, GEFCO refinanced a number of export credit loans guaranteed by UKEF. 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 UKEF. GEFCO repaid its last remaining bond on 7 January 2010. GEFCO has an overdraft facility with Lloyds, which is guaranteed by UKEF. 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 UKEF.

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

In 2013-14, transactions between UKEF and GEFCO comprised:

- repayments of principal under loans made by UKEF to GEFCO: £33,585,000 (£40,488,000 in 2012-13); and
- net interest received under those loans: £7,833,000 (£10,003,000 in 2012-13).

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

	Loan £'000	**Interest £'000**
Balance at 1 April 2012	**178,243**	**1,533**
Cash Advanced / Interest Charged in Year	-	9,681
Cash Received in Year	(40,488)	(10,003)
Balance at 31 March 2013	**137,755**	**1,211**
Cash Advanced / Interest Charged in Year	-	7,572
Cash Received in Year	(33,585)	(7,833)
Balance at 31 March 2014	**104,170**	**950**

Under the contracts for the refinancing of export credit loans, UKEF has agreed that, at the end of each month, UKEF will reimburse GEFCO any expenses and fees incurred by GEFCO in administering the refinanced loans. In the financial year ended 31 March 2014, GEFCO fees and expenses totalled £541,000 (2012-13: £621,000).

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 UKEF's behalf pursuant to the Agency Agreement between UKEF and GEFCO totalled £667,000 (2012-13 £863,000).

Over the course of the 2014-15 financial year GEFCO will begin to novate the outstanding loan sub-participations on its books to UKEF so that by the end of the financial year all sub-participations will be held directly by UKEF. UKEF will hold these novated sub-participations to maturity and continue to measure these at amortised cost. As a consequence of these novations GEFCO will cease to charge UKEF any further management fees.

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 UKEF are not directly comparable with those shown in UKEF's accounts. In particular, UKEF 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.

23 Contingent liabilities

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

Gross of reinsurance	**Account 1 £'000**	**Account 2 £'000**	**Account 3 £'000**	**Account 4 £'000**	**Total £'000**
Balance at 1 April 2012	26,811	14,250,797	-	-	14,277,608
Guarantees and insurance policies issued and renewed	-	5,312,149	-	-	5,312,149
Run off	(8,651)	(2,600,288)	-	-	(2,608,939)
Foreign exchange adjustments	63	652,802	-	-	652,865
Interest rate adjustments	-	(31,399)	-	-	(31,399)
Balance at 31 March 2013	**18,223**	**17,584,061**	**-**	**-**	**17,602,284**
Guarantees and insurance policies issued and renewed	-	2,426,630	-	-	2,426,630
Run off	(8,102)	(1,946,714)	-	-	(1,954,816)
Foreign exchange adjustments	(52)	(1,370,903)	-	-	(1,370,955)
Interest rate adjustments	-	(83,224)	-	-	(83,224)
Balance at 31 March 2014	**10,069**	**16,609,850**	**-**	**-**	**16,619,919**

Net of reinsurance	**Account 1 £'000**	**Account 2 £'000**	**Account 3 £'000**	**Account 4 £'000**	**Total £'000**
Balance at 1 April 2012	26,811	9,896,543	-	-	9,923,354
Guarantees and insurance policies issued and renewed	-	3,747,496	-	-	3,747,496
Run off	(8,651)	(1,864,904)	-	-	(1,873,555)
Foreign exchange adjustments	63	428,307	-	-	428,370
Interest Rate adjustments	-	(26,100)	-	-	(26,100)
Balance at 31 March 2013	**18,223**	**12,181,342**	**-**	**-**	**12,199,565**
Guarantees and insurance policies issued and renewed	-	2,225,484	-	-	2,225,484
Run off	(8,102)	(1,933,246)	-	-	(1,941,348)
Foreign exchange adjustments	(52)	(903,610)	-	-	(903,662)
Interest Rate adjustments	-	(56,718)	-	-	(56,718)
Balance at 31 March 2014	**10,069**	**11,513,252**	**-**	**-**	**11,523,321**

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

AAR on products separately provided for under IAS 39 was £ 574,961,000 at 31 March 2014 (£538,991,000 at 31 March 2013). There were no amounts reinsured on these guarantees. During the year to 31 March 2014 guarantees issued were £ 47,006,000 (£543,974,000 for the year to March 31 2013). Run off for the year to march 31 2014 was £ 8,764,000 (£7,310,000 for the year to March 31 2013) and there was an FX loss for the year to March 31 2014 of £2,272,000 (£441,000 for the year to March 31 2013).

The total gross AAR for both products accounted for on a Funds basis and those accounted for under IAS 39 at 31 March 2014 is £17,195m (£18,141m at 31 March 2013).

Commitments against statutory limits are now being reported on page 50 in the Annual Report section of this document and so are not subject to audit.

Glossary

Amounts at Risk (AAR)

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

Arrangement, The

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

Buyer Credit

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

Commitment

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

Consolidated Fund

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

Consolidated Fund Excess Receipts (CFER)

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

Contract Bond

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

Credit Default Swap (CDS)

A market instrument used to transfer credit risk.

Estimate

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

Expected Loss

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

Export Credit Agencies (ECAs)

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

Financial Objectives

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

Fixed Rate Export Finance (FREF)

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

Letter of Credit

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

Overseas Investment Insurance (OII)

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

Premium Income

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

Provisions

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

SMEs

Small and medium-sized enterprises.

Spending Review

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

Supplier Credit

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

Supplier Credit Finance Facility (SCF)

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

Unexpected Loss

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

Working Capital

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

ISBN 978-1-4741-0673-3

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