UK Export Finance

UK Export Finance Annual Report and Accounts 2016–17

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Export Credits Guarantee Department (UK Export Finance) Annual Report and Accounts 2016–17

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 18 July 2017.

HC12

This is part of a series of departmental publications which, along with the Main Estimates 2017–18, the document Public Expenditure: Statistical Analyses 2017, and the Supply Estimates 2016–17: Supplementary Budgetary Information, present the government's out turn for 2016–17 and planned expenditure for 2017–18.

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

Any enquiries regarding this publication should be sent to us at **enquiries@ukexportfinance.gov.uk.**

Print ISBN 9781474143318

Web ISBN 9781474143325

ID 10041704 07/17

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK on behalf of the Controller of Her Majesty's Stationery Office.

Contents

An inspection at a GE facility. The memorandum of understanding signed between GE and UKEF in 2015 affirmed UKEF's support for GE and GE's commitment to continued investment in its UK operations. Transactions in 2016-17 brought the agreement to life.

UK Export Finance

Who we are

UK Export Finance (UKEF) is the UK's export credit agency and a government department, working as an integral part of the strategy and operations of the Department for International Trade.

UKEF is the operating name of the Export Credits Guarantee Department.

Our mission

To ensure that no viable UK export fails for lack of finance or insurance from the private sector, while operating at no net cost to the taxpayer.

We help UK companies:

- **win** export contracts by providing attractive financing terms to their buyers
- **fulfil** export contracts by supporting working capital loans and contract bonds
- **get paid** for export contracts by providing insurance against buyer default

How we do it

We provide insurance, guarantees and loans, where the private sector won't, backed by the strength of the government's balance sheet. We also help companies find support from the private sector. Our work means that:

- more UK companies realise their ambitions for international growth
- more jobs in the UK are supported
- overall UK exports are higher

We seek to complement, not compete with, the commercial sector and work with around 70 private credit insurers and lenders. We help to make exports happen which might otherwise not, helping UK exporters and their supply chains grow their business overseas. In this way, we provide security of support through economic cycles and market disruptions.

Our strategic and operational integration with the Department for International Trade is supported by the proximity of our Whitehall offices.

Minister's foreword Greg Hands

I am pleased to present UK Export Finance's Annual Report and Accounts for 2016–17.

This year saw Trade back at the heart of government policy-making, with a seat at Cabinet and an independent department for trade for the first time since 1983.

Our objectives are simple yet significant. We will promote UK exports to the world; maximise opportunities for wealth creation through foreign direct investment and outward direct investment; and build a trade policy capability, fit for a post-Brexit Britain.

The department is built around three pillars: finance, policy and promotion. Consolidating these three responsibilities in one allows us to be more co-ordinated than ever before. The task for the finance pillar – represented by UKEF – is clear: to ensure no viable UK export fails due to a lack of finance or insurance.

This year has seen UKEF continue its pioneering approach to bringing business to the UK and to providing award-winning support. From cutting edge new buildings in Sharjah, to virtual reality driving simulators in Detroit, and water infrastructure projects for the Kurdistan Regional Government, UK companies of all sizes and in all sectors are shaping the world thanks to UKEF support.

Looking ahead UKEF must continue to develop its reach and capabilities as we look to realise every opportunity to level the playing field for UK companies competing for business overseas. It is well placed to do so. The 2016 Autumn Statement doubled UKEF's risk appetite to £5 billion, while increasing the number of local currencies in which UKEF can offer support from 10 to 40 – from the Australian dollar to the Zambian kwacha.

UKEF also has a growing role working with the other two pillars of the department. It will share its expertise to the development of trade policy and will sit at the heart of the UK's trade promotion proposition, with financial support central to a coherent offer for UK companies.

So expectations are high, and I think it fitting that UKEF heads towards a great milestone – 100 years of continuous operation supporting trade – poised to enter one of its most exciting periods.

The Rt Hon Greg Hands MP
Minister for Trade and Investment 3 July 2017

Performance

Members of the UKEF Board

UKEF's non-executive chair leads the UKEF Board advising the Accounting Officer on all matters of material importance to the department, such as business and operational planning, business performance, financial risk management and compliance with risk policies. Profiles of UKEF Board members can be found on page 117.

Chair's report Noel Harwerth

This report is my first as Chair of the Board of UK Export Finance, having joined in January this year. I would like to thank my predecessor, Guy Beringer QC CBE, for his leadership and commitment in the role. His stewardship has helped ensure that I am in an enviable position: at the helm of what is already one of the world's leading export credit agencies.

I am not the only new non-executive director: Oliver Peterken, Lawrence Weiss and Catherine Raines also joined during the year. On all our behalves I would like to extend my thanks to Louis Taylor, the rest of the Board and all UKEF's staff for their support in our first months in post.

This has been an eventful year both for UKEF and the UK as a whole. In June 2016, the UK voted to leave the European Union. With the subsequent formation of the Department for International Trade, UK Export Finance is now front and centre of the government's strategy to support trade. We look forward to continuing to provide world-class support to the UK's exporters and their overseas buyers as the UK grows as a global trading nation with strong relationships around the world.

At the same time as strengthening our collaborations across government working alongside the Department for International Trade, we have made considerable progress in improving our offering to our customers. In his Autumn Statement, the Chancellor announced significant increases to our capacity and flexibility, with doubled risk appetite and country limits.

UKEF will shortly publish its Business Plan for 2017-20. This new plan will position UKEF to support higher volumes of business while improving its customer experience. The scale of UKEF's ambition needs to match those of the UK's exporters, as they look to realise the world of opportunity out there for them. Over the past twelve months we have put in place strong foundations on which we can build, as we strive to be a more scalable export credit agency that is committed to the fullest extent possible to its role – supporting UK companies' global ambitions.

Noel Harwerth
Chair
3 July 2017

Scottish manufacturer Bifab manufactures steel fabrications for the energy sector. The company is 16 years old and employs over 1,000 people across two sites in Fife and a third facility at Lewis. UKEF provided support for a £100 million contract to supply wind turbine jacket substructures to the Beatrice offshore wind farm.

Chief Executive's report Louis Taylor

This year, we continued to progress towards our ambition to be the world's leading export credit agency. Buyer finance arranged for infrastructure, energy and defence business reached the highest levels since 2004. We launched a new 'Team UK' approach to attract business to the UK, boosting UK exports to international projects. We have continued to help historically high numbers of smaller companies to sustain their cashflow when taking on business overseas.

Behind the scenes we have worked hard to make progress against the objectives set out in our business plan 2014-17, notably to widen the scope of our support. We have developed more flexible trade finance products, which are to be supported by new digitised processes. The 'Team UK' approach to major projects has seen us marshalling UK suppliers of all sizes and capabilities behind our finance offers to large projects in Iraq and Egypt. These two successes – which alone have the potential to boost UK exports by over £400 million – set a template for a government-wide approach to supporting major projects in all sectors, which will see us, wherever it is appropriate, spearheading the UK offer with a strong finance package.

We also strengthened our team across all areas, with talent recruited from outside the department and promoted from within. Bhaskar Dasgupta was recruited from HSBC to a new Chief Operating Officer role; Gordon Welsh was promoted to Head of Business Group; Richard Simon-Lewis, who led Lloyds Bank's renewable energy project finance function, joined us to lead a restructured Civil, Infrastructure and Energy business team, incorporating a dedicated business development function; Pat Cauthery was promoted to lead our Aerospace and Defence business; and Davinder Mann was promoted to be our Head of Legal Division.

We welcomed Noel Harwerth as Chair of the Board, along with new non-executive directors, Oliver Peterken, Lawrence Weiss and Catherine Raines. The full composition of our Board is shown on page 117. I would also like to thank Guy Beringer for his fine stewardship of UKEF as our Chair for the last seven years.

The Department for International Trade

In July 2016, the Department for International Trade was established, with UKEF working as an integral part of its strategy and operations.

We are now a central part of the government's trade and investment strategy, while remaining a separate government department for governance and accounting purposes, and continuing to operate under the formal written consent of HM Treasury and at no net cost to the taxpayer. This arrangement allows us to maintain appropriate governance arrangements to manage the significant financial risks we take on, while benefiting from the potential to provide a more coherent service to UK business and customers abroad.

It also means many former partners within government have become close colleagues under the umbrella of the department. I am now one of the three Directors General in the Department for International Trade, in addition to my responsibilities as Chief Executive and Accounting Officer of UK Export Finance.

UK Trade & Investment has been fully absorbed into the new department reporting to the Director General, International Trade and Investment. This provides considerable opportunities to knit together their export promotion services with our tangible financial support.

Greater integration is taking places at many levels, but perhaps most significantly to date:

- new arrangements have been agreed with providers of advisory services to ensure they can exploit opportunities for UK companies to use UK Export Finance
- UKEF officials are now embedded in all High Value Campaigns and, where appropriate, will support a 'leading with finance' approach as a part of a 'Team UK' offer
- we now have the opportunity to be part of the Department for International Trade's people plan, which will help staff develop their careers and share opportunities to get the best out of one another
- we have already agreed plans to share a number of corporate functions, beginning with commercial services

Read a detailed explanation of our governance, including changes in 2016–17, in the Governance Statement on pages 121 to 135.

Measuring our success

The volume of business that UKEF supports year-on-year is a measure of private sector liquidity and risk appetite, as much as of our activity and success. We do not compete to grow our market share – rather our contribution helps exporters grow theirs. We complement, rather than compete with, the financial and insurance support provided from the private sector. If support is available from a commercial bank or insurer, we do not seek to displace this. In many cases, we will work with companies and banks to ensure that commercial support is found (which we report as a ‘private market assist’) to satisfy the exporter’s needs.

Our interventions:

- fill market gaps
- provide additional export value for the UK economy
- support growth in overseas markets for the individual companies that benefit.

Our support is not a subsidy:

- we charge a premium to reflect the risk we assume
- commercial rates of interest are charged on lending we support
- the premium we charge must cover our anticipated long-term losses, as well as our operating costs
- we aim to operate at no net cost to the taxpayer over business cycles

We have reviewed our performance against each of our four strategic aims within our 2014 to 2017 business plan:

Agile and adaptable: to be an agile department, able to address the challenges to UK exporters throughout the economic cycle.

Competitive offering: to be active in ensuring that we are one of the most competitive export credit agencies in the global marketplace.

Customer service and awareness: to provide a high-quality service to our customers that is proactive, flexible and efficient with a focus on solutions and innovation.

Our organisation: to be a great place to work, where teams work across functions easily and towards common goals.

In 2016-17 we have continued to:

provide tangible pounds-and-pence support for UK exports – you can read the detail of this support on pages 51 to 61

develop our support so we can bridge more gaps in market provision, and can anticipate and respond quickly to changing demands

support UK companies bidding for and winning high-value opportunities by offering competitive finance packages and lines of credit to overseas buyers

encourage innovation and a positive customer experience, by continually examining what we do and making improvements to ensure that our support matches or exceeds the support provided by other export credit agencies and private finance institutions

protect the taxpayer from loss, through the application and development of robust risk and portfolio management methods

raise awareness of the support we can provide among UK companies and intermediaries so those that need our support know it is there and can access it

improve staff engagement levels by responding to feedback from our people

cooperate across the functions of the Department for International Trade, for example to:

- develop a 'Team UK' approach to large export opportunities
- equip all front-line teams with the knowledge to fully engage on the financial challenges of trade and investment

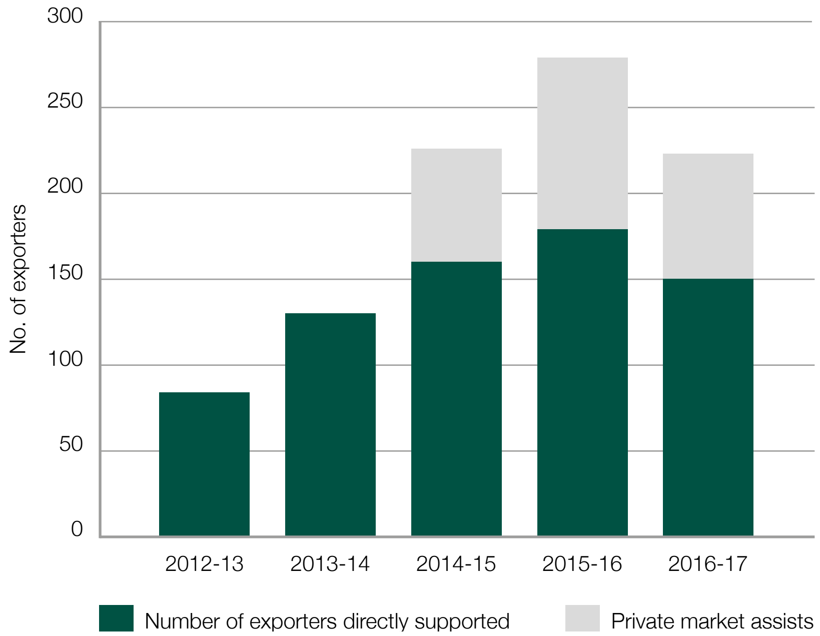
UKEF's strategic aims:

- Agile and adaptable
- Competitive offering
- Customer service and awareness
- Great place to work

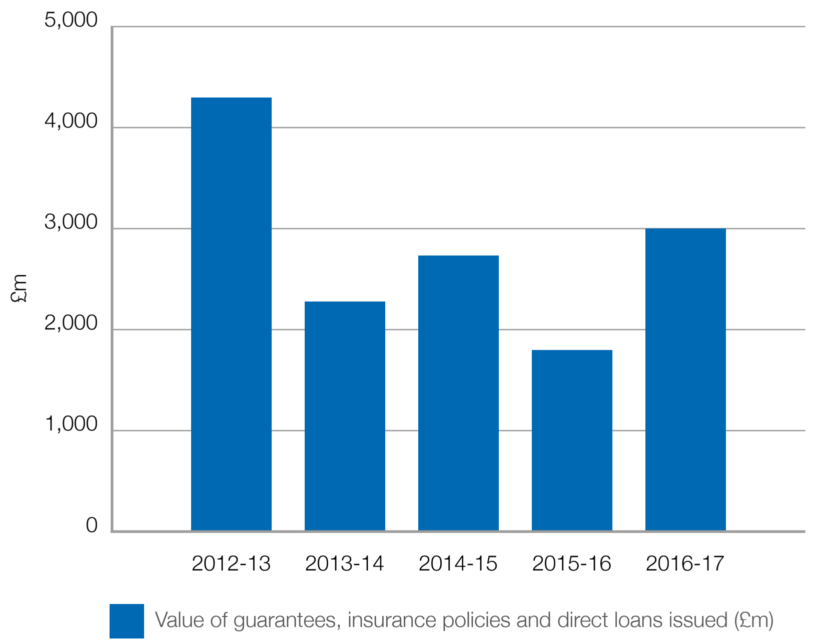
Businesses supported

We directly supported 221 companies in 2016–17. The maximum liability on all new business was £3.0 billion[1]. Our shorter-term trade finance products supported £585 million of export contracts won by UK businesses.

Number of exporters supported

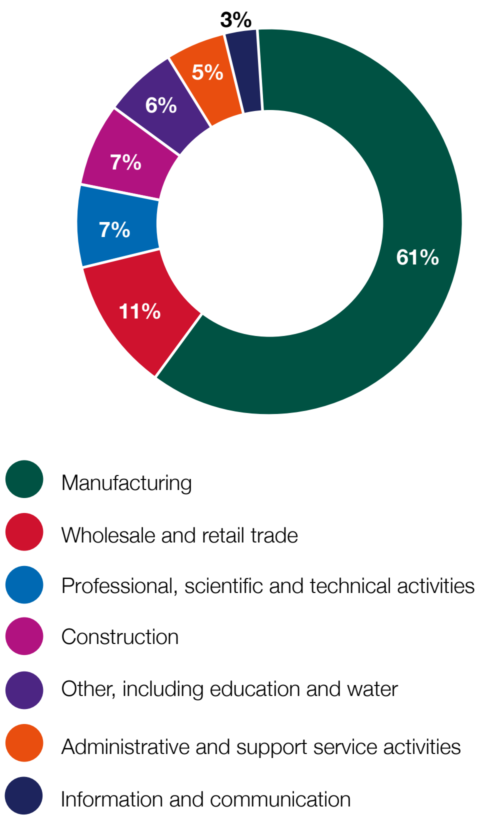


Value of business issued

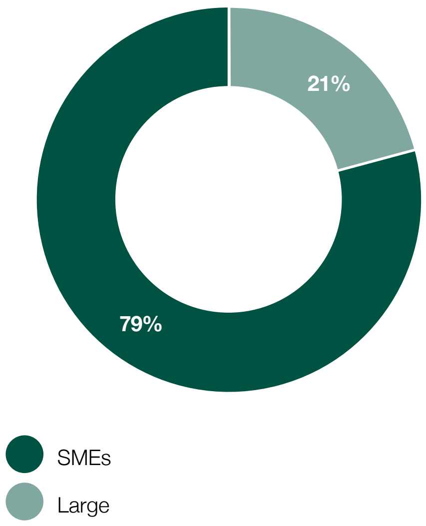


1 This figure shows issued and effective business. It does not include amounts counter-guaranteed or reinsured by another official export credit agency where UKEF was acting as lead ECA on a jointly-supported transaction. It does include business supported where the private reinsurance market was subsequently used to offset risk for active portfolio management purposes. It includes £305 million in the form of direct loans and scheduled interest, which is accounted for on a different basis.

Sectors

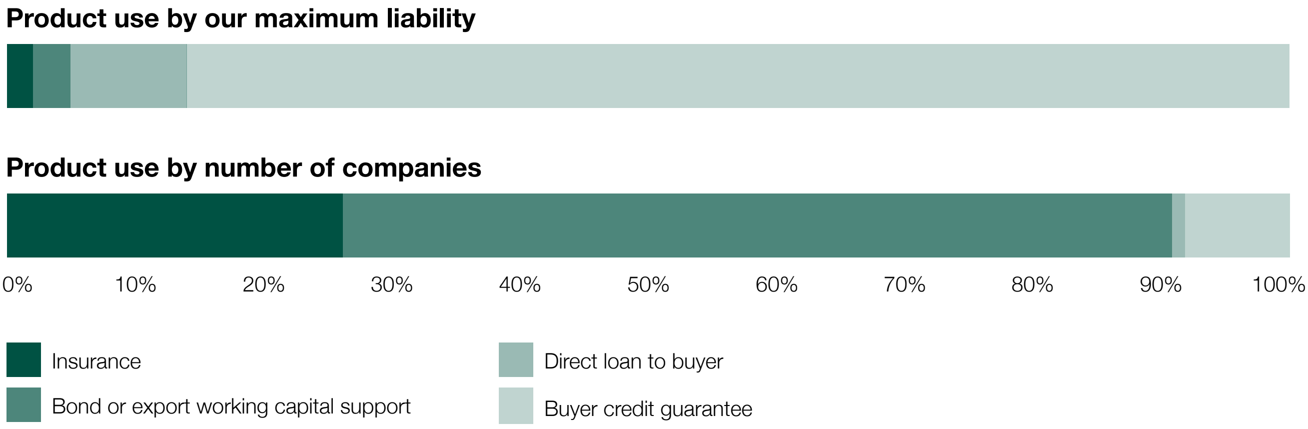


Company size



Destinations for exports supported in 2016-17

Darker shading indicates higher value of UKEF support



"UKEF exists to ensure that no viable UK export fails for lack of finance or insurance, and its support is a central part of the Department for International Trade's commitment to help exporters realise their ambitions by trading abroad."

The Rt Hon Greg Hands MP
Minister of State for International Trade

"I am doubling UK Export Finance capacity to make it easier for British businesses to export"

The Rt Hon Philip Hammond MP
Chancellor of the Exchequer
Autumn Statement 2016

Highlights in 2016-17

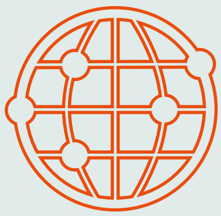
We supported more than **£585 million** of new UK export contracts via our trade finance and insurance products, meaning we have now supported more than **£3.6 billion** of UK exports since these products were introduced in 2011

We became the newest member of the **African Trade Insurance** agency, offering UK exporters enhanced access to growing markets in Africa

Our total risk appetite doubled to **£5 billion** following the Chancellor's Autumn Statement, and we increased the number of pre-approved local currencies in which UKEF can offer support from **10 to 40**

We increased by up to **100%** our maximum cover limit for 30 individual markets – including Angola, Oman, the Philippines, Qatar, Rwanda, Saudi Arabia, Tanzania, Uganda and Vietnam

We made the first ever direct export credit loan to the **Kurdistan Regional Government** in Iraq for the development of water and wastewater treatment plants

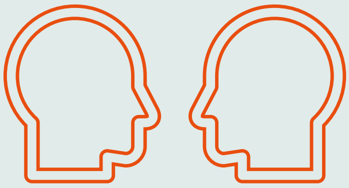


We saw a further increase in our **direct lending** business, introduced in 2014, with **£305 million** of loans made to overseas buyers of UK exports

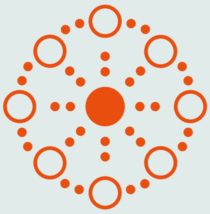
We were the first export credit agency to support an upstream oil and gas development transaction through a

hybrid finance structure

comprising both project finance and reserve-based lending



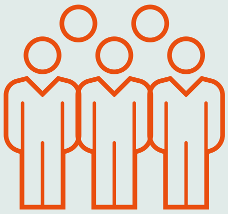
Our export finance managers held **2,994** one-to-one meetings with UK companies and **2,032** meetings with intermediaries this year



We were able to connect more than

350 companies

with the lead UK contractors for infrastructure projects in Iraq and Egypt as they sought UK suppliers due to UKEF's financial involvement

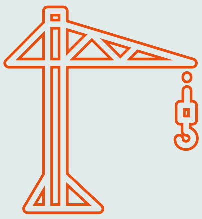


We launched our first **'Team UK'** supply chain export fairs: 98% of the companies attending highly rated the event; more than half reported gaining new leads in addition to the project business for which the event was organised

We reintroduced cover to support UK companies seeking to compete for business in Argentina, with

£1 billion

made available after a 20 year hiatus



We were recognised with

industry awards,

including Project Finance International's African Oil & Gas Deal of the Year 2016

Finances

UKEF achieved an operating surplus of £149 million for the year ended 31 March 2017 compared with £106 million for the year to 31 March 2016. The increase in net operating income was largely the result of a higher foreign exchange gain of £57 million for 2016–17 compared with a gain of £13 million in 2015–16.

We met all our financial objectives, which are set for us by HM Treasury. Page 36 sets out our results against our financial objectives and pages 95 to 101 provide a comprehensive report of our financial performance.

Supporting exports through the business cycle

Many of the loans we support by providing guarantees will be repaid over more than 10 years and, in the event of defaults, we will seek to make recoveries. This means that final business losses, as a result of unrecovered claims paid, can take many years to crystallise.

In this regard our role is best appreciated 'through the business cycle', as our business levels and claims rise and fall depending on the impact of market disruptions on UK trade. For example, claims payments and recoveries reported in a single year actually reflect business written over a broader stretch of time. Claims paid this year relate to business issued over a 15 year period, between 2000 and 2015. The 3 new claims that arose this year stem from business issued since 2013.

Overall, this year, our performance in managing financial risk remains strong. But it is our management of risk through business cycles that is most important.

See page 67 for a more detailed commentary on how we have managed financial risk.

Performance assessment

Assessing our performance could take into account:

- the overall volume of our support (as reported on page 35)
- our ability to provide this support while covering our operating costs and losses
- the potential demand for our services, as required to complement but not compete with the private sector

Bridging the gap

Our potential market share is partially determined by external factors over which UKEF has no control:

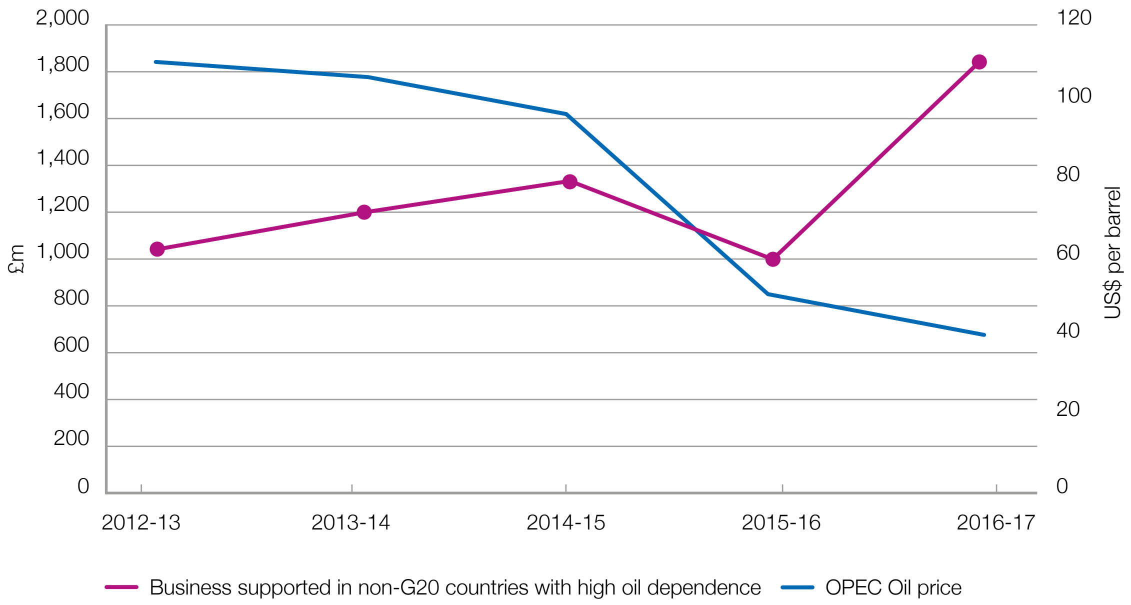
- the regulatory and economic environment and the demand for finance and insurance to support UK exports
- the ability of commercial credit insurers and finance providers to meet the market's demand for finance

It is also partially determined by factors over which UKEF has a degree of control:

- awareness among exporters of UKEF's ability to help and the willingness of our commercial partners (for example, banks and brokers) to use and promote our services
- our pricing of risk, reflected in the premium and/or interest we charge
- whether we have the product range required to fill particular market gaps

How UKEF fills market gaps: declining oil revenues

As the world oil price has fallen and remained low, UKEF has assumed more risk on buyers in countries that have a greater dependence on oil production for their revenues or wealth generation (and by doing so supporting UK exports to these markets).



Awareness

Getting our support to the right companies, at the right time, continues to be a significant focus, particularly for our trade finance products. We remain, to a large extent, reliant on banks, insurance brokers and other government networks to introduce business to us.

We continue to engage banks by offering training to their frontline staff on how they can work with UKEF to better support their clients. We are working with colleagues in the Department for International Trade to embed our finance offer within the broader offer of trade and investment support. This means becoming more prominent in government campaigns and on the great.gov.uk website. We have introduced clear pathways for trade advisers from the Department for International Trade to refer business to UKEF and have rolled out enhanced training to Department for International Trade staff in the UK and overseas on UKEF's financing options.

The Exporting is GREAT campaign, launched in November 2015, has significant potential as a channel for increasing awareness of how government can support finance or insurance for exports. Further work is needed to ensure that the UKEF offer is fully embedded and integrated within the campaign.

Our marketing and communications activity outside this campaign has been focused on data-driven prospecting of those UK companies most likely to need our support, based on analysis of their sector, size and other profile data. These companies are either:

- pulled towards projects financed by UKEF through supply chain campaigns
- engaged by partnerships with trade associations or other intermediaries
- directly offered support from an export finance manager

There is a review of our work with partners on page 63.

Pricing of risk

We support UK exporter competitiveness through the lowest premium rates permissible, subject to meeting our financial objectives and aligning with our international obligations, most notably the minimum rates set out by the OECD.

Our pricing methodology is described in more detail on pages 77 to 79.

How we protect the taxpayer

We price risk by performing a balancing act to enable us to operate at no net cost to the taxpayer over time.

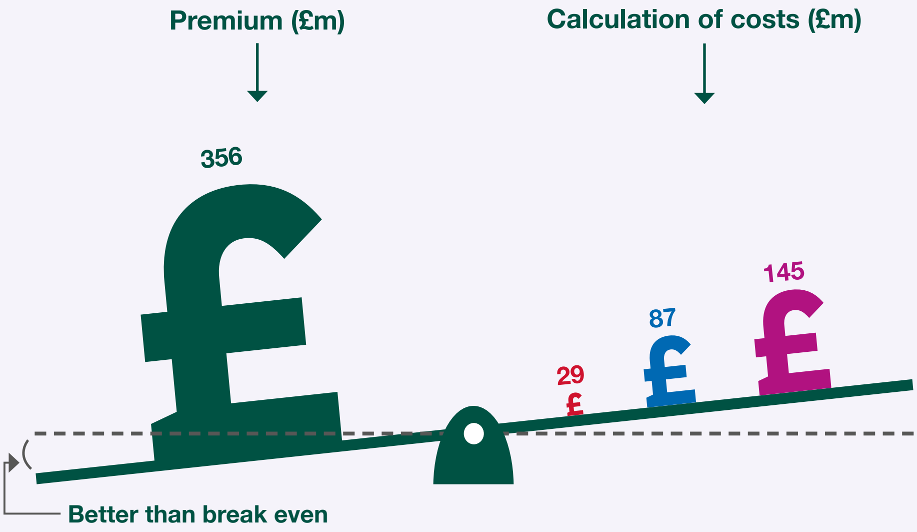
Our aim is to break even over time. To help make sure that we do, every month we calculate the premium we earn and weigh it up against an estimate of all the potential costs and losses for the business supported.

We measure this over different 3-year periods. The diagram below shows the result based on actuals for 2014 to 2017.

The costs have 3 components:

- £ a statistical estimate of potential losses that cannot be recovered
- £ administration costs
- £ a further amount to allow for a portion of unexpected losses

2014 to 2017



This measure, called a pricing adequacy index, provides assurance that our pricing is sufficient to meet all potential costs for the business supported.

The position this year has not moved significantly from 2015-16, moving very slightly towards break even.

Note The premium amount for 2014-17 applied to our pricing adequacy index differs from the accounted premium reported on page 35. This is because the accounted premium:

- does not include premium from direct lending, which is amortised as interest income
- uses an exchange rate fixed at the time premium is received (rather than month-end rates)
- includes only the premium earned in the period (rather than the entire premium expected over the life of the business issued)

Product range

UKEF's broad product range, strong guarantee, flexible foreign content rules and innovative approach are all advantages for UK exporters.

Feedback from trade bodies such as the British Exporters Association (BExA), and trade press such as Global Trade Review and TXF: Trade & Export Finance continues to recognise these strengths.

The strength of our guarantee in financial markets continues to be assured by our longstanding status as a ministerial government department with access to the Consolidated Fund.

Comparing UKEF with other export credit agencies

We assess the strength of our support primarily through listening to our customers and comparing our capabilities against other leading export credit agencies from around the world.

Every year we undertake a comparison exercise to review our offering against those of other export credit agencies.

We also benefit from external scrutiny provided by the export credit agency benchmarking report produced each year by BExA, and research carried out by Clevis for TXF's Exporters' Choice Awards.

Our product range has evolved considerably since BExA's first benchmarking report in 2010, when we scored 4 out of 10, compared to 9 out of 10 today. We continue to score higher than any other export credit agency in BExA's study.

Other performance factors

Enterprise risk

Managing risk is critical to our business. In addition to the management of credit risks, we face a variety of other financial, operational and strategic risks from external and internal sources.

As an export credit agency our credit risk portfolio will tend to be characterised by:

- a higher risk profile than commercial lenders or insurers
- a strong emerging market risk component
- long risk horizons
- occasional risk concentrations

In this context, the low volume of new claims in each of the past 5 years, from a portfolio with more than £19.5 billion at risk, demonstrates a strong capability in credit risk decision-making.

Taking the past 5 years, the average claims paid as a proportion of the average amount at risk would be 0.043% or:

£1 for every £2,307 at risk.

We typically seek to recover claims we have paid, so any final loss calculation may not become clear for many years, until recovery action is concluded.

A detailed explanation of how we manage our financial risks is on pages 67 to 93.

We are also committed to managing operational risk, which involves the possibility of error or oversight leading to financial loss (other than as a result of properly managed exposure to credit risk), or a failure to properly discharge our obligations. To manage these risks, we are committed to establishing a culture of awareness and openness, enabling risks to be recognised, identified and mitigated.

There are no operational losses or special payments to report in 2016–17.

Our most significant strategic risks at present arise mainly from our need to:

- operate in a continuously shifting global trade policy environment
- respond appropriately when counterparties appear not to have met their obligations in relation to anti-bribery and corruption policies
- attract and retain the right people where salary levels may lag behind private sector financial services and other public sector comparators

There is a detailed description of the most significant operational risks facing our business and mitigating measures in the governance statement on pages 121 to 135.

Support for aerospace

Our support for the aerospace sector was at a much reduced level this year relative to previous years. See page 133 of the governance statement for more information.

Operational efficiency and effectiveness

We have continued a programme of investment in digital technology and services to improve the efficiency of our case processing and customer relationship management, and to prepare for an increased uptake of our products and services.

In 2016–17 we developed the most significant changes to our trade finance offer since its launch in 2011. Our enhanced trade finance offer will be transformed by three new innovations:

- faster, simpler, clearer digital application processes
- greater delegated authority to allow financial institutions to apply our guarantee quickly and flexibly
- widened eligibility down the supply chain to include companies that supply the final exporter

Customer focus and a new business plan

In 2016–17 we invested a considerable amount of time talking to our customers and listening to their expectations of us so we can improve the way we operate and how we can better meet their needs, both online and in person. The result is a new business plan – to be published in summer 2017 – that, more than ever before, has been built around meeting customers' needs. I would like to thank all those individuals and companies that participated in this work, the fruits of which will become evident as we begin delivering our 2017–20 business plan.

In July 2016 we completed a switch from our previous IT supplier to a number of smaller providers, each with different specialisms. This significant change was in line with government guidance and, not only delivers savings, but also means we now use technology that:

- we can share across government
- we can easily maintain and scale for future use
- isn't dependent on a single third-party supplier

Review against my 2015-16 forward look

We said we would:	What we did:
• Complete a trial of arrangements to delegate more decision-making to finance providers, with the aim of cutting application times in half and accessing many more exporters who can benefit from our support	• We successfully trialled a model with greater delegation of authority to banks when using our guarantee for working capital and contract bond facilities • We also renegotiated our master guarantee agreements with the banks, which will allow us to roll out an enhanced model in 2017 that will cut application times by more than half
• Provide training and toolkits to bank staff to support the use of our products under this new delivery model	• In 2016–17 we provided bespoke digital toolkits to all bank partners and began a rolling programme of training for bank relationship managers
• Trial an online application service that is simpler, faster and clearer than current arrangements	• Our online application service began live testing with bank customers in March 2017
• Develop a unified business development function that will raise awareness of our support and capabilities across the full spectrum of companies	• We now have a single business development function reporting to the Head of the Business Group, which works hand-in-hand with the communications team to manage all customer interactions with UKEF, from the point of initial awareness through to discussing an application for support with a member of the underwriting team
• Test for increasing awareness of our support	• We tested for awareness of our support and the results were equivocal; further insight work on our addressable market is being undertaken
• Reach more companies via the Exporting is GREAT campaign	• We have a new pipeline of business from companies engaged through the GREAT campaign
• Continue to collaborate across government to help finance exports	• The creation of the Department for International Trade put UKEF at the centre of collaborative efforts to support trade and investment

We said we would:	What we did:
• Implement changes to the structure of our business group under new leadership that allows for greater flexibility to marshal resource	• Following the appointments of Pat Cauthery (Head of Aerospace and Defence) and Richard Simon-Lewis (Head of Civil, Infrastructure and Energy & Head of Business Development), we now operate a more flexible deployment of underwriting expertise across cases of differing complexion under experienced leadership
• Further increase learning and development opportunities for staff that will add to their ability to support exporters	• Our overall engagement score for learning and development continues to grow which is an indication of senior management commitment to developing our people
• Invest more heavily in developing current and future leadership talent for key roles	• We have implemented a new approach to talent management and succession planning which has identified key roles and assesses the readiness of existing staff to fill them

Our people are our most valuable asset. I would like to thank all members of UKEF staff for their hard work in 2016-17.

UK Export Finance members of staff pictured in 1 Horse Guards Road, London. The UKEF offices are part of GOGGS – the Government Offices of Great George Street.

The year ahead

In July 2017 we will publish our business plan for 2017 to 2020, which describes our aims and objectives out to 2020 and how we plan to deliver them. Below are some highlights.

Addressing the market

We aim to be a more scalable organisation, able to support higher volumes of business efficiently and effectively, in particular on the short-term trade finance side.

In 2017-18 we will:

- **exploit three potential game-changers to our trade finance offer:**
  1. **the 'bank delegation' model, which allows financial institutions to apply for our guarantee quickly and flexibly**
  2. **online applications for banks and exporters using short-term products**
  3. **digitised workflow capability to process requests for support more quickly and efficiently**
- **seek to develop a new customer base though the widened eligibility of our trade finance offer**

Products

We aim to make broader use of data and market intelligence to guide our interventions.

In 2017-18 we will:

- **refresh our Overseas Investment Insurance to support UK overseas direct investment**
- **test UKEF's proposition against evolving customer needs and review products constantly for relevance to ensure we can address market gaps**

Leading with finance

We aim to further develop a 'Team UK' approach to increasing UK supplies to major infrastructure investments around the world.

In 2017-18 we will:

- **appoint around 20 corporate finance specialists in key overseas markets**
- **issue expressions of interest where possible for each relevant High Value Campaign (HVC)**

Awareness raising

We will exploit our new digital capability to increase the volume and relevance of awareness raising activity.

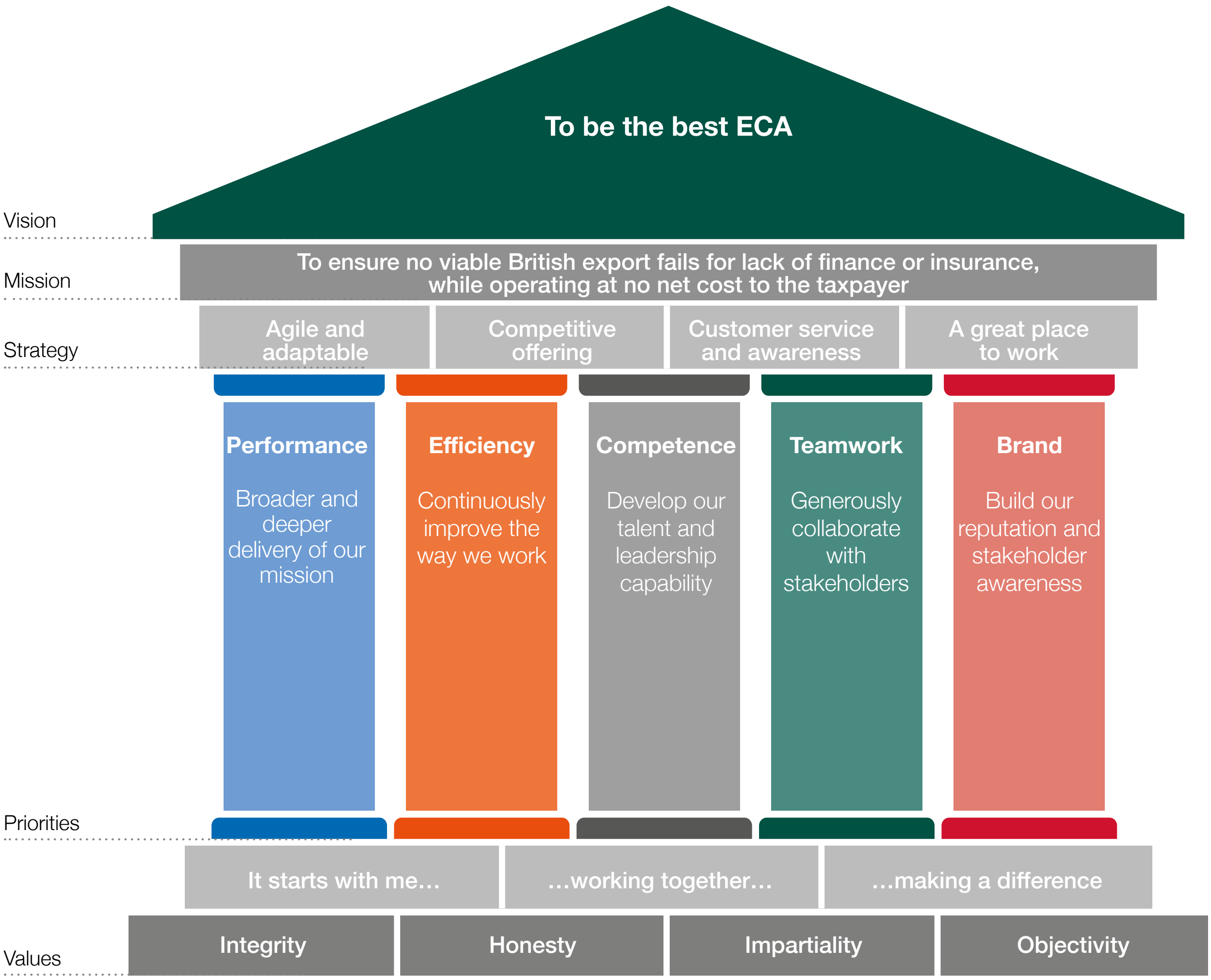
In 2017-18 we will:

- **use a more data-driven approach to define our addressable market, to better target our awareness-raising activity where it will count**
- **develop the digital toolkit available to customer-facing staff, including improved hardware, a more capable customer relationship management system, and more engaging and effective digital content**

UKEF does not need a radical new path. Instead we will increase the pace of transformation and the scale of our activity, reflecting an increased level of ambition: ambition for UK exports, for UK exporters, and for UK jobs; and for the communities served by the benefits of global trade with the UK.

Our vision, mission, strategy and priorities are set out in our Message House below.

It contains the elements which will see us lead with finance, helping UK exporters **win** new business, **fulfil** large contracts and **get paid** securely when they trade.



Louis Taylor
Chief Executive and Accounting Officer
UK Export Finance
6 July 2017

We supported Pontypool-based manufacturer, Flamgard Calidair, which is providing fire safety equipment to the Chernobyl nuclear site. This will add to the protection at the site, which is the world's largest movable structure, designed to facilitate monitoring and demolition of the previous containment building following the 1986 disaster.

Performance overview

Financial overview – 5-year summary

	2016-17	2015-16	2014-15	2013-14	2012-13
	£m	£m	£m	£m	£m
Business supported	2,966[2]	1,793	2,730	2,272	4,291
Premium income	102	73	104	120	133
Claims paid	8	5	6	13	7
Net operating income	149	106	129	50	135

Non-financial indicators – 5-year summary

Total exporters supported, of which:	221	279	226	130	84
direct support under a UKEF product	148	176	160	130	84
private market assist[3]	71	100	66	not recorded	not recorded
direct support and private market assist	2	3	0	not recorded	not recorded
Facilities issued	483	593	588	619	368
Introductions to other sources of support	2,267	1,778	1,339	not recorded	not recorded

2 This figure shows issued and effective business. It does not include amounts counter-guaranteed or reinsured by another official export credit agency where UKEF was acting as lead ECA on a jointly-supported transaction. It does include business supported where the private reinsurance market was subsequently used to offset risk for active portfolio management purposes. It includes £305 million in the form of direct loans and scheduled interest, which is accounted for on a different basis.

3 A 'private market assist' is when our engagement has had a material contribution to a company receiving support from the private sector, resulting in an export contract going ahead that was unlikely to have proceeded otherwise.

Financial objectives

Objective and description	Results
Maximum commitment This measure places a cap on the maximum amount of nominal risk exposure (ie the total amount of taxpayers' money that may be put at risk by UKEF).	**Met** The highest recorded maximum exposure in the year was £22.5 billion, against a notional maximum commitment at the time of £60.9 billion (when adjusted 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 10-year loss distribution.	**Met** UKEF's 99.1 percentile of the 10-year loss distribution did not exceed £1.5 billion, against a notional risk appetite limit of £5 billion (adjusted for foreign exchange movements).[4]
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 4.26 in the year, against a target minimum 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 3 different periods:	
(i) past 2 years and present financial year:	**Met** This index at 31 March 2017 was 1.36, against a target minimum of 1.00.
(ii) previous, present and next year:	**Met** This index did not fall below 1.43, against a monthly target minimum of 1.00.
(iii) present year and next 2 years:	**Met** This index did not fall below 1.47, against a monthly target minimum 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 2.22, against a target minimum of 1.35.

Pages 67 to 79 set out more detail on these objectives.

Note: These financial objectives apply to business issued since 1991. 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 taxpayer, while taking account of the government's policy on debt forgiveness.

4 The Risk Appetite Limit was increased from £2.5 billion to £5 billion following the Chancellor of the Exchequer's Autumn Statement to Parliament on 23 November 2016.

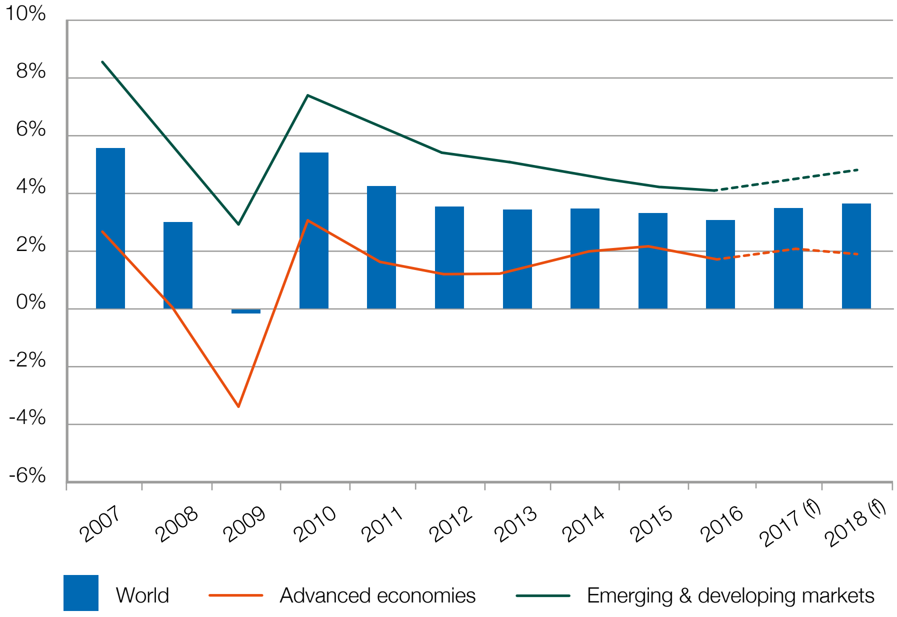
Kingswinford-based Mechatherm International supplies melting and holding furnaces to aluminium producers. The company has received a Queens Award for Exporting three times. Its recent exporting success, supported by UKEF, has seen it grow its workforce and make plans to open an office overseas.

Chief Economist's report Paul Radford

World economic growth is estimated to have slowed to 3.1% in 2016, 0.3 percentage points lower than in 2015 (3.4%) and the slowest rate of growth since 2009. This fall was driven by a loss of momentum in all of emerging markets and developing economies, and advanced economies.

In the face of weaker global economic activity and lacklustre world trade growth, demand for UKEF support showed resilience, with some modest increase in demand for medium- to long-term export credits.

Global growth



Source: IMF World Economic Outlook, April 2017

Subdued growth in advanced economies

Following two consecutive years of improvement, growth in advanced economies fell from 2.1% in 2015 to 1.7% in 2016, as uncertainty and underlying structural issues prevented a stronger performance.

The US economy grew by 1.6%, a marked slowdown from 2015 (2.6%) as a drawdown of inventories and weaker investment had an impact on activity. Despite this, declining unemployment and rising inflation led to 2 increases in the country's key policy interest rate from the Federal Reserve, in December 2016 and March 2017.

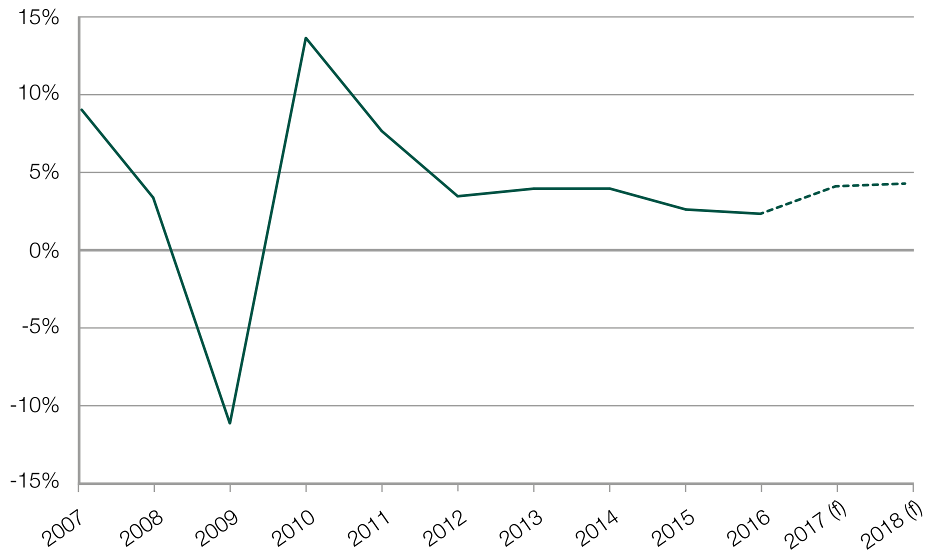
Economic activity slowed in the Eurozone, with growth rates declining from 2.0% in 2015 to 1.7% in 2016. Output remained subdued across the larger economies: Germany (1.8%), France (1.2%) and Italy (0.9%) all expanding by less than 2%.

Emerging markets

Output growth in emerging markets fell slightly from 4.2% in 2015 to 4.1% in 2016. Commodity exporters fared particularly poorly in 2016 as oil prices fell to lows of US$28 per barrel in early 2016 and averaged over 15% lower across 2016 compared with 2015. Recessions continued in Brazil (-3.6%) and Russia (-0.2%), albeit with slower contractions compared to 2015, while disruptions to oil production in Nigeria saw the economy fall into recession (-1.5% in 2016) for the first time in over 20 years. Notwithstanding slight slowdowns in China (from 6.9% in 2015 to 6.7% in 2016) and India (from 7.9% in 2015 to 6.8% in 2016), they helped contain the decline in growth for emerging markets overall. Highlighting the improving outlook for emerging credit markets, the J.P. Morgan Emerging Market Bond Index Plus (EMBI+)5 continued rising through 2016 and the start of 2017.

China's policy of transitioning from investment-led expansion to services- and private consumption-led expansion is one of the main reasons behind the weaker growth in trade, which fell to 2.2% in 2016 from 2.7% in 2015.

World trade: annual growth in volume of goods and services



Source: IMF World Economic Outlook, April 2017

US moves to normalise monetary policy have raised concerns over the potential for a reversal of capital flows from the emerging markets, potentially reinforced by higher interest rates and a strong US Dollar impacting debt servicing costs. However, recalling the 'Taper Tantrum' episode, clear and timely communication from the central banks of advanced economies have so far helped to minimise uncertainty.

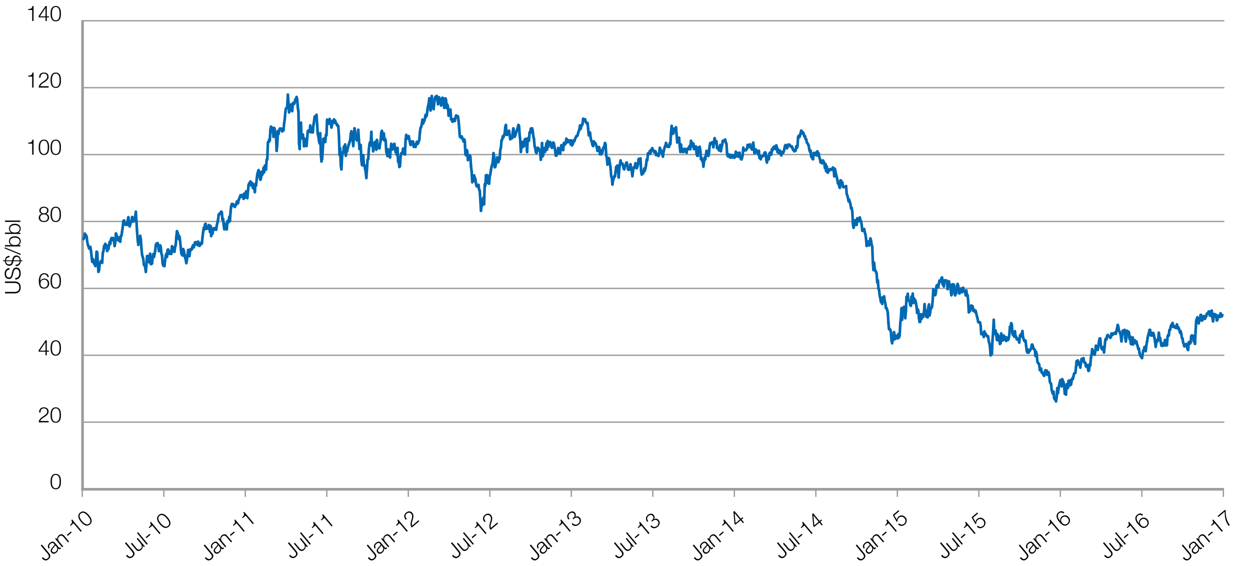
As the majority of UKEF support relates to companies exporting to emerging markets, the economic situation in these countries remains a key determinant of the department's business volumes and any increased incidence of distressed borrowers is likely to impact UKEF's business.

Firming of commodity prices

Despite averaging below 2015 levels after hitting lows at the start of the year, commodity prices recovered throughout 2016 as demand grew and supply limitations in the oil market were agreed.

Oil prices averaged their lowest for more than 10 years, falling from an annual average of US$54 per barrel in 2015 to US$45 in 2016. The agreement between OPEC members and key non-OPEC oil producers to constrain production and attempt to return the market to balance, signed towards the end of 2016 and implemented from January 2017, has bolstered prices. Nonetheless, with rising US shale production and consistently high stockpiles, it is likely that prices will remain subdued over the coming years compared to the highs seen at the beginning of the decade, but with bouts of volatility. This is illustrated in the graph below.

Brent oil US dollars per barrel



Source: Bloomberg

Metal prices, as measured by the London Metal Exchange index, rose through 2016 as a reduction in supply coupled with stronger real estate investment in China helped to firm prices. Furthermore, the expectation of increased infrastructure investment in the US alongside the modest global economic uptick could help to boost prices further.

London Metal Exchange index

Source: Bloomberg

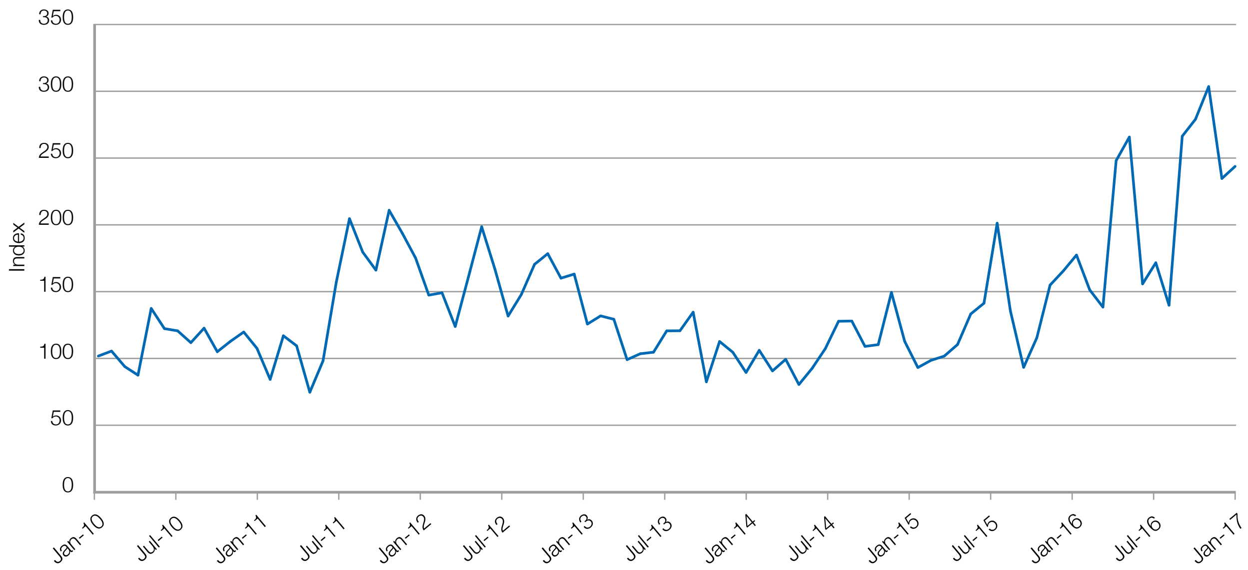
Firmer commodity prices and a linked upturn in trade volumes should underpin demand for UKEF support, with infrastructure projects that were temporarily put on hold likely to be reactivated. Furthermore, any remaining weakness in prices will drive commodity-dependent economies to seek alternative sources of funding to address infrastructure financing gaps, with export credit agency support expected to be an attractive option – especially given the sheer scale of support that may be required.

Political uncertainty

The IMF, in its current outlook for the global economy, cites several downside risks that make UKEF's role to provide certainty of support to exporters and their overseas buyers more relevant than ever.

As measured by the Global Economic Policy Uncertainty (EPU) Index, levels of political uncertainty have remained consistently high throughout 2016. Elections and referendums around the globe have added ambiguity to policy actions, which have been compounded by an increase in the likelihood of protectionist and inward-looking policies. Furthermore, a turbulent geopolitical landscape and underlying succession risk in the Middle East are all likely to have dampened global economic and trade growth.

Global economic policy uncertainty



Source: PolicyUncertainty.com

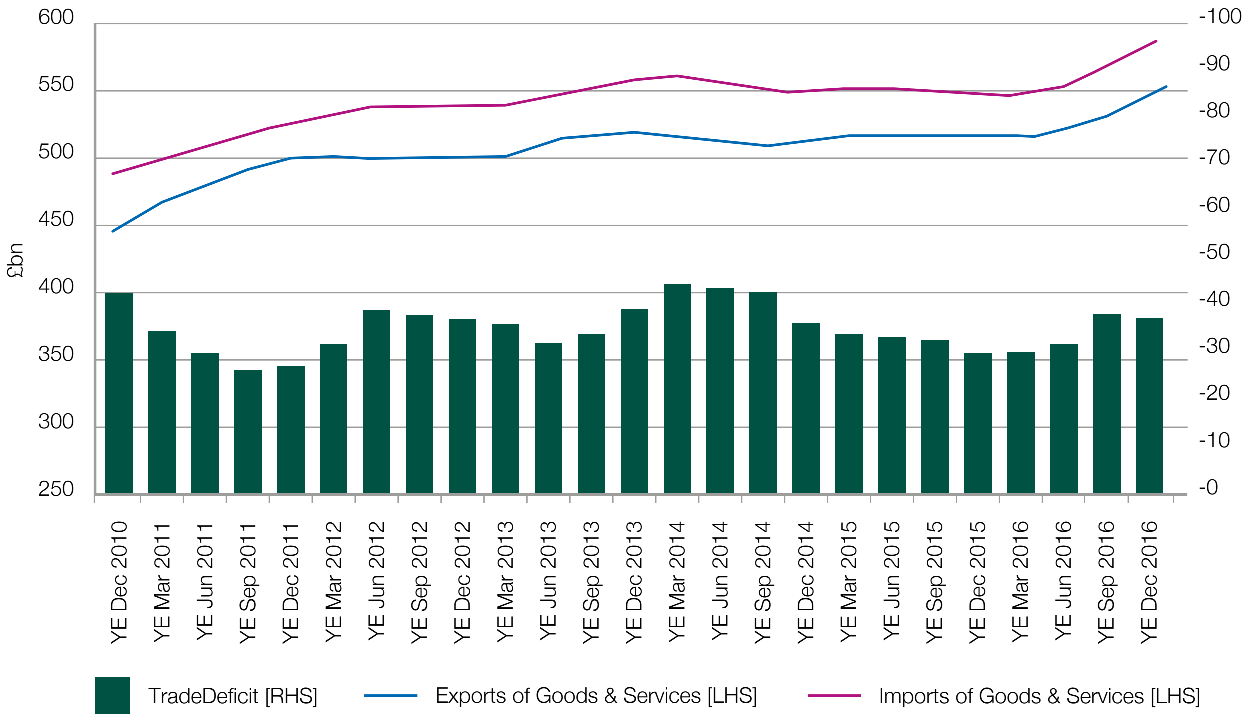
It remains to be seen what policies the US may put in place, and the future relationship between the UK and the EU. Despite these uncertainties, business and consumer confidence remains high, although a continuation of this could be an optimistic view. Nevertheless, UKEF and other export credit agency support could help offset shortfalls in private sector risk appetite.

Domestic factors

UK exports of goods and services increased by 6% from £517 billion in 2015 to £548 billion in 2016. Growth in the exports of goods to the EU was much greater, at around 8%, but exports of goods to non-EU countries rose more modestly at 2%, as goods exports to the US (0.3%) and China (3.2%), our 2 largest non-EU trading partners, increased at a slower rate. Furthermore, there were sharp falls in the exports of goods to some of the bigger emerging market economies – for example, goods exports to recession hit Brazil and India decreased by approximately 10%.

In the aftermath of the UK's vote to leave the EU, the pound depreciated by more than 10% against the US Dollar and the Euro. Looking forward, a weaker sterling is likely to help boost UK exporters' competitiveness.

Rolling annual data: UK imports and exports (£bn)



Source: Office for National Statistics

Access to finance

The availability of credit remained higher for large and medium-sized businesses than for small businesses in 2016, although the overall availability to all sizes of business has increased in the last few years. Furthermore, a 2016 survey from the British Business Bank found that credit conditions for smaller businesses improved in 2016, suggesting that access to finance continues to improve for SMEs.

2017-18 outlook

The overall global economic picture over the next couple of years is positive, but with a relatively high degree of uncertainty. Global economic activity is projected to increase by 3.5% in 2017 accelerating moderately to 3.6% in 2018, helped by a cyclical recovery in manufacturing and higher trade in both advanced and emerging market economies. Nonetheless, the balance of risk is tilted towards the downside, considering the potential for disruption of global trade, capital flow reversals and uncertainty over government policy direction in a number of countries. From UKEF's standpoint as a predictable source of competitive support, this environment is likely to lead to increased calls on its risk-taking and financing capacity over the rest of 2017 and beyond.

In 2016-17, 61% of businesses supported by UKEF were manufacturers.

How we operate

UKEF's statutory purpose is to support exports and overseas investments.

We do 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 the raising of contract bonds on behalf of exporters
- guarantees to banks and investors in the debt capital markets in respect of medium- to 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
- political risk insurance for investments made overseas

UKEF supports exports of all types of goods and services (including intangibles) and can help businesses of all sizes that seek protection from the financial risks of exporting.

In doing this, our role is to complement the private market: we seek to support exports that might otherwise not happen, thereby supporting UK exporters and, indirectly, their supply chains. The space in which we operate is largely determined at any given time by the willingness and capacity of the private market to assume financial risks in support of exports. We are also bound by EU restrictions on member governments supporting short-term export credit insurance for exports to EU countries (currently excluding Greece) and rich OECD countries (for example, the US).

The financial liabilities we assume when supporting exports involve a transfer of risk from the private to public sector (that is, to the UK taxpayer). Direct lending involves upfront public expenditure while other financial liabilities represent contingent public expenditure – that is, taxpayer funding is required only in the event of claims being made under contracts of insurance issued to exporters, or guarantees provided to banks. When claims are made, we instigate appropriate recovery action 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 we must achieve. These include an exposure cap, a portfolio risk appetite limit and a requirement that premiums meet credit risk and operating costs. To this end, we operate credit risk and pricing policies that inform our ability to underwrite individual export transactions.

We also operate under international agreements that seek to create a ‘level playing field’ by setting terms under which export credit agencies can support exports. These agreements emanate principally from the OECD. However, not all export credit agencies subscribe to these international agreements and competition for UK exporters is increasingly from non-OECD countries whose export credit agencies are not bound by the OECD arrangements.

Principles applied by UKEF

On individual cases, we aim 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

Generally, we aim to:

- publish, for the benefit of applicants, guidance on the processes and factors we take into account in considering applications
- achieve fairer competition by seeking to establish a ‘level playing field’ internationally, through obtaining multilateral agreements 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
- employ good management practice to recruit, develop and retain the people needed to achieve our business goals and objectives

Our export solutions

Our support for UK exports can be categorised as long-term (export credit) and short-term support (trade finance).

Export credit support typically covers exports of capital/semi-capital goods and related services, for example, large projects or high value machinery. Due to the high values involved (normally £5 million to in excess of £1 billion), overseas buyers frequently require loans (usually repayable between 5 and 12 years, or longer) to finance the purchase of such supplies from UK exporters. We provide support under our finance products (such as buyer credit guarantees) to banks that provide export credit loans, thereby covering the risk of default by borrowers. Alternatively, we can lend to buyers directly.

Trade finance support typically covers consumer or intermediate goods and services, for example, consumer durables or light manufactured goods. Such exports are typically sold on short credit terms (up to 1 year), which exposes exporters to (a) risk of non-payment, and (b) the need to finance working capital (pre-shipment financing) and the credit period (post-shipment financing). We have products designed to meet these challenges.

Export solutions

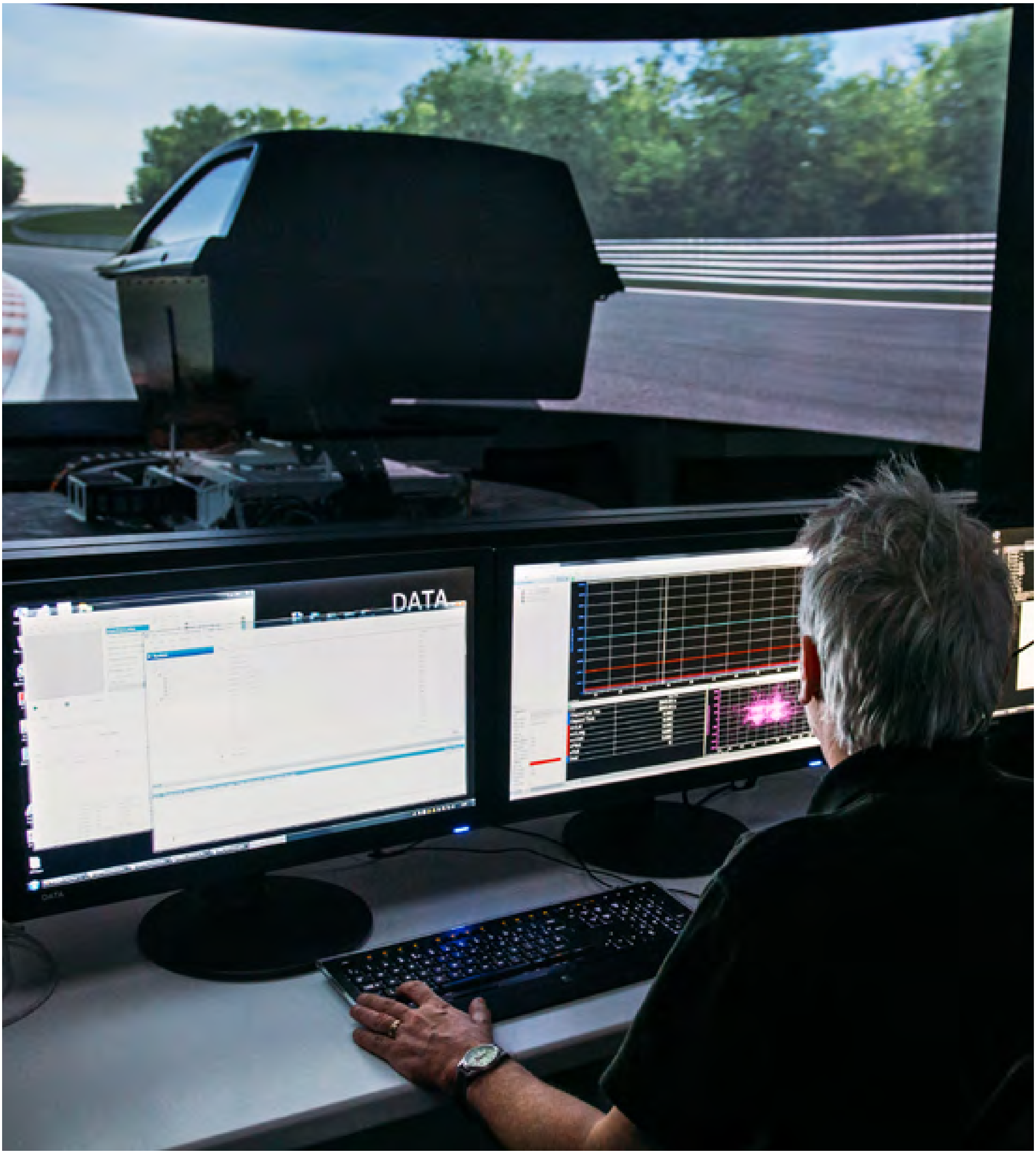
Longer term credit (2 to 18 years)	**Export credit solutions:** supporting finance for overseas buyers of UK exports	• Providing guarantees to banks on the loans they give to overseas buyers to purchase goods and services from the UK • Direct lending to overseas buyers so that they have the funds to purchase goods and services from the UK	• Buyer credit facility • Supplier credit facility • Direct lending	Lower volume, higher value
Shorter term credit (less than 2 years)	**Trade finance solutions:** supporting UK exporters	• Reducing or removing the risk of non-payment by overseas buyers • Helping to support a cash bond offering which is a requirement of the contract • Assisting with working capital requirements	• Export insurance • Export working capital • Letters of credit guarantee • Bond insurance • Bond support	Lower value, higher volume

Investment

Access to UK Export Finance's products and services provides encouragement for companies to base their international business in UK, supporting foreign direct investment (FDI) in the UK.

We can also support overseas investment by insuring overseas investors against certain political risks, helping to create inward flows of dividends and investment gains to the UK.

We helped Ansible Motion fulfill a major US supply contract for its driver-in-the-loop simulators, shown here in the operations room at the company's base in Hethel, England.



Our support for exports

Business supported	
Exporters supported:	221
Value of support provided:	£3 billion
Destination countries:	63
Largest single facility:	£1.2 billion (buyer credit)
Smallest case:	£9,374 (export insurance)
Most popular product:	Bond support (69 companies)
Highest value product:	Buyer credit guarantees (£2.1 billion)

Focus on trade finance and insurance: making exports happen

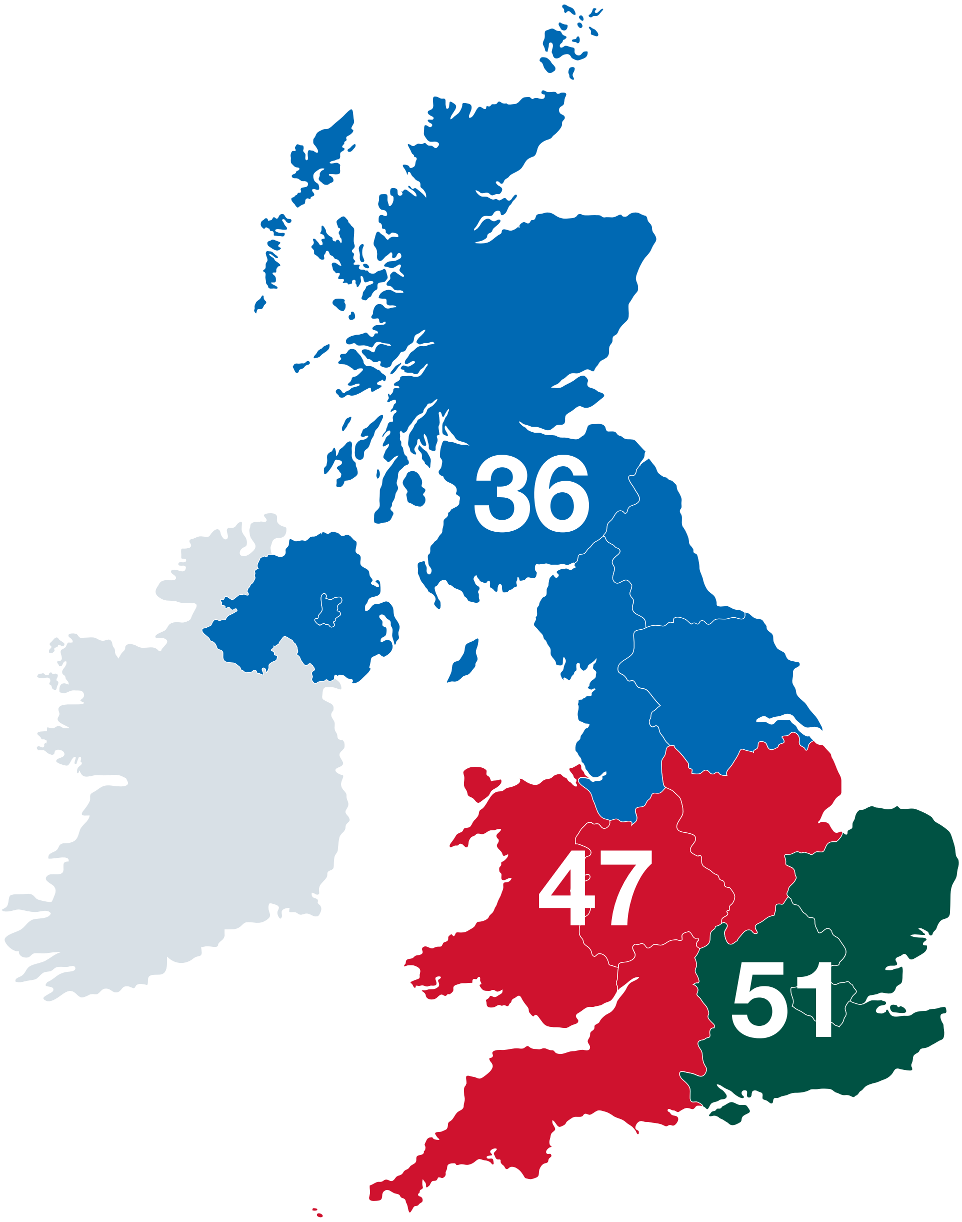
We use our trade finance and insurance support to:

- provide insurance to exporters, principally against the risk of non-payment
- help UK-based companies access trade finance facilities, such as contract bond guarantees or working capital loans, by providing guarantees to their lenders

In 2016–17 we supported £585 million of export contracts through our trade finance products. We also helped 71 companies find the finance or insurance they needed from the private market.

UKEF has now supported £3.6 billion in export contracts since our trade finance solutions for smaller companies were introduced in 2011.

Number of companies benefiting from a trade finance or insurance facility by region in 2016–17



Our support can help transform companies' export performance: each of the companies we helped to access trade finance or insurance in the year has its own success story to tell.

They include winners of the Queen's Award for Enterprise. Others have featured in the Sunday Times Fast Track SME Export 100 league table, which ranks the fastest-growing SME exporters in the UK. Their growth adds to the UK's prosperity, bringing jobs and opportunity across the country.

Support for contract bonds

White Light, a production company from South London, is a great example of how we contribute to business success overseas.

Established in 1971 by a former member of the Rocky Horror Picture Show production crew, White Light began in the theatre industry in London's West End. Over the years it has diversified into exhibitions, sporting events and broadcast.

In 2016 it won a contract with a major theme park in the Middle East with the potential to boost its turnover by 20%. However, under the contract, the buyer required both an advance payment guarantee and a performance bond from White Light's bank, HSBC. Ordinarily, a bank would require a cash deposit in return for these contract bonds. With the size and length of the contract, White Light was not in a position to provide the required collateral, as it would jeopardise cash flow for other areas of growth and the company's ability to fulfil the contract.

We provided a guarantee to the bank for 80% of the bond, freeing up White Light's working capital to undertake the contract. With this success under its belt, further growth in international sales is central to White Light's strategy for the future. It is now exploring opening an office in the Middle East, to focus on winning contracts with major projects in the region.

> "Without the support of UKEF, we would not have been able to undertake this major contract. Working with UKEF will give us confidence that we will be able to realise each opportunity."

Fiona Wood, Finance and Commercial Director, White Light

Protection against non-payment

We helped others to insure against the risk of non-payment when they found cover was unavailable from commercial insurers.

In 2014 Gloucester-based GR Lane, the maker of Olbas Oil, lost its private sector non-payment insurance for its buyer in Greece and had to reduce the amount of business it did. We stepped in to provide export insurance cover, to reduce the risk of the company losing business in an important market. This year sees us continue our relationship with GR Lane, insuring its shipments to Greece for a third year, protecting its 20+ year trade relationships in the country.

> "Greece is an important and steady market for us. We approached UK Export Finance, who helped us to apply for an export insurance policy."

Paul Whatley, Finance Director, GR Lane

Export insurance: top 10 markets in 2016-17
Venezuela
Qatar
Greece
Nigeria
Indonesia
Ukraine
Brazil
United Arab Emirates
South Korea
Algeria

Customer profile: Snowflake Software

Award-winning aviation data software provider, established in 2001, with:

- 30% year-on-year organic growth for the last three years
- sales in the US, Canada, Australia, New Zealand and the Middle East
- recently opened office in Washington DC to support sales in Americas

Snowflake initially specialised in mapping software, and its customers were primarily in the UK; its co-founders, Ian Painter and Eddie Curtis, previously led the technical team responsible for creating OS MasterMap at Ordnance Survey.

Since developing its aviation products, Snowflake has grown rapidly and acquired customers around the world. Its core product – Laminar Data – is the first commercial platform dedicated to managing flight, weather and aeronautical data to support real-time operational applications.

With this growth came finance challenges. When Snowflake won a multi-million pound contract with the UAE General Civil Aviation Authority to provide a bespoke, on-premises solution, the success created funding constraints. Under the terms of the contract, the buyer required a performance bond for 10% of the contract value from Snowflake's bank. In turn, the bank required a cash deposit to issue the bond, which would have restricted the working capital available to fulfil the order and to continue investing in the growth of the business.

UKEF was able to provide a solution. By giving the bank a guarantee under its bond support scheme, it reduced the size of the deposit required, freeing up the cashflow to fulfil the contract.

Lisa Church, Finance Director at Snowflake Software, explains:

"UKEF's support meant that we were able to release cash back into the business to maintain our focus on delivering a world class product to the customer and expand our business activities elsewhere. With our plans for further international growth, partnering with UKEF in future will give us the confidence that we can continue to realise the opportunities presented by this huge global industry."

Greg Hands, Minister for International Trade, said:

"Snowflake Software is a highly innovative company with a product for which there is significant global demand, and this government is committed to ensuring that businesses like these can realise the world of opportunity out there. I am delighted that UK Export Finance was on hand to ensure that Snowflake was able to achieve this major export success."

Working capital support

Our ability to support additional working capital has benefited companies like Garrandale, a manufacturer of train carriage wash systems, that attract global demand. The company won a contract to provide wash systems for the North West Rail Link, Australia's first fully-automated rapid transit network.

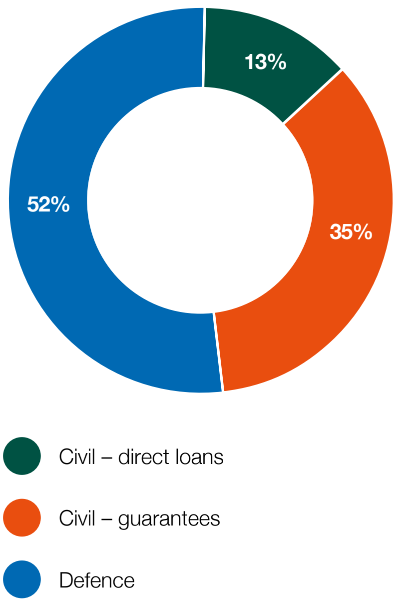
The size of this contract meant the company needed additional working capital to support its cash flow through the long lead times involved in fulfilling the contract. However, when it approached its bank, Santander, it found it was approaching its credit limit.

We provided an 80% guarantee on a working capital loan of £375,000 to finance delivery of the equipment and allow Garrandale to continue investment in other business operations.

Export credit support: helping the UK compete in the global marketplace

Export credit support is when UKEF funds or guarantees long-term loans used to purchase capital goods and services from the UK.

Export credit business supported 2016-17

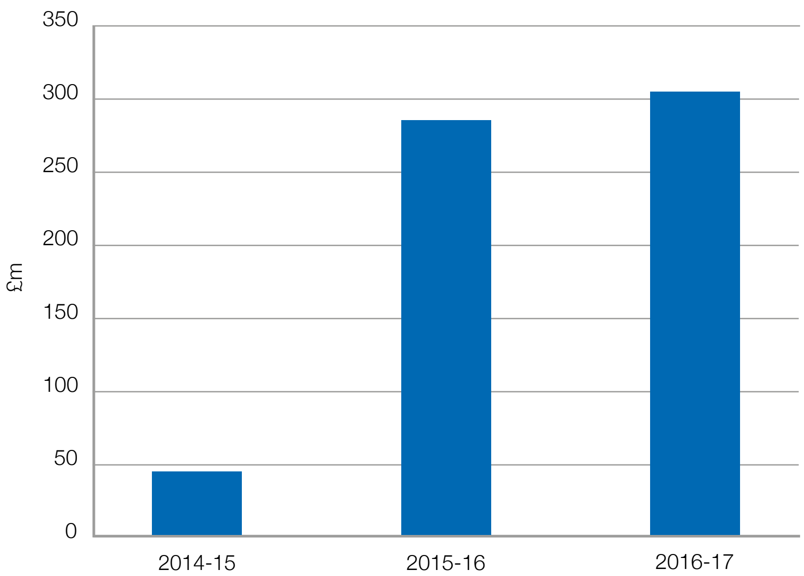


Sector	UKEF maximum liability, £m
Aerospace	7
Civil – direct loans	305
Civil – guarantees	813
Defence	1,227

Direct lending

Our £3 billion direct lending facility was announced in the 2014 Budget. In 2015–16 the value of direct loans made to overseas buyers of UK exports grew more than five-fold to reach £286 million. This year new business increased further to £305 million.

Direct lending



Our largest case was a $310 million direct loan commitment to finance an offshore oil and gas development in Ghana (the 'Offshore Cape Three Points Project'), with a contract between UK-based GE Oil & Gas and ENI Ghana Exploration. The borrower was Vitol Upstream Ghana Limited, UKEF's first African borrower. The project will develop gas reserves expected to generate an additional 1,100MW of power for Ghana, which will alleviate the country's reliance on energy imports, providing long-term energy security and supporting Ghanaian industrial development.

UKEF also supported its first transaction with the Kurdistan Regional Government when it issued a $34 million direct loan to finance Biwater International's contract to deliver a scoping study for a water and wastewater programme to improve sanitation in the cities of Erbil and Sulaimini.

Buyer loan guarantees

In December 2016, we guaranteed a loan to finance an US$18.7 million contract for GE Caledonian to supply Performance Improvement Program (PIP) kits to 3 GENx engines belonging to the fleet of Atlas Air, a US freight and charter airline. US Ex-Im Bank, the US Export Credit Agency, provided a counter-guarantee to us of US$ 10 million in respect of parts which were sourced from the US. We also agreed a framework with Atlas Air and GE Caledonian to simplify our provision of similar loan guarantees, potentially leading to greater business levels in the future.

We supported a supplier credit facility to Gold Fields Ghana Limited, on behalf of SME exporter Dints International Limited. The line of credit is available for 24 months, during which time monthly drawdowns will be requested to support the ongoing purchase of spare parts from the UK for the maintenance of mining machinery on site.

Two contracts were supported to OPP Film SA of El Salvador, backed by its parent, the Oben Group of Peru. In both cases the exporter was an SME: Bobst Manchester Ltd exported a vacuum metalliser with a contract value of €3.2 million, and Atlas Converting Equipment Ltd exported six slitter rewinders with a value of $4.9 million.

We supported a $2.16 million contract between Nectar Holdings and Seasia of the Philippines for the supply of bulk handling and cargo equipment.

Approximately US$220 million was drawn from the US$500 million line of credit issued to Petrobras in 2015. Petrobras used these funds to purchase UK supplies from Subsea 7 International Contracting. This means the US$500 million line of credit is now fully drawn.

UKEF also supported a US$157 million loan in respect of the Liwa Plastics petrochemical complex in Oman, in relation to supplies from CB&I UK Limited.

Our export credit business included a hat-trick of innovations

1 Tailor-made financing structure

Our support for Dints involved a tailor-made financing structure to support Dints' business model. The company offers customers credit terms alongside aggregated procurement services to provide them with a secure, efficient and cost-effective supply chain under its unique 'vendor managed inventory' concept. UKEF's ability to provide innovative and flexible guarantee support was instrumental in helping Dints win the contract, bringing benefits to its UK supply chain.

2 First direct export credit loan

Our loan to the Kurdistan Regional Government was its first ever direct export credit loan. It will support Biwater's contract to deliver water and wastewater treatment solutions for the cities of Erbil and Sulaimani in the Kurdistan Region of Iraq. The project is designed to alleviate the current strain on existing infrastructure and reduce the region's reliance on dwindling groundwater reserves, delivering long-lasting environmental benefits.

3 New hybrid finance structure

Our support for the Offshore Cape Three Points Project is understood to be the world's first upstream oil and gas development transaction where a European export credit agency has supported a major hybrid finance structure comprising both project finance and reserve-based lending. As the sole ECA, UKEF played a pioneering role in establishing this precedent, reinforcing its growing reputation as one of the world's most innovative and flexible ECAs. The transaction was named Project Finance International's African Oil & Gas Deal of the Year 2016.

Leading with finance

When UKEF provides finance for civil infrastructure projects overseas, it does so on the condition that the finance will be used to purchase UK supplies. A strong finance offer from UKEF can provide the motivation to boost UK participation in the project, giving confidence to buyers, lead contractors and UK suppliers that their efforts will be rewarded. This can lead to a large increase in potential UK suppliers to the projects.

This year we increased our efforts to put UK suppliers in front of the international buyers for projects we have been asked to support.

We organised 2 supply chain fairs around large projects in Egypt and Iraq and their multinational lead contractors. We invited over 300 suppliers to an event to hear about the projects, meet the procurement teams of the lead contractors and hear about the supplier-side support, such as export working capital, that UKEF can provide.

The response to the events was overwhelmingly positive from all parties, with 98% approval ratings from post-event surveys.

Richard Simon-Lewis addresses potential suppliers at a share fair, hosted by UKEF, GE and Enka and supported by EIC and NOF Energy.

Export finance managers: year in numbers

23

Our 23 export finance managers, based across the UK, act as local points of contact to introduce exporters and businesses with export potential to finance providers, credit insurers, insurance brokers, trade support bodies and sources of government support, including from UKEF

73

73 private market assists – when engagement with one of our export finance managers has made a material contribution to a company receiving support from the private sector, resulting in an export contract going ahead that was unlikely to have proceeded otherwise

406

406 referrals from our export finance managers to services provided by International Trade and Investment, Scottish Enterprise, Business Wales or Invest Northern Ireland

3

3 UKEF staff gained the Institute of Export's Level 5 Diploma in International Trade. All our export finance managers are expected to seek this qualification

2,032

Our export finance managers held 2,032 meetings with intermediaries, for example, banks, brokers, accountants...

2,994

...and they held 2,994 meetings with businesses

1,861

Our export finance managers made 1,861 referrals to other third-party sources of support

Saruq al-Hadid Museum, Dubai was developed and curated by Barker Langham, a consultancy specialising in the planning and development of cultural heritage projects. UKEF has now helped Barker Langham, under its Bond Support Scheme, to facilitate the fulfilment of two further contracts for clients in the UAE. Photo credit: Action Impact.

Our partners and operations

UKEF has a network of partners without which it could not operate. Our approach is to collaborate as generously and purposefully as we can with these partners to improve the support we provide.

Partnership examples:

In November 2016 UKEF added the Bank of Ireland to its panel of affiliated lenders for its trade finance support, offering additional support for Northern Ireland's exports

In March 2017 we began trialling referral partnerships with online finance platforms to help more companies find the funding they need

We worked with SACE of Italy and CESCE of Spain to support the sale of Typhoon Aircraft

With the creation of the Department for International Trade, we worked closely with colleagues to become an integral part of the new department's strategy and operations

In March 2017, we joined forces with the Energy Industry Council and NOF Energy to successfully promote our supply chain share fairs to their membership

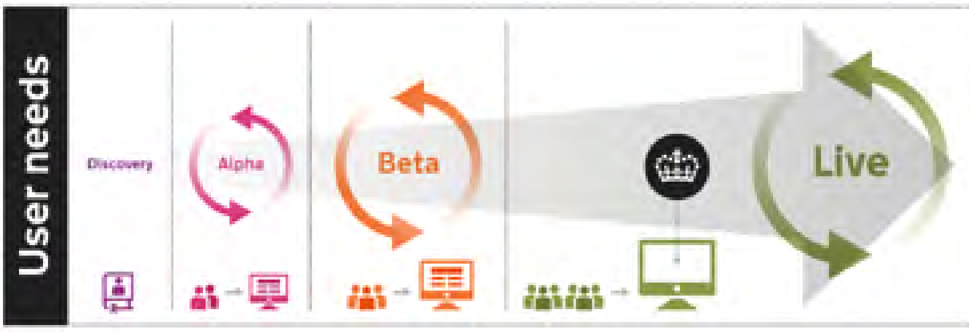
We worked with the ICAEW to produce both a specialist guide to trade finance, and provided expert content for their Business Finance Guide

Operations

This year we made significant investments in IT infrastructure changes, planning and discovery work.

These changes will help us meet agreements we made as part of the 2015 Spending Review to streamline our activities, with savings being reinvested to transform our business processes. The transformation covers 3 broad areas:

- **organisation and workforce:** to bring together functions and rationalise structures, management layers, and processes
- **technology, data and targeting:** to improve services and drive efficiencies through a digital transformation programme, drawing on the government's Digital by Default service standard
- **service redesign:** focused on working with partners to develop simpler, faster and more scalable service models, built around the needs of the customer



UKEF follows the 4 design stages recommended by the Government Digital Service: researching user needs (Discovery); prototype of solutions (Alpha); development in a live environment (Beta); and releasing a fully live service (Live). Understanding and meeting user needs remains the focus throughout.

Greater Zab River near Erbil, Iraqi Kurdistan

UKEF provided its first direct loan to the Kurdistan Regional Government for the first phase of a water infrastructure development. The project is intended to alleviate the current strain on existing infrastructure and reduce the region's reliance on dwindling groundwater reserves to deliver long-lasting environmental, social and economic benefits.

Chief Risk Officer's report David Havelock

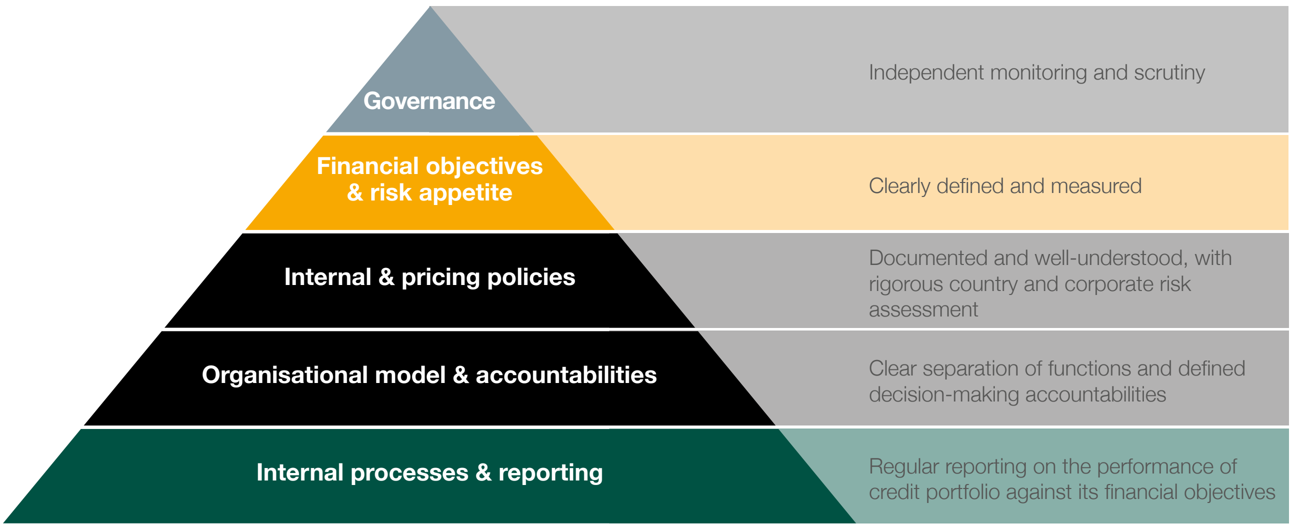
Financial risks

The principal financial risks to which UKEF is exposed are credit, market and liquidity risk:

- **credit risk:** the risk of financial loss if an obligor or counterparty against which we have financial exposure fails to meet its contractual obligations
- **market risk:** the risk of losses due to changing market prices, such as fluctuations in foreign exchange rates and, to a lesser extent, interest rates
- **liquidity risk:** the risk that we do not have the resources to meet our financial obligations when they fall due, or can only do so at excessive cost. However, UKEF's status as a government department enables us to obtain public funds

All of our risk management operations aim to match or exceed the financial services industry's best practice standards. However, given our role as a government-backed export credit agency, the relative importance of different risk types differs from that of the private sector.

Credit risk is the most significant source of financial risk for UKEF. Its management is a core responsibility for the department, which is reflected in our credit risk management framework and operates at every level of the department, as set out below:



Similar principles apply to the other sources of financial risk, although the precise framework varies for each category of risk.

Credit risk management

Context

Parliament sets an overall limit, equivalent to SDR67.7 billion[5], on the commitments that UKEF may enter into. UKEF's powers may only be exercised with the consent of HM Treasury. The limits of this consent are agreed with HM Treasury, along with financial objectives and reporting requirements that serve to regulate the risk we take on.

As the UK's export credit agency, our role, mandate and risk appetite differs from the private sector. So while we do compare our credit risk management with what we consider best practice in the financial services industry, a direct comparison with all the metrics used by regulated commercial entities can be misleading. The portfolios of export credit agencies will tend to have:

- a higher risk profile
- a strong focus on emerging market risks
- longer risk horizons
- greater risk concentrations

Credit risk governance

As Accounting Officer, the ultimate responsibility for credit risk management within UKEF lies with the Chief Executive, who is answerable to ministers and Parliament for all aspects of the department's operations. With regard to credit risk, the Chief Executive is supported by a number of committees (principally the Credit Committee) and UKEF's risk management activities are also subject to independent monitoring and scrutiny.

The UKEF Board provides independent advice, scrutiny and challenge to the Chief Executive across a broad range of areas, including risk management.

A subcommittee of non-executive directors makes up the Audit & Risk Committee, which separately reviews the adequacy of risk management and controls across the department. Meetings of the Audit & Risk Committee, typically held five times a year, are further attended by a National Audit Office official.

To accommodate UKEF's recent increase in risk appetite, as agreed by HM Treasury and the Board, an enhanced reporting framework has been introduced involving the Audit & Risk Committee becoming two separate committees, Audit and Risk – see 125 and 126.

HM Treasury officials monitor the department's performance against its financial objectives. While UKGI does not have any executive powers over UKEF's operations, its officials review the department's risk management function and processes, to ensure that risk and internal control are effectively managed, and provides advice to the Secretary of State on the exercise of ministerial responsibility for UKEF.

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5 Special drawing rights are an international reserve asset, created by the IMF. Their value is based on a basket of five major currencies—the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

Within UKEF, the Credit Committee is responsible for advising the Chief Executive on the effective management of UKEF's credit risk exposures. Its responsibilities include:

- approving, managing and monitoring credit risk exposures at the transaction and portfolio level
- agreeing credit risk policies
- ensuring that credit risks are properly monitored and controlled through UKEF's processes and systems

It is scheduled to meet fortnightly, if required, but can be convened on an ad hoc basis to consider urgent business. The standing members of the Credit Committee are:

- Chief Executive Officer
- Chief Risk Officer
- Chief Financial Officer
- Head of Business Group
- Deputy Director of Risk Assessment Division
- Deputy Director of Country Risk and Analysis Division
- Head of Pricing and Portfolio Risk Unit

The Head of Legal Division or a nominee will also attend to provide advice on legal matters.

For a meeting to take place, at least 3 standing members of the committee must be present. At least one of the following must attend every meeting:

- Chief Risk Officer
- Deputy Director of Risk Assessment Division
- Deputy Director of Country Risk and Analysis Division

Further, either the Chief Executive or Chief Financial Officer must also attend every meeting. Overall, at least 3 standing members must be present. In the absence of the Chief Executive, a unanimous decision of standing members, including the Chief Financial Officer, must be obtained for any approvals.

Financial objectives and appetite

UKEF's financial objectives are designed to enable it to fulfil its risk-taking mandate while ensuring that such risk a) is undertaken on a basis that adequately rewards UKEF for the risks it is assuming and b) does not expose the taxpayer to the risk of excessive loss.

UKEF's credit risk is limited by three financial measures:

- **maximum commitment:** the maximum amount of nominal credit risk exposure that the department may incur. Set at £50 billion but adjusted for foreign exchange movements (for example, at 31 March 2017 the adjusted maximum commitment was £62.9 billion)
- **risk appetite limit:** a form of economic capital limit of £5 billion (detailed further in the next section)
- **the exposure management framework:** a limit to exposure of £5 billion for the lowest risk markets, with reducing capacity as the risk profile increases (detailed further in the section on our Exposure Management Framework on page 72).

A significant change this year was the increase to our maximum country and risk appetite limits agreed by ministers and HM Treasury. This was done in conjunction with:

- the agreement of a revised 'active portfolio management' policy framework whereby UKEF can use the private reinsurance market to offset significant portfolio risks
- the quadrupling, from 10 to 40, of the number of local currencies in which UKEF can offer guarantees on loans to overseas buyers

Further financial objectives linked to HM Treasury consent are the 'reserve index', the 'pricing adequacy index' and the 'premium-to-risk ratio'.

The reserve index measures whether UKEF has accumulated, over time, sufficient revenue to cover possible credit losses at the 77.5 percentile on our 10-year loss distribution.[6] The pricing adequacy index and the premium-to-risk ratio are detailed under 'Pricing policies' on page 77.

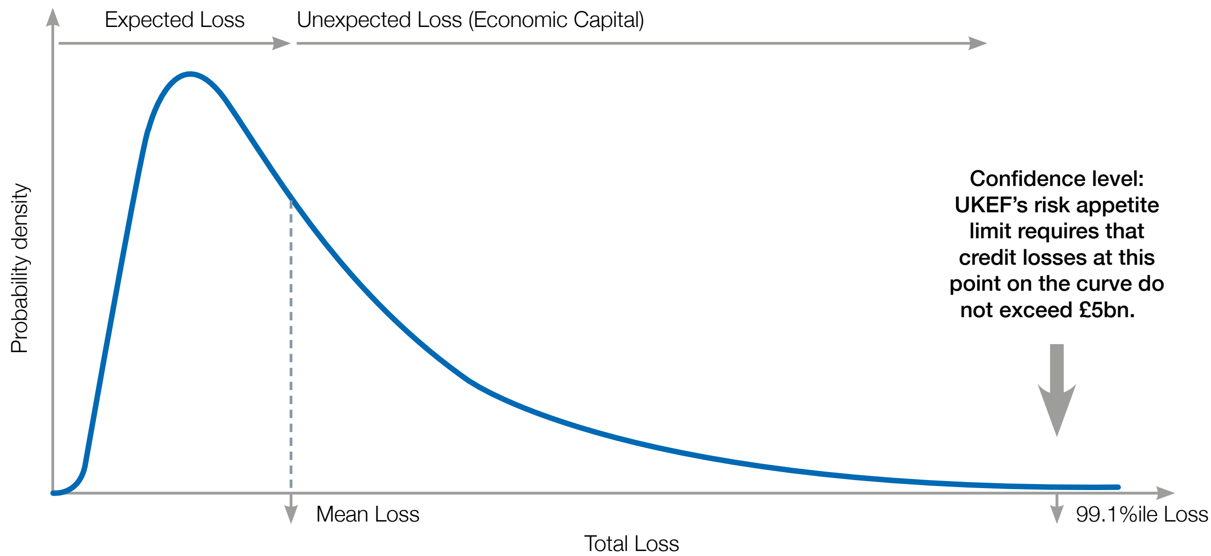
The 2016–17 outturn against all our financial objectives is presented on page 36.

6 The reserve index means the ratio of (a) cumulative reserves plus associated provisions to (b) the aggregate of the value of the 77.5 percentile point on our 10-year loss distribution plus provisions. At the end of each month, the index must be at least 1.

Economic capital and the risk appetite limit

Economic capital (often referred to as capital at risk or CaR) is a measure of risk, based on an assessment of potential future losses. It can be considered as the buffer required to cover losses over a defined future period at a specified confidence level. The chart below presents this concept graphically for a hypothetical portfolio of credit risks.

Portfolio loss distribution



Expected loss is the anticipated average loss over a defined time period. Expected losses essentially represent a 'cost of doing business', implying that when a financial institution assumes credit risk, it should always seek to charge an amount at least sufficient to cover the expected loss associated with the relevant loan, guarantee or insurance policy.

The **confidence level** (in a private sector context) can be viewed as the risk of insolvency during the defined time horizon. The higher the confidence level, the lower the probability of insolvency. Through the risk appetite limit, HM Treasury has set a 99.1% confidence level for UKEF over a 10-year time horizon. (This is a theoretical measure for UKEF risk management purposes, since if we did incur losses, these would be ultimately underwritten by public funds.)

Unexpected loss recognises the potential for actual losses to exceed expected losses, reflecting the uncertainty inherent in the estimate of future losses. Calculations of unexpected loss will tend to increase if a portfolio has high risk concentrations and/or the risks in the portfolio are strongly correlated. UKEF defines unexpected loss as the difference between the portfolio expected loss and the 99.1 percentile value of the loss distribution. (Other financial institutions often consider this to be their economic capital requirement.)

The risk appetite limit set by HM Treasury means that UKEF must manage its credit risk-taking activities such that total losses, as modelled by our portfolio risk management simulation model, using 10-year time horizon will not (with a 99.1% degree of certainty) exceed £5 billion (adjusted for foreign exchange movements). In other words, at no time should portfolio expected loss plus provisions against claims already paid plus portfolio unexpected loss exceed £5 billion (adjusted for foreign exchange movements).

Portfolio expected loss
\+ Provisions
\+ Portfolio unexpected loss
≤ £5 billion

The credit risk policy, the pricing methodology and the exposure management framework are the main policies that apply to the management of credit risk within UKEF. All policies are reviewed (at least) annually by the Credit Committee and endorsed by Audit & Risk Committee.

Credit risk policy

This sets out the high-level policies and processes used for assessing, measuring, managing and reporting all categories of credit risk to which UKEF is exposed. It establishes minimum risk standards and ratings-based exposure caps.[7] A series of more detailed risk management policies, frameworks and individual risk methodologies sit below the credit risk policy.

Pricing methodology

This sets out the methods and parameters used for setting premium rates for all product types, consistent with our policy objective of supporting UK exporter competitiveness, while ensuring that we meet our financial objectives and protect the taxpayer from loss. International agreements such as the OECD Arrangement on Officially Supported Export Credits (the OECD Arrangement)[8] and the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures also impose obligations in relation to the adequacy of risk-based pricing.

Exposure management framework

We assume credit risk in a large number of countries as we support UK export transactions. Our exposure management framework sets individual country limits based on the following key principles:

- countries with higher levels of credit risk, based on individual country reviews on a ratings-based approach, will tend to have lower limits

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7 The only time when UKEF's internal risk policies might not apply would be if ministers (having regard to the national interest) gave a written direction to the Accounting Officer requiring a specific credit risk to be underwritten. In these circumstances, the credit risk in question would be handled separately. There is currently no exposure of this kind

8 The OECD Arrangement, sometimes referred to as 'the Consensus', limits self-defeating competition on export credits among members of the OECD. OECD members undertake to operate within these guidelines when providing official support for export credits of two years or more.

- the larger a country's economy (as measured by its GDP), the higher the country limit tends to be
- country limits should be set relative to the notional financial resources available to UKEF and consistent with UKEF meeting its financial objectives
- the upper boundary for exposure to any individual country is £5 billion

The Credit Committee regularly reviews country limits and cover policies. In addition, it sets individual controls on a case-by-case basis within each country limit. Risk and cover policy must be assessed and approved for around 200 markets, but priority is given to active new business requirements and existing exposures.

Country risk assessment

We rank each country in which we have an actual or potential credit exposure and use this to produce a credit rating, from AAA (highest) to D (default, lowest). Our risk assessment framework is aligned with that used by Standard & Poor's (S&P), but is additionally informed by cross-Whitehall forums, local UK diplomatic representatives, quarterly OECD country risk expert meetings, and country visits, where appropriate.

Where no external credit rating exists, we typically derive our final letter rating from a World Bank shadow-rating model supplemented by analyst judgement and peer comparisons.

Corporate, bank and project finance risk assessment

Risk assessments for the majority of our medium to long-term credit exposure to overseas corporates and banks are based on S&P methodologies. We use a number of its credit rating templates to cover our principal areas of business (general corporates, airlines, banks and project finance). These are annually updated and approved by the Credit Committee.

The rapid expansion of our trade finance business, which typically involves SMEs and relatively small individual credit risk exposures, has led us to purpose-build a number of credit assessment methodologies with shorter-turnaround times for certain categories of risk. For example, a specific credit assessment and approval process has been adopted for our bond support and export working capital facilities, under which UKEF shares risks with financial institutions for the provision of working capital loans and on-demand contract bonds in support of export transactions. This process is to be further enhanced in 2017–18 as we agree a delegated authority for financial institutions to apply our guarantee quickly and flexibly.

Similarly, a bespoke credit assessment process has been developed to handle the payment risks that arise under our export insurance, and the credit and political risks covered by our bond insurance.

UKEF's credit risk methodologies

Product category	Product	Description	Credit risk party	Credit risk methodology
Credit insurance	Export insurance policy (EXIP)	Covers risk of non-payment under an export contract due to specified commercial and political risks	Overseas buyer	Bespoke UKEF methodology
	Bond insurance policy	Covers unfair calling of contract bonds, or fair calling due to specified political events	Overseas buyer	Bespoke UKEF methodology
Loan/capital market guarantees	Buyer credit	Guarantees medium/long-term finance from lenders or capital market investors provided to overseas buyers of UK goods/services	Overseas buyer	Bespoke UKEF country risk methodology S&P rating methodologies
	Supplier credit			
	Lines of credit			
	Export refinancing facility	Add-on to buyer credit, securing the availability of long-term funding	Overseas buyer	
Trade finance	Bond support scheme	Guarantees contract bonds	UK exporter	Bespoke UKEF methodology
	Export working capital scheme	Guarantees working capital loans provided by private lenders to UK exporters	UK exporter	Bespoke UKEF methodology
	Letter of credit guarantee scheme	Guarantees for banks which confirm letters of credit issued in favour of UK exporters	Overseas issuing bank	S&P bank rating methodology
Lending	Direct lending facility	Medium/long-term loans from UKEF to overseas buyers of UK goods/services	Overseas buyer	Bespoke UKEF country risk methodology S&P rating methodologies
Investment insurance	Overseas investment insurance	Insures overseas assets of UK exporters against specified political risks	Overseas buyer and its sovereign	Bespoke UKEF methodology

UKEF continues to have residual credit exposure to a small number of 'investment grade' banks that act as counterparties in interest rate swaps entered into by UKEF to hedge interest rate exposure under its legacy fixed-rate export financing scheme, which closed to new business in 2011 (see page 91). UKEF has the right to terminate these trades if a counterparty's rating falls below a specified credit rating threshold.

Credit risk assessment outputs

Expected loss is a key measure of credit risk at UKEF and is central to our pricing methodologies and our underwriting fund accounting. Our credit risk assessments are used to indicate the three components of expected loss:

- Probability of default
- Loss given default
- Exposure at default

Probability of default X **Loss given default** X **Exposure at default** = **Expected loss**

Credit risk assessments are used to assign all credit risks within UKEF a rating (from AAA to D) each with an associated probability of default. The probabilities are updated at least annually in line with the latest S&P statistics.

Our credit risk assessments also provide an estimate of loss given default: how much we stand to lose if an obligor defaults, expressed as a percentage. Corporate loss given default assessments are conducted on a case-by-case basis, considering the specifics of the transaction in question, including security, priority ranking, and likelihood of restructuring, sale or liquidation. In the absence of a bespoke calculation, UKEF's standard corporate loss given default assumption is 50%.

In the case of sovereign risk, persistence of default is also included in the calculation of potential loss. Based on empirical research, persistence of default (the predicted duration of a country's default) is calculated as a function of its per capita income, the severity of its indebtedness and whether the default is a liquidity event or an insolvency.

The third output of our assessments is exposure at default, meaning the credit risk exposure we have at the time of default.

The other measure of credit risk we monitor closely is unexpected loss, which is integral to our credit risk appetite. Unexpected loss is the difference between the 99.1% value of UKEF's credit portfolio loss distribution, and the portfolio expected loss (see 'Economic capital and the risk appetite limit' on page 71 for further explanation). Unexpected loss is expected to increase if a credit portfolio has high risk concentrations and/or if the risks themselves are highly correlated. We give particular consideration to risk concentration and correlations due to the nature of our business compared with the more diversified credit portfolios typical of private sector financial institutions.

Risk concentration and correlation

Given its role, it is almost inevitable that UKEF's credit portfolio will have risk concentrations. Consequently, portfolio modelling (particularly the impact on portfolio unexpected loss) plays an important role in deciding the maximum amount of credit exposure UKEF might assume on a single obligor, or group of related obligors.

For any given case, our modelling will seek to account for the likely correlations between all risks in the portfolio to determine a case's impact on portfolio unexpected loss. Only if the Credit Committee is satisfied that a case's level of credit exposure will not threaten any of UKEF's financial objectives in light of this modelling will it consider making a positive recommendation to the Chief Executive.

Portfolio modelling is only one of a number of measures in place to manage risk concentrations. In addition:

- all individual exposures within a country must not exceed the maximum country limit, as established under our Exposure Management Framework
- no single commitment in excess of £200 million may be given by UKEF without the agreement of HM Treasury
- the portfolio is further managed by way of review points for single obligor, sector and regional/geographic concentration risk

One practical means of reducing risk concentration at the transaction initiation stage is through reinsurance or counter-guarantees from the market or, more normally, other export credit agencies. UKEF will often seek this when it is acting as lead export credit agency in a transaction where goods/services are sourced both from the UK and from other countries.

While UKEF has used credit default swaps (subject to a value-for-money basis) in the past, more recently UKEF has approached the private insurance market, which has appetite for risk sharing on medium- to long-term exposures, to manage large exposures.

Stress testing and scenario analysis

It is UKEF policy to undertake extensive stress testing of its credit portfolio. Stress testing assesses the impact of various adverse scenarios and is conducted every 6 months.

These scenarios are designed to reflect potential emerging risks and may vary from one exercise to the next, but may include for example a general emerging markets crisis or an extended period of very low oil prices. They generally involve simulating:

- rating downgrades
- increases in losses given defaults
- a series of large individual defaults

The Credit Committee reviews the results of the analysis, and in particular considers the potential impacts on the value of the 99.1% percentile on the portfolio loss distribution, relative to the risk appetite limit of £5 billion.

UKEF uses its own portfolio risk management simulation model, and its associated correlation matrix, to undertake all portfolio-level credit risk modelling and to produce portfolio loss distribution curves. The model is also used to simulate the extent and timing of potential gross cash outflows as a result of claims payments. This analysis is valuable for informing cash flow forecast and liquidity management purposes, for both UKEF and HM Treasury.

Pricing policies

Context

On the principle of a 'level playing field', the OECD Arrangement requires participating export credit agencies such as UKEF to charge risk-based premium rates that are sufficient to cover their long-term operating costs and credit losses. This mirrors the provisions of the WTO Agreement on Subsidies and Countervailing Measures, which classifies export credit guarantee programmes that do not cover their long-term operating costs and losses as 'prohibited subsidies'.

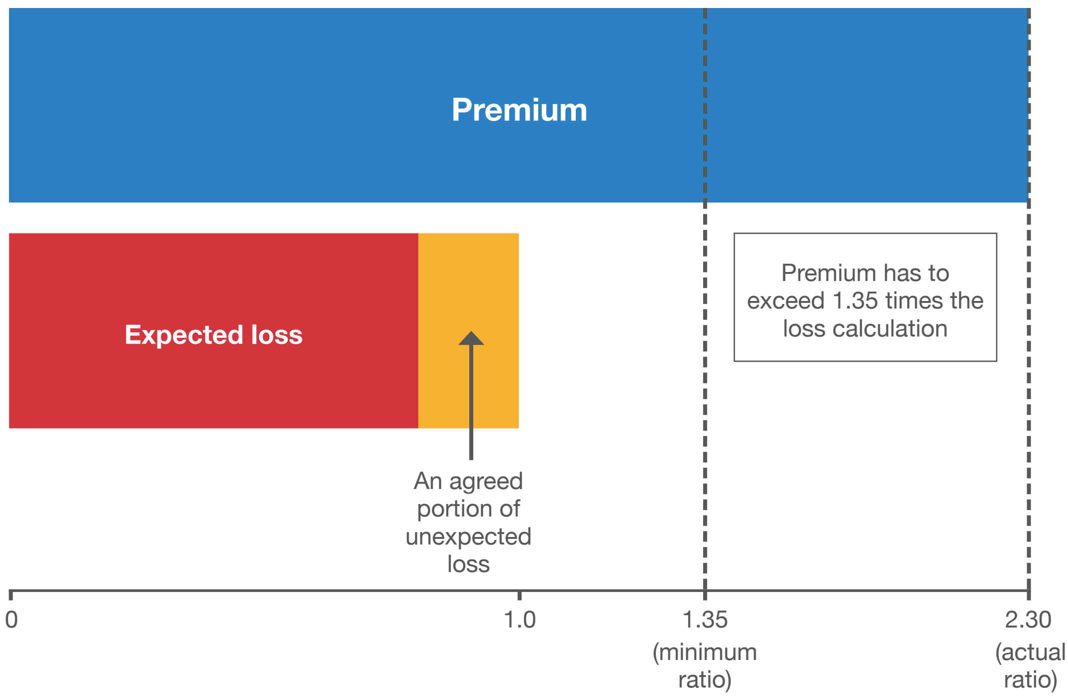
Financial objectives

Consistent with these principles, HM Treasury has set 2 financial objectives for UKEF designed to ensure, as far as possible, that the premium rates we charge reflect the risk taken on, and are sufficient for us to operate at no net cost to the taxpayer over time.

Premium-to-risk ratio

Firstly, the premium-to-risk ratio states that we must demonstrate each month that the premium charged on the business issued or forecast to be issued in the financial year will be 1.35 times greater than an agreed level of possible losses corresponding to those transactions as measured at the time of pricing.

The ratio at 31 March 2017 was 2.30 against the 1.35 ratio minimum.

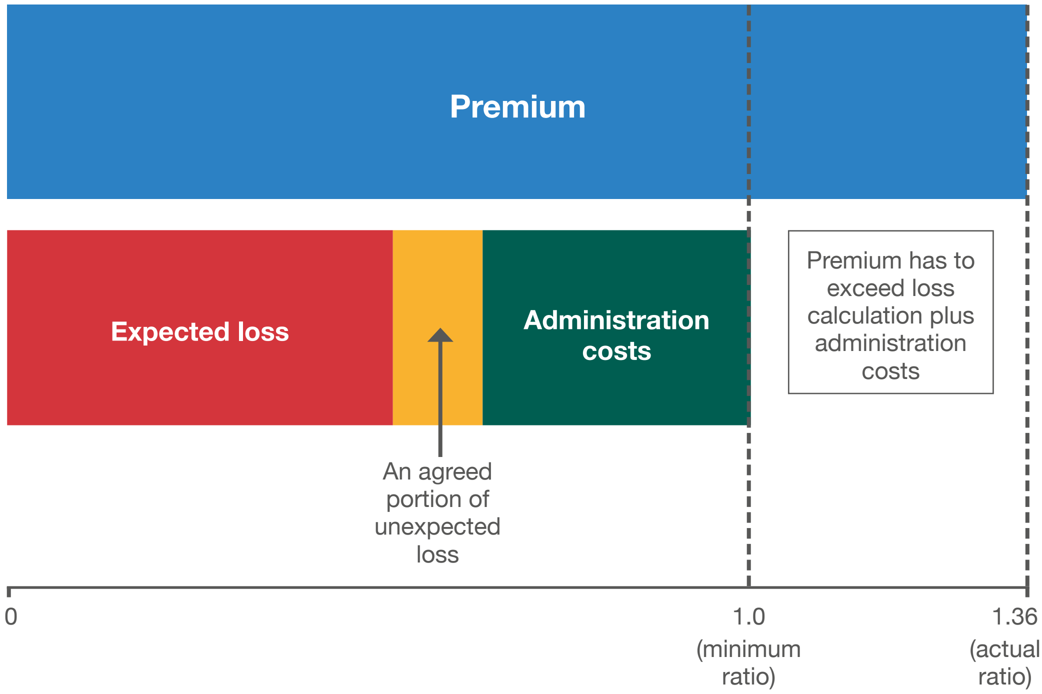


Pricing adequacy index

The second objective set out by HM Treasury is the pricing adequacy index. Whereas the premium-to-risk ratio serves purely as an annual measure, the pricing adequacy index considers a three-year time scale, applied across three accounting periods:

- the 2 previous and the present financial year
- the previous, current and next financial years
- the present and the next 2 financial years

For each period, UKEF must demonstrate that the actual plus forecast premium will cover and exceed the ‘cost of doing business’, meaning administration costs and an agreed level of possible losses. The ratio for the past 2 years and present financial year was 1.36 against the minimum of 1.0:



Forecasting approach

Business and premium forecasts are based on the judgements of our underwriters who draw on available transaction pipeline information, market intelligence and the estimated likelihood of transactions materialising within the current or future financial years. In addition, we perform regular sensitivity analysis to supplement these ‘central’ forecasts and to test the robustness of forecast financial performance against the agreed premium-to-risk ratio and pricing adequacy index targets.

Pricing methodology

We set risk-based premium rates for all of our products using pricing methodologies and parameters that are reviewed annually by the Credit Committee, endorsed by Audit & Risk Committee and agreed by HM Treasury.

UKEF aims to support UK exporter competitiveness and as such, it is our policy that we set the lowest achievable premium rates, subject to the following:

- premium rates may not undercut the minimum rates set out in the OECD Arrangement
- no individual premium can be set below the expected loss associated with that transaction
- aggregate premiums must satisfy the premium-to-risk ratio and pricing adequacy index financial objectives
- premium rates set for OECD countries without fixed benchmarks (Category 0 'rich' countries) should not undercut available market pricing[9]
- premium rates must comply with our international obligations, including EU state aid legislation

In practice, the vast majority of medium and long-term transactions are priced at the minimum rate permitted under the OECD Arrangement.

Organisational model and accountabilities

UKEF has a functional organisation structure, with the business origination teams separated from the risk, financial control and reporting functions. This basic internal control is designed to avoid conflicts of interest, and to provide vital and appropriate checks and balances in the credit approval and credit management processes.

Within the Credit Risk Group, there is a framework of delegated credit authorities:

- the Chief Risk Officer has been given authority by the Chief Executive to approve various categories of credit risk within pre-determined limits
- in turn, the Chief Risk Officer has granted authority over certain credit approvals to senior staff within his team
- credit approvals that exceed the delegated authority of the Chief Risk Officer must be approved by the Credit Committee

Credit processes and reporting

All material credit risks must be approved by the Credit Committee or a designated member of the Credit Risk Group with the appropriate delegated authority. Once approved, credit exposures are continuously monitored and reviewed at both portfolio and individual transaction level.

9 In the last year, the OECD has agreed new minimum premium rate rules for these markets to ensure consistency in pricing among participating ECAs.

The Credit Committee oversees portfolio-level monitoring. This includes stress testing and scenario analysis every six months, and a monthly review of portfolio movements, particularly focusing on exposure, expected loss and unexpected loss changes. The monthly management information records the performance of the credit portfolio against our financial objectives. We also monitor monthly exposure within the agreed country and other limits.

At a transactional level, we regularly update the ratings allocated to countries and individual obligors, and where applicable, confirm compliance with financial covenants contained in loan agreements upon receipt of relevant audited accounts. UKEF maintains 'watch lists' of obligors whose credit risk is deteriorating: if the credit of a non-sovereign borrower deteriorates such that UKEF might expect to pay out under a guarantee or insurance policy, the case will henceforth be managed by a dedicated claims and recoveries unit.

The claims and recoveries unit

This year saw the transfer of the claims and recoveries unit to the Credit Risk Group. The unit submits regular reports to the Credit Committee on all accounts it is responsible for and seeks approval for its recovery actions. Once claims have been paid, the unit makes provisioning recommendations to the Credit Committee on a case-by-case basis, with a full provisioning exercise conducted at the end of each financial year.

Sovereign defaults that lead to debt renegotiations through the Paris Club[10] are managed by a team within the Finance Group that specialises in such re-scheduling, working in conjunction with HM Treasury.[11] Paris Club developments are monitored by the Credit Committee, which must approve any provisions made against this exposure.

The process of recovery through Paris Club re-scheduling is often a protracted one; a number of still-active re-schedulings relate to exposure incurred prior to April 1991.

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10 The Paris Club is the informal group of official creditors that seeks to establish coordinated and sustainable solutions to debt service difficulties experienced by debtor countries.

11 The majority of the UKEF portfolio is denominated in USD and the exchange rate to GBP moved from 1.44 on 31 March 2016 to 1.25 on 31 March 2017.

Credit risk performance 2016-17

Context

Our credit portfolio is dominated by long-dated emerging market risk, consistent with our role as the UK's official export credit agency. We are limited in our control over the geographic or sectoral composition of our portfolio, as we assume credit exposure in line with the needs of UK exporters, rather than through the pursuit of a well-balanced portfolio.

Consequently, it is expected that our credit portfolio, like those of other export credit agencies, will have higher risk concentrations than typically seen in private sector financial institutions. Our financial objectives set by HM Treasury take account of these factors.

In 2016–17, we again demonstrated full compliance with all of our financial objectives relevant to the credit portfolio. A full summary of performance against financial objectives is reported on page 36.

The UKEF credit risk portfolio: 12-month summary

- total exposure increased to £23.4 billion, up from £22.1 billion, as new business issued and significant foreign exchange movements for dollar exposures exceeded business run-off[12]
- the portfolio remained resilient to even extreme stress testing
- portfolio credit quality remained stable, with 49% investment grade (net of reinsurance) and 51% of sub-investment grade exposure being asset-backed
- stable economic and sector outlooks, with fewer downgrades in our portfolio
- the potential for oil price volatility remains a risk factor given current sector exposure and pipeline forecasts, but this is mitigated somewhat by higher price forecasts than assumed last year. The portfolio remains resilient to anything less than an extreme price fall from current levels for an extended period
- stable expected and unexpected loss rates with continuing very low rate of claims paid at £8.8 million (of which £0.5 million were for new defaults this year)
- increased risk appetite in 27 countries (with more to come in 2017–18) on a risk-related scale as the maximum country limit was increased from £2.5 billion to £5 billion

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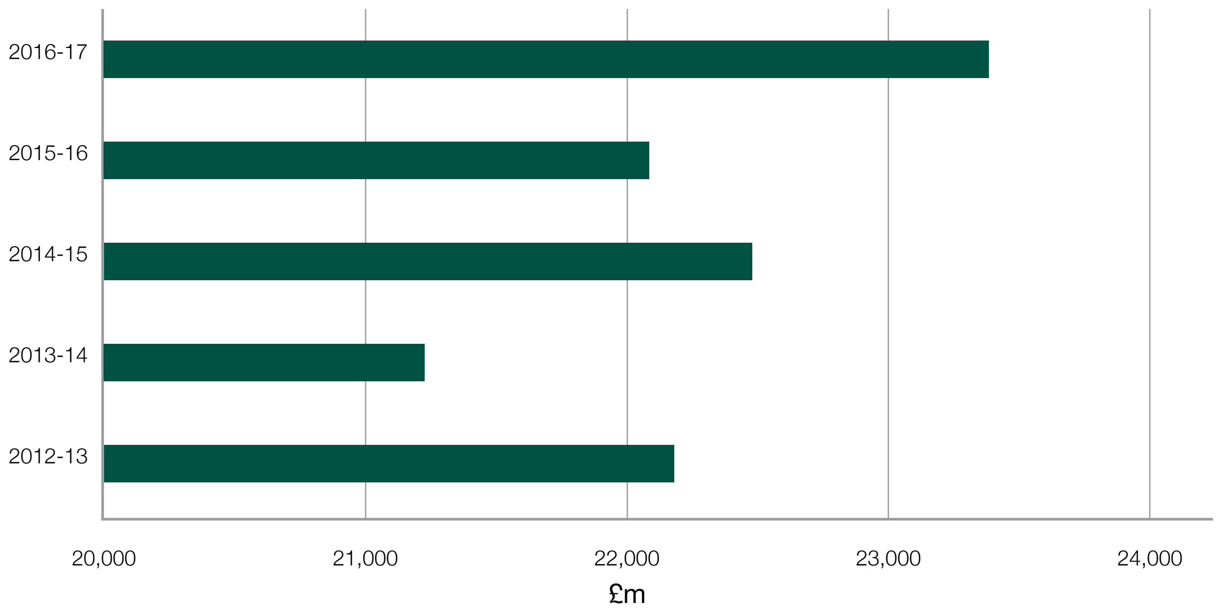
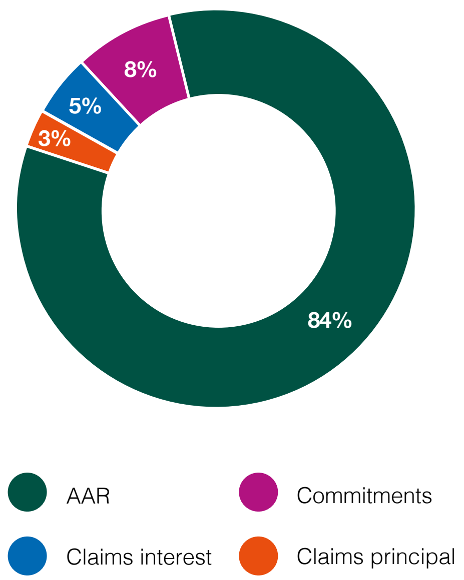
12 The majority of the UKEF portfolio is denominated in USD and the GBP to USD exchange rate moved from 1.44 on 31 March 2016 to 1.25 on 31 March 2017.

Credit risk exposure (£m)

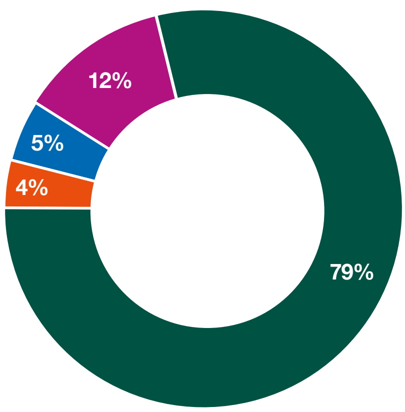


The charts below show the breakdown of this exposure between amount at risk (AAR)[13], claims (both principal and interest) and commitments.[14]

Breakdown of total exposure, 31 March 2017



Breakdown of total exposure, 31 March 2016

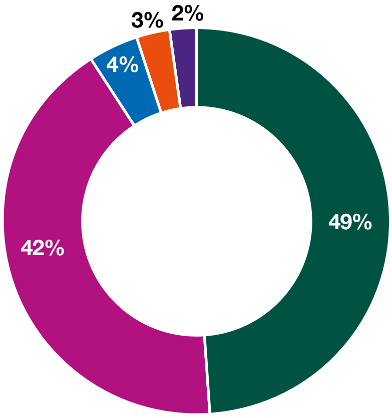


13 AAR is equivalent to Contingent Liability in accounting and represents the unexpired portion of the total risks guaranteed by UKEF. Thus, AAR would normally be less than Maximum Liability by the amount of expired risk i.e. payment received or the unutilised amount of a loan.

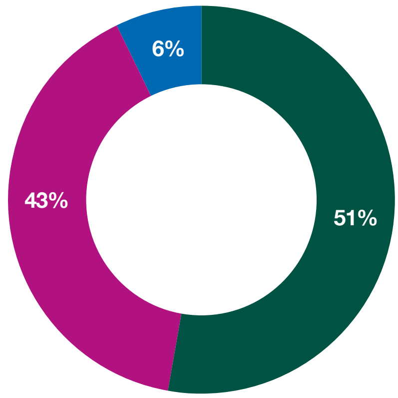
14 Commitments are cases not yet the subject of an issued guarantee, but for which UKEF has communicated its intention, before a specified date and subject to conditions, to provide support.

At 31 March 2017, total AAR amounted to £18.9 billion (£17.1 billion in 2016). This figure includes £6.0 billion (£5.5 billion in 2015) of counter-guarantees provided to UKEF by other European ECAs, principally related to Airbus business.

Breakdown of export credit agency counter-guarantees, 31 March 2017



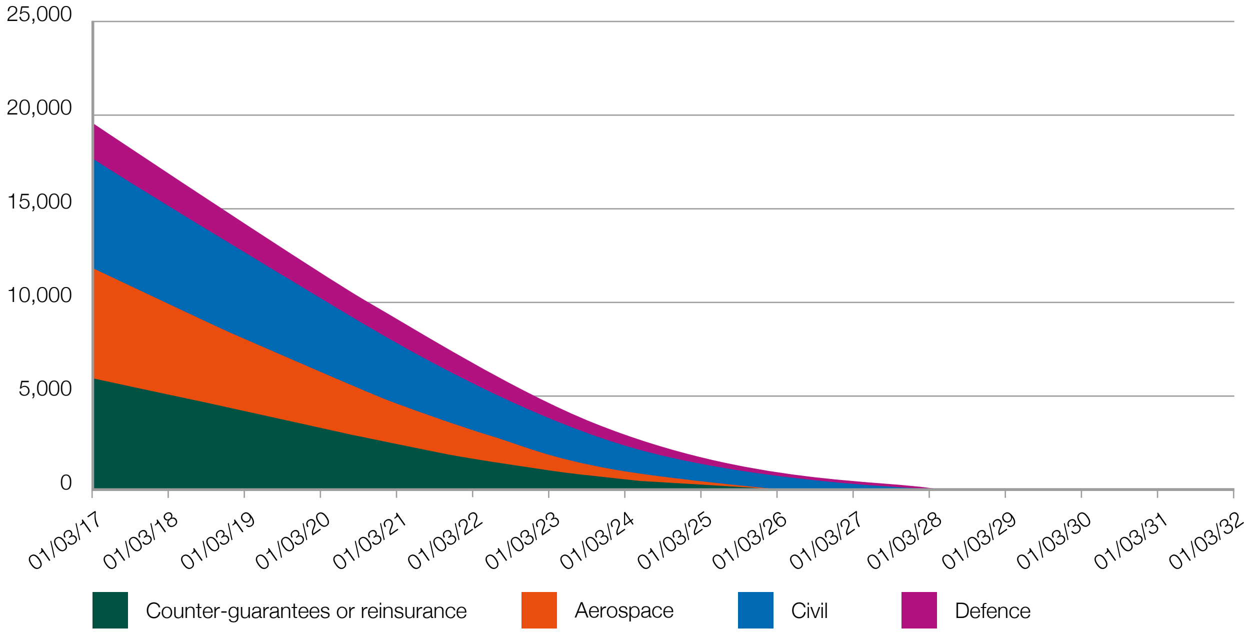
Breakdown of export credit agency counter-guarantees, 31 March 2016



Horizon of risk

The vast majority of our credit exposure is made up by medium- to long-term finance. The chart below illustrates how our current portfolio is expected to run off over time in terms of overall AAR. Over the next 12 months, around 14% will run off, with around 54% of the current portfolio having expired within 4 years.

Amount at risk run-off (£m)



Exposure by product

The table below breaks down the AAR by product sector, excluding export credit agency reinsurance. Within the last year, the most notable changes have related to our civil aerospace and corporate credit exposure:

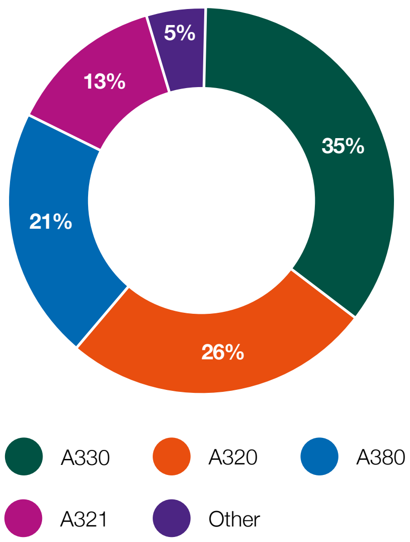
- civil aerospace exposure decreased from 53% to 42% of overall AAR, due to the lack of new aerospace business
- sovereign credit exposure increased from 7.4% to 14.7%, due to a number of large new cases
- direct lending continues to increase as a proportion of overall exposure, with more transactions being issued in the third year of this facility

Product sector	31 March 2017		31 March 2016	
Civil aerospace	5,737	42.4%	6,346	52.9%
Corporate credit	3,036	22.5%	2,347	19.6%
Sovereign credit	1,985	14.7%	888	7.4%
Project finance	1,396	10.3%	1,113	9.3%
Direct lending	687	5.1%	339	2.8%
Export insurance	243	1.8%	522	4.3%
Bond support	188	1.4%	177	1.6%
Bank	177	1.3%	195	1.6%
Bond insurance	41	0.3%	41	0.3%
Other	24	0.2%	26	0.2%
Total	**13,515**	**100%**	**11,994**	**100%**

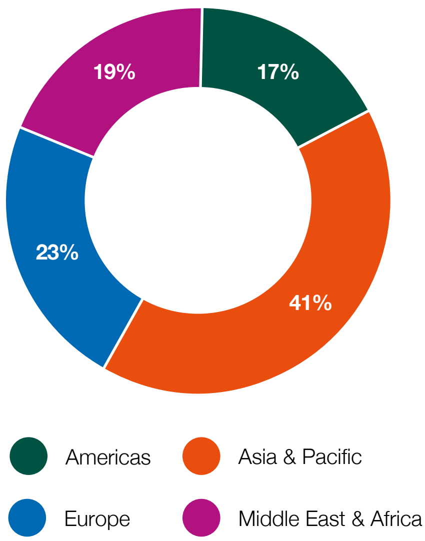
Risk concentrations: sectors

UKEF's largest risk concentration remains in aerospace, accounting for 42% of the AAR (net of export credit agency reinsurance/counter-guarantees) as at 31 March 2017 (53% for 2016). However, our aerospace portfolio is well diversified across airlines and aircraft-leasing companies, and by aircraft type and geographical region, as detailed below.

Aerospace portfolio by aircraft type



Aerospace portfolio by geography



All aerospace exposure is secured on the underlying aircraft.[15] Accounting for the value of this asset security, UKEF's net exposure to the sector is much lower at £249 million (£306 million in 2016).

At 31 March 2017, UKEF had £1.8 billion credit exposure (AAR) to the oil and gas sector, representing 14% of our overall AAR (net of export credit agency reinsurance/counter-guarantees), mainly across South America, Eastern Europe and Asia.

Other sectoral concentrations were to the chemicals industry (£1.4 billion AAR), spread across the Middle East and Asia, and to the commercial real estate sector (£1.6 billion AAR), again, mainly in the Middle East and Asia.

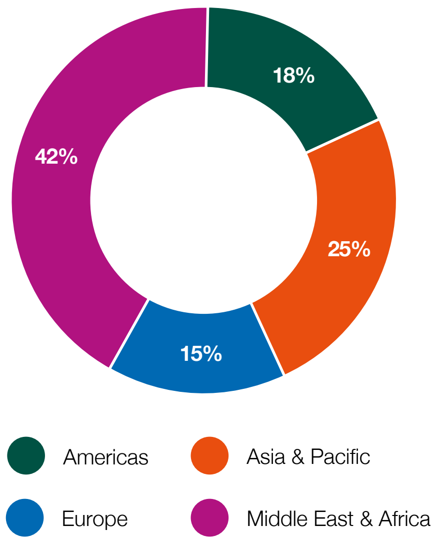
Risk concentrations: geography

As of 31 March 2017, the Middle East and Africa accounted for 42% of our net portfolio. The majority of this resulted from the support of UK exports to Ghana, Oman, Saudi Arabia, and the United Arab Emirates.

15 This means that UKEF can take possession of aircraft from defaulting airlines. Following the 9/11 terrorist attacks, we took possession of, leased and eventually sold 44 aircraft, ensuring losses both to the airline industry and UK taxpayer were minimised during this difficult period.

Asia accounted for 25% of net AAR, of which around £2.4 billion was attributable to civil aerospace business across a number of airlines. In the Americas, around £1 billion of exposure was attributable to the aerospace sector, with much of the non-aerospace exposure centred on Brazil.

Regional breakdown of net AAR – whole porfolio

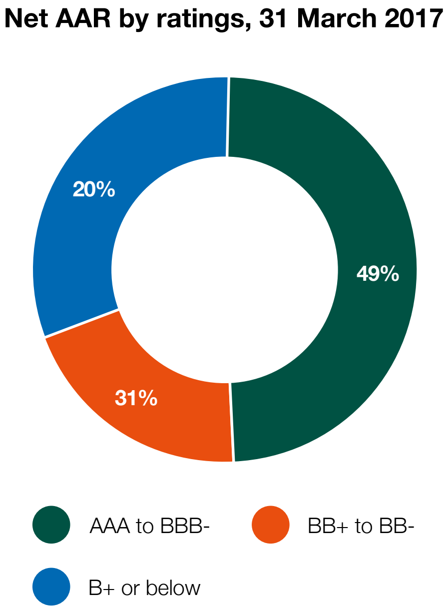


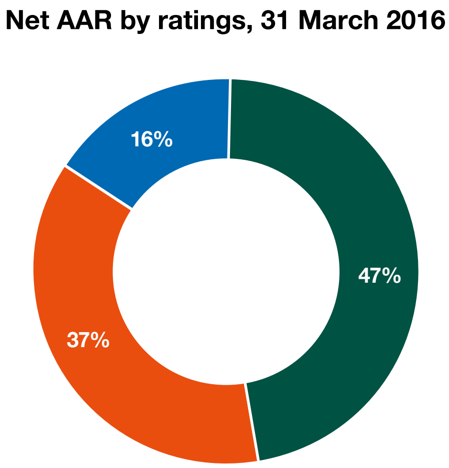
Global AAR at 31 March 2017: darker shading indicates higher AAR

Credit quality

The credit risk quality of our portfolio remained stable in 2016–17.

As at 31 March 2017, 49% of AAR (net of reinsurance) was rated ‘investment grade’ by UKEF (compared to 47% in 2016). As compared to 2016, the stable economic and sector environment led to fewer downgrades affecting the portfolio. This is consistent with rating agencies views also having improved for corporates.





Portfolio expected loss increased from £211 million to £240 million, in line with new business, and therefore at a stable 1.8% of net AAR (the same as in 2016).

Unexpected loss was relatively unchanged at £853 million as of 31 March 2017, from £856 million in 2016, now representing 5.4% of net AAR (7.1% in 2016).

The chart below shows the trend of both these key risk measures over the past 5 years. This shows that expected and unexpected loss rates for the portfolio have remained stable over that period.

Portfolio expected loss and unexpected loss trend (all losses contingent, not realised)

Expected loss and unexpected loss trend

New claims paid in the year

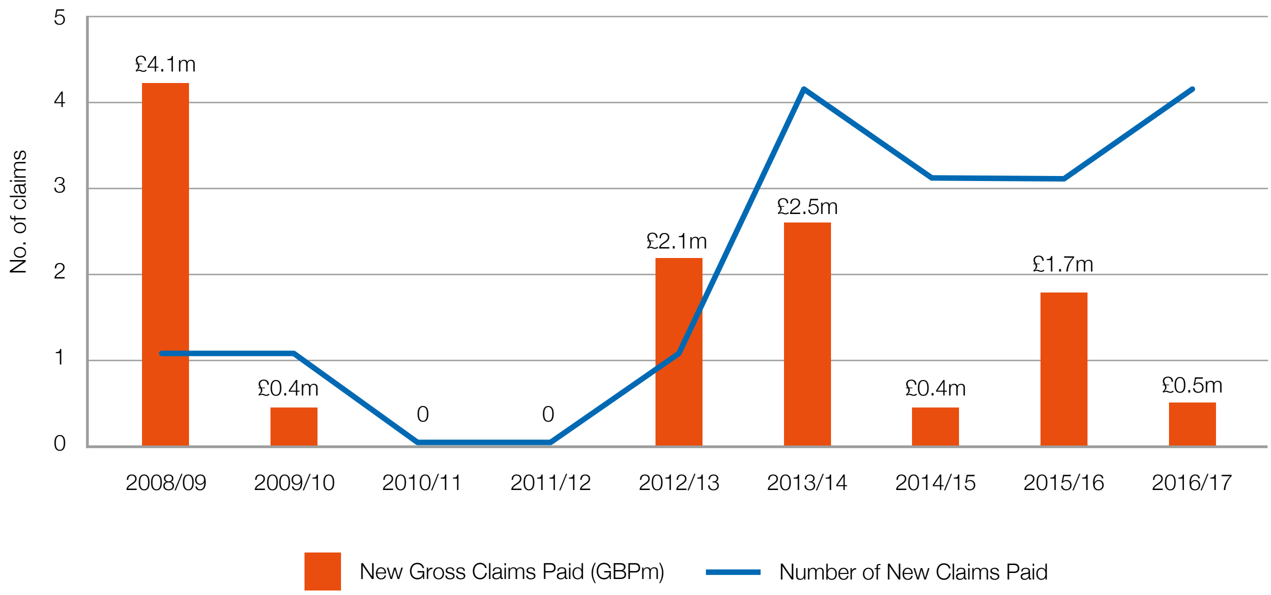
UKEF continued to experience very low levels of claims paid. The low level of new claims is not inconsistent with the average risk quality of the portfolio, informed by rigorous credit risk assessments and good underwriting and structuring of transactions, and high risk management standards more generally.

There have been fewer than expected defaults affecting the short-term EXIP portfolio, given the majority of transactions are in challenging countries, but exposure to this product is relatively modest. Similarly, the predominantly UK SME portfolio, supported under the bond support or working capital schemes, has had a very good record (with only one small loss in the life of the schemes, which were launched in 2011), reflecting the high proportion of bonding facilities which are intrinsically less risky, and the well-established nature of our SME clients.

For claims in 2016–17, we paid a total of £8.8 million (up from £5.4 million in 2015–16).

- Of this, £0.5 million represented claims payments made in respect of new defaults in the year.
- The balance was paid out under guarantees or insurance policies during 2016–17 but was attributable to defaulting counterparties that had occurred in earlier years.
- The new claims pertained to buyers defaulting in Russia and Jordan.

New claims paid in each year since 2008-9



Outstanding claims paid and provisions

The bulk of outstanding claims paid and still to be recovered by UKEF arose on business issued and defaulting prior to 1991. Virtually all the £1.54 billion (up from £1.53 billion in 2016) of outstanding claims paid on this business refers to sovereign exposure that is subject to Paris Club rescheduling, the most significant part of which is for Sudan (including a substantial amount due to accrued interest). The overall provision amount for this business increased slightly on 31 March 2017 to £1.18 billion (up from £1.17 billion in 2016) mainly due to accrued interest, with provision rates stable or reducing.

Outstanding claims paid from business issued after 1991 have reduced slightly in the year, standing at £414 million at 31 March 2017 (down from £458 million in 2016), in line with scheduled repayments overtaking increases in accrued interest. Sovereign exposure in Zimbabwe and Indonesia (the latter rescheduled at the Paris Club and performing in accordance with the agreed rescheduling) makes up the majority of this. Historical aerospace claims are also paying down in accordance with agreed rescheduling.

Recoveries

Overall recoveries (on all business, both principal and interest) amounted to £150 million (£160 million in 2015–16), reducing total recoverable claims (excluding interest on unrecovered claims) to £800 million (£876 million in 2015–16). The majority of recoveries (£120 million) were made through the Paris Club and related to historical sovereign debt reschedulings. Recoveries from a number of corporate names made up the balance. Claims payments for Iranian exposure, previously held up by sanctions, have now all been repaid.

Risk appetite limit

The 99.1% value point of our portfolio loss distribution increased in the year, reflecting the increase in expected loss and provisions, and was standing at £1.36 billion at year-end (£1.33 billion for 2016) and remains comfortably within the limit set by HM Treasury of £5 billion.

Portfolio stress testing

The portfolio of business issued since 1991 is subject to regular stress testing and scenario analysis. The portfolio's sensitivity to changes in ratings and recovery rates is detailed below. None of the movements in the 99.1% shown would cause a breach of our risk appetite limit.

Portfolio stress tests[16]

(£m)	Across the board ratings downgrade	Reduced recovery rates	Ratings downgrade and reduced recovery rates
	2 notches	-20%	2 notches & -20%
Increase in expected loss	226	87	397
Increase in 99.1 percentile point	372	218	867

Other financial objectives

As well as staying within our risk appetite limit, UKEF complied with all other credit-related financial objectives set for us by HM Treasury as detailed on page 36.

Market risk management

Context

Market risk is the risk of losses arising from movements in market prices. For UKEF, this arises from changes in interest rates and foreign exchange rates.

UKEF's principal exposure to interest rate movements is through its legacy fixed-rate export finance scheme, which was closed to new business in 2011.

Foreign currency risk arises from two main areas:

- **transaction risk:** for UKEF, this is the risk of changes in the value of foreign currency interest receipts on conversion into sterling
- **translation risk:** this is the risk that UKEF's statement of financial position and net operating income will be adversely affected by changes in the sterling value of assets denominated in foreign currency, and by liabilities from movements in foreign currency exchange rates

16 This stress test is based on the complete UKEF portfolio. The corresponding sensitivity analysis presented on page 194 in Note 21 of the accounts is based on a portfolio confined to insurance contracts only, as defined by our accounting policies.

Interest rate risk

Fixed rate export finance scheme

Until 2011, UKEF operated a fixed rate export finance scheme, under which it supported medium and long-term fixed-rate lending by commercial banks at internationally agreed 'commercial interest reference rates' (CIRRs) to overseas borrowers.

- the lending banks funded the loans at floating rates (LIBOR plus a margin). Through 'interest make- up' arrangements, UKEF made up the difference when the lender's floating rate was more than the applicable CIRR. When the floating rate was less than the applicable CIRR, the lender paid UKEF the difference. This system exposed UKEF to interest rate risk
- before closing the scheme in 2011, UKEF had pursued an active interest rate hedging policy, eliminating, as far as possible, its exposure to interest rate risk via a portfolio of matching interest rate swaps. These interest rate swaps remain in place, reducing in line with the amortising profile of the loans themselves

HM Treasury no longer applies a quantitative financial objective addressing this legacy portfolio. Also, given the substantially matched position of the interest make-up arrangements and the interest rate swaps, no new hedging activity has been undertaken since 2011, nor is planned for the future.

- internal policies in relation to active hedging have been discontinued. Nevertheless, we monitor the financial position of the scheme and its residual interest rate risk closely
- the portfolio is valued on a daily basis with its profit and loss performance measured against a series of internal limits. Movements in excess of these limits are immediately reported to the Chief Financial Officer and the Credit Committee for action as appropriate
- these arrangements, along with several other reporting provisions relating to the scheme, are approved annually by the Credit Committee. Periodic sensitivity analysis is carried out on the portfolio to gauge the financial impact of interest rate movements on UKEF

Direct lending

In 2014, UKEF introduced a direct lending facility. This provides loans to buyers of UK goods and services at CIRR. UKEF is not charged interest by HM Treasury on the funding provided to it for making these fixed-rate direct loans. Consequently, movements in interest rates during the life of the loans do not affect the financial performance of our direct lending activities.

- to ensure that interest earned on each CIRR-based direct loan adequately covers the government's borrowing costs, a check is made prior to commitment that confirms that the sterling CIRR applicable to the direct loan is higher than the corresponding National Loans Fund rate
- if this is not the case, then interest on the direct loan will be charged at the higher rate. A similar arrangement, involving an interest rate check based on cross-currency swap methodologies, applies where direct loans are denominated in eligible foreign currencies

Foreign currency risk

Translation risk

A material proportion of our guarantees and insurance policies are written in foreign currencies (usually USD). This exposes us to foreign currency risk, and associated volatility, in our financial results. The most significant year-on-year fluctuations in financial performance (evidenced by net foreign exchange gains/losses in the statement of CNI) stem from the currency movements applicable to our non-sterling insurance assets (recoverable claims).

HM Treasury does not permit UKEF to manage its foreign currency exposures, so no active hedging is undertaken. This is based on a number of HM Treasury considerations:

- our foreign currency assets and liabilities generally have long tenors such that the transaction risks can extend long into the future, and the timing and size of the amounts needing to be converted are uncertain, which could well make for expensive hedging arrangements
- our balance sheet provides some natural hedging of translation risk, and foreign exchange hedging is not straightforward and would require some specialist skills to operate it, adding to our operating costs

Currency movements also have an impact on the sterling value of our contingent liabilities (principally guarantees and insurance policies). These movements can cause significant fluctuations in the sterling value of the department's AAR and, consequently, overall credit risk exposure. Since our maximum commitment and risk appetite limit (as financial objectives set by HM Treasury) are adjusted for movements in US dollar/sterling exchange rates, we are afforded a degree of protection from adverse currency movements in meeting these two key financial objectives.

Direct lending

Direct lending in currencies other than sterling is likely to increase foreign currency risk for UKEF. The lack of permission for UKEF to undertake foreign currency hedging applies equally to the department's direct lending activities. Accordingly, changes in the sterling value of direct loans as a result of foreign exchange rate movements will be reflected in the financial performance of our direct lending business.

Market risk performance

Interest rate risk

The legacy fixed rate export finance portfolio continued to amortise during 2016–17, thereby reducing UKEF's further exposure to interest rate risk. Note 21 to the accounts includes details of the remaining maturity profile of the portfolio and the portfolio's sensitivity to movements in interest rates (see page 194).

Foreign currency risk

As UKEF does not hedge its foreign currency risk, our financial results will inevitably be affected by changes in the value of sterling relative to those currencies in which we transact business. Note 21 of the accounts includes details of the currency profile of our insurance assets, financial instruments and capital loan commitment (see page 195). The Chief Financial Officers report describes the overall impact of foreign exchange movements on our 2016–17 results on page 95.

Liquidity risk management

Liquidity risk is the risk that a business, though solvent, either does not have the financial resources to meet its obligations as they fall due, or can only secure those resources at excessive cost. As a government department, UKEF can draw on the Exchequer to meet its financial obligations as they fall due, if required.

The nature of some of UKEF's products means that significant payments could be required within a few days in the event of a default by an insured or guaranteed party. Arrangements to cover this eventuality have been pre-agreed with HM Treasury. Regarding UKEF's direct lending activities, the requisite funding is provided by HM Treasury. Note 21 of the accounts shows the scheduled maturity profile of UKEF's insurance contracts, expressed in terms of total AAR, and the dates at which the periods of risk expire (see page 205).

Our exposure to foreign exchange movements has the potential to impact our ability to remain within the resources allocated to us by Parliament. Our voted control totals include headroom to mitigate this risk. However, between the last opportunity to adjust voted control totals in January to the year end on 31 March, there is a small risk that exchange rates could move and reduce our net income by more than the headroom we had agreed with HM Treasury and voted by Parliament. This would result in a breach of expenditure limits and require a vote to approve the excess.

GE workers at its subsea manufacturing facilities in Montrose, Scotland

Chief Financial Officer's report Cameron Fox

This report summarises and highlights the department's financial performance for the year ended 31 March 2017. Given the importance of the management of UKEF's portfolio, this report should also to be read in conjunction with the Chief Risk Officer's report. The detailed financial performance commentary (see below) for the year has been divided into operating segments (lines of business) and there is also a summary of UKEF's overall performance against resources voted by Parliament.

Overall results

UKEF achieved an operating surplus for the year ended 31 March 2017 of £149 million compared with £106 million for the year to 31 March 2016. The increase in net operating income for the year was largely as a result of a higher foreign exchange gain of £57 million for 2016-17 compared with a gain of £13 million in 2015-16.

Foreign exchange: as a significant proportion of UKEF's guarantees, insurance policies and loans are written in foreign currencies (mainly the US dollar), UKEF is thereby exposed to foreign currency risk and associated volatility in terms of the financial results (UKEF is not authorised by HM Treasury to hedge exchange rate exposures – refer Chief Risk Officer's report for further details). During the year, Sterling depreciated by approximately 13% against the US dollar (refer Note 21 of the financial statements which includes details of the currency profile of our insurance assets, financial instruments and capital loan commitments).

Operating expenses: these were broadly similar in 2016-17 at £30 million compared with 2015-16. While there was a planned increase in staff costs, this was offset by lower marketing spend and other administration costs. UKEF also delivered a number of efficiencies related to Spending Review 2015 saving commitments.

Interest and claims credit: over the course of 2016-17 there were a number of reductions in provision rates on a range of markets as well as the recovery of claims and interest on performing markets resulting in provision releases.

Long-term assets and liabilities: given the nature of the business that UKEF supports the department has a significant holding of long term assets and liabilities.

The major asset of UKEF, being net recoverable claims (denominated in a range of currencies), decreased from £429 million in 2015-16 to £368 million during the year. Gross claims reduced from £0.9 billion to £0.8 billion as recoveries were made.

Reserving for Insurance liabilities: UKEF applies the fund basis of accounting (see the financial statements for a fuller explanation) for its medium and long term business. At the end of the year the (net) Underwriting funds stood at £582 million compared with £547 million at the end of 2015-16. Releases from the funds during the year (being business written in 2007 and 2013) was some £18 million in 2017-18. This release (which is a surplus of premium written over risk and costs of writing the business) shows the quality of the underwriting and credit decisions made back in 2007 & 2013. Indeed over the past 5 years UKEF has released a surplus in excess of £135 million over the expected loss on the business written and any costs associated with writing the business.

Accounts 1 to 5

UKEF operates 5 accounts (business segments): Accounts 1, 2 and 3 cover underwriting activities, while Accounts 4 and 5 cover activities in relation to the administration of refinanced loans and direct lending respectively.

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

- Account 2 relates to the credit risk arising from guarantees and insurance policies issued for business since April 1991.

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

- Account 4 relates to the provision of support for Fixed Rate Export Finance (FREF) to banks (now closed for new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate swap arrangements.

- Account 5 relates to the provision of direct lending (since 2014).

Management Commentary — 5-year summary

	2016-17 £m	2015-16 £m	2014-15 £m	2013-14 £m	2012-13 £m
Overall Value of Guarantees and Insurance Policies:					
New Business Supported - Net of reinsurance	**2,178**	**1,507**	**2,685**	**2,272**	**4,291**
Amounts at Risk - Gross of reinsurance	**18,859**	**17,111**	**18,672**	**17,195**	**18,141**
Statement of Comprehensive Net Income:					
Premium Income Net of reinsurance	**102**	**73**	**104**	**120**	**133**
Staff, other administration and operating costs	**30**	**30**	**31**	**26**	**20**
Net Operating Income – total	**149**	**106**	**129**	**50**	**135**
– Account 1	63	33	41	18	66
– Account 2	70	64	81	19	59
– Account 4	4	6	7	13	10
– Account 5	12	3	-	-	-
Statement of Cash Flows:					
Claims Recoveries – total	**120**	**133**	**115**	**108**	**98**
– Account 1	47	49	44	38	36
– Account 2	73	84	71	70	62
Interest Recoveries in the year – total	**31**	**28**	**25**	**27**	**38**
– Account 1	28	24	22	23	30
– Account 2	3	4	3	4	8
Claims Paid – total	**8**	**5**	**6**	**13**	**7**
– Account 1	-	-	-	-	-
– Account 2	8	5	6	13	7
Net Cash Flow from Operating Activities – total	**272**	**199**	**237**	**205**	**274**
– Account 1	74	73	65	59	66
– Account 2	158	109	165	138	198
– Account 3	-	-	-	-	-
– Account 4	3	5	6	8	10
– Account 5	37	12	1	-	-
Statement of Financial Position:					
Recoverable Claims before provisioning	**800**	**876**	**996**	**1,075**	**1,228**
– Account 1	515	539	583	609	675
– Account 2	285	337	413	466	553
Recoverable Claims after provisioning	**368**	**429**	**531**	**605**	**711**
– Account 1	223	234	264	284	317
– Account 2	145	195	267	321	394
Interest on Unrecovered Claims after provisioning	**134**	**134**	**143**	**146**	**155**
– Account 1	133	133	142	145	153
– Account 2	1	1	1	1	2
Underwriting Funds - Net of reinsurance	**582**	**547**	**553**	**542**	**478**
– Account 1	-	**-**	**-**	**-**	**-**
– Account 2	582	547	553	542	478
– Account 3	-	-	-	-	-
Recoverable Capital Loans before provisioning	**381**	**119**	**82**	**104**	**138**
– Account 4	32	51	75	104	138
– Account 5	349	68	7	-	-

Account 1

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. 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) were as follows:

- Operating income was £63 million, an increase from operating income of £33 million in 2015-16.
- Recoveries of claims paid were £47 million compared with £49 million in 2015-16.
- Recoveries of interest on claims paid were £28 million compared with £24 million in 2015-16.
- The balances for gross claims decreased from £539 million in 2015-16 to £515 million during the year, while those for net claims decreased from £234 million in 2015-16 to £223 million during the same period.
- Interest on net unrecovered claims has not changed from £133 million in 2015-16. Whilst recoveries were made in year foreign exchange and provision changes meant there was no overall movement.
- There is no non-claims exposure on this account.

Account 2

The key results were as follows:

- The total of guarantees and insurance policies (net of reinsurance) that were issued and effective during the year was £2,178 million compared with £1,507 million at 31 March 2016.
- Net premium income was £102 million compared with £73 million in 2015-16.
- Net operating income was £70 million compared with £64 million in 2015-16. The increase in net operating income was due to a larger foreign exchange gain of £23 million in 2016-17 compared with a gain of £5 million in 2015-16.
- Claims authorised and paid or payable during the year increased to £8 million from £5 million in 2015-16.

- Claim recoveries for the year were £73 million compared with £84 million in 2015-16.

- Gross claims balances were £285 million compared with £337 million in 2015-16.

- Net claims balances were £145 million compared with £195 million in 2015-16.

Account 3

No new guarantees were issued or claims made on this account during the year. All exposure on this account has run off.

Account 4

The results were as follows:

- The direct funding balance represents the funds originally loaned by HM Treasury to reduce the cost of FREF. The balance continued to reduce during the year to £32 million from £51 million in 2015-16, as regular instalments were made.

- Net operating income was £4 million in 2016-17 compared with £6 million in 2015-16.

Account 5

This account relates to direct lending activity. During the year 2 new loans were originated (5 loans were originated in 2015-16).

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 Estimates process. The 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.

	SoPS Note	2016-17 Estimate £'000	2016-17 Outturn £'000	2016-17 Variance £'000
Budget spending:				
Departmental Expenditure Limit (DEL)	SoPS1(a)	1	-	1
Annually Managed Expenditure (AME)	SoPS1(a)	120,320	(149,382)	269,702
Resource Total & Net Operating Cost / (Income)		**120,321**	**(149,382)**	**269,703**
Non Budget / Resource Total	SoPS1(a)	-	-	-
Net Resource Outturn & Net Operating Cost / (Income)		**120,321**	**(149,382)**	**269,703**
Budget spending:				
Departmental Expenditure Limit (DEL)	SoPS1(b)	300	64	236
Annually Managed Expenditure (AME)	SoPS1(b)	935,376	250,724	684,652
Capital Total Payments / (Receipts)		**935,676**	**250,788**	**684,888**

Significant highlights:

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

Resource – Note SoPS1(a):

AME £270 million – This variance is largely due to provision and foreign exchange movements (in particular in relation to a weakening of sterling against the US dollar of some 13%during the year) which cannot be forecast with certainty and are unhedged. A more detailed explanation of UKEF's foreign exchange risk can be found in the Chief Risk Officer's report in the Performance section and Note 21 of the Financial Statements.

Capital – Note SoPS1(b):

AME £685 million – This variance is largely due to the direct lending facility. Most business is written in currencies other than Sterling therefore it is subject to foreign exchange volatility. The variance is largely due to the fact that whilst it is necessary to ensure there are sufficient voted funds, and therefore headroom to meet potential demand in year, it is not possible to predict actual demand (and therefore the associated drawings). Many deals may not close for reasons beyond the control of the department or the timing of loan origination changes. More details of UKEF's risks, including foreign currency and liquidity risk, can be found in the Chief Risk Officer's report.

Bee'ah's headquarters was designed by the late Dame Zaha Hadid, the world-renowned British architect. It will be built by Carillion and will be the first building of its kind in the city of Sharjah to be powered entirely by renewable and recoverable energy sources, while utilising recycled materials in its construction.

Head of Environmental and Social Risk's report Helen Meekings

UKEF examines environmental, social and human rights (ESHR) risks and potential impacts of projects it is asked to support in line with our published ESHR policy. In addition, we collaborate with other export credit agencies and financial institutions in the field of ESHR matters, with the aim of establishing a 'level playing field' in respect of ESHR risk management across these institutions.

2016–17 was the first year that UKEF applied the Equator Principles – an environmental and social risk management framework adopted by financial institutions – after having adopted the principles on 31 March 2016.

During 2016–17, transactions that fell within the scope of the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the 'OECD Common Approaches')[17] and/or the Equator Principles were screened for ESHR risks. Where we identified significant risks, these transactions were categorised as A (high risk) or B (medium risk) and we carried out an ESHR due diligence review.

Our ESHR due diligence is carried out in-house by a team of professionally qualified and experienced staff, occasionally supported by external technical ESHR consultants. In undertaking ESHR reviews, we place emphasis on early dialogue with exporters and other parties to the transactions. The aim is to ensure that the projects to which the exports are destined align with the relevant international ESHR standards. These are typically the International Financial Corporation's (IFC) Performance Standards on Environmental and Social Sustainability.

ESHR due diligence

In 2016–17 we worked with a wide variety of project developers and exporters to help them understand and manage ESHR risks associated with their project activities. We supported one category A and no category B transactions that fell within the scope of the OECD Common Approaches. No transactions within the scope of the Equator Principles had reached financial close this year.

17 The OECD Common Approaches was revised on 7 April 2016. All new cases received by UKEF in the financial year 2016–17 were reviewed in alignment with this revised version.

The following are examples of projects supported in 2016–17 where UKEF made a positive influence on project ESHR risk management:

- Oil and gas exploration and production facilities in Ghana
  This project was considered to be high EHSR risk, category A, with inherent risks associated with the project activities, the potential for diverse and broad ranging impacts together with the presence of sensitive receptors both on – and off-shore. We collaborated with the International Financial Corporation (IFC) and other lenders in undertaking our ESHR due diligence review and were satisfied that, through a suite of proposed ESHR management tools, the project ESHR risks would be appropriately managed. We will continue to work with the IFC and others in monitoring the project during construction and operations phases to maintain the project's alignment with the international standards.
- Construction of a new head office for Bee'ah Sharjah Environmental Company in United Arab Emirates
  We worked collaboratively with the contractor and developer of this iconic headquarters building, including an on-site photovoltaic solar power plant. The case was classified as medium ESHR risk, category B, with impacts expected to be localised and mitigation measures readily available. Sustainability is at the heart of the design of this project, with low carbon emissions and water consumption during operations, and minimal material consumption during construction. Our support is subject to the monitoring of ongoing ESHR risks and impacts to demonstrate ongoing alignment with the international standards.

You can find details on our website of the ESHR risk and impact categorisation of all civil (non-aerospace) cases for which support was issued during 2016–17 that fall within the scope of the OCED Common Approaches and/or Equator Principles.

ESHR monitoring

UKEF monitors category A and B projects where support has been issued. This enables us to track the implementation of ESHR commitments and to be satisfied that the projects continue to align with the relevant international standards during both construction and operations. Our monitoring includes reviewing self-monitoring reports produced by project developers, commissioning monitoring conducted by an independent environmental and social consultant (IESC) on behalf of UKEF, or UKEF carrying out site visits. The level and frequency of our monitoring varies in line with the ESHR risks involved.

UKEF seeks to positively influence the application of standards throughout the monitoring process with the aim of improving and attaining positive tangible ESHR outcomes. This may include influencing the project developer:

- to promote positive health and safety behaviours, minimising accidents, injury and loss of life
- in re-establishing affected people's livelihoods
- in the provision of appropriate worker conditions and accommodation
- in promoting positive project impacts

The following are examples of our ongoing monitoring commitments for 2016–17:

- Liwa plastics project in Oman
  Our ongoing ESHR monitoring of this high ESHR risk project is utilising an IESC. We are working collaboratively with another ECA to ensure the project remains aligned with the relevant international standards. This has included us seeking additional information on environmental, health and safety related matters.
- Brazilian state oil and gas company (Petrobras)
  We continue to monitor the ESHR management of Petrobras' operations relating to their line of credit. We undertook an annual partnership visit to Petrobras' environmental, health and safety team to monitor how they manage their ESHR risks in line with the relevant international standards and to understand any changes they have made to their ESHR management systems.
- Nghi Son refinery and petrochemical project in Vietnam and Sadara production complex in Saudi Arabia
  Both projects are moving from their construction to pre-commissioning and commission phases. Ongoing monitoring has focused on health and safety issues relating to simultaneous operations (simops). We have worked with our other ECA colleagues to obtain further clarifications on ESHR management relating to simops activities.
- The Blue Waters Island development in the United Arab Emirates
  We have undertaken ongoing monitoring of this medium ESHR risk infrastructure project with a focus on migrant labour-related management issues.

A summary of cases that fall within the scope of the OCED Common Approaches and/or Equator Principles where we are undertaking ongoing ESHR post-issue monitoring can be found on our website.

International ESHR cooperation

In supporting UKEF's objective to achieve fairer competition by seeking to establish a 'level playing field' for all OECD exporters, we work alongside other ECAs at the OECD Environmental and Social Practitioners' Group of the Export Credit Group (ECG). We are actively involved in setting the agenda, sharing experiences, participating in working groups and seeking to achieve consistency in the approach to ESHR risk management practices of ECAs fulfilling the requirements of the OECD Common Approaches.

We were active in facilitating the output of an OECD Guidance Note on Good Practice in the use of Consultants by Export Credit Agencies which was published by the OECD on 8 November 2016.

In our first year as an Equator Principles Financial Institution (EPFI), we were actively involved in the Equator Principles Annual General Meeting held in London, sharing our experiences and engaging and collaborating with EPFI colleagues.

UKEF additionally participates in a number of multilateral financial institution ESHR practitioner meetings. This includes the International Financial Corporation's

(IFC) Community of Learning, as well as meetings of other development banks, commercial banks and ECAs. UKEF also attends a number of international ESHR industry conferences, including the annual conference of the International Association of Impact Assessment, at which this year we presented a paper on the use of environmental and social impact assessments (ESIAs) by OECD ECAs.

Other ESHR matters

We published on UKEF's website an updated Note on Human Rights and Social Risks and Impacts that outlined how we consider such risks and impacts.

We helped companies such as Tekmar, JDR Cables and Bifab with contracts worth more than £200 million to supply offshore wind energy projects.

Export Guarantees Advisory Council annual report Andrew Wiseman

Originally established under the Export and Investment Guarantees Act 1991, the Export Guarantees Advisory Council's role is to advise the Secretary of State on the policies that UKEF applies when doing business, particularly those related to the application by UKEF of ethical policies established by international agreements that relate to export credit agencies.

These are generally policies related to the potential environmental and human rights impacts of the export transactions and projects UKEF supports, debt sustainability and anti-bribery and corruption procedures. The Council also considers transparency issues (including freedom of information).

The Council underwent some administrative changes in 2016-17, when the Department for International Trade was established under the Secretary of State for International Trade. As Secretary of State, Dr Liam Fox took over the responsibility for UKEF which had previously resided with the Secretary of State for Business, Innovation and Skills.

Separately, the Council underwent a change in classification after the Cabinet Office's Review of the Administrative Classification of Public Bodies. As a result the Council had its classification as a non-departmental public body (NDPB) reviewed, and was re-designated as an Expert Committee, a new category for groups comprising of external (non-civil service) specialists that form committees to advise ministers on particular policy areas.

Although the classification of the Council has changed, there has been no material change to its statutory role. The Council does not have executive powers and therefore is not involved in decision-making relating to UKEF support for particular export transactions, but can give advice directly to Ministers, or through UKEF officials, on the application of ethical policies. During 2016-17, the Council met on 4 occasions and separately met with the Minister of State for International Trade.

Members of the Council are appointed by ministers, and are not remunerated but provide their services on a voluntary basis. The current members are:

Chair

- Andrew Wiseman (Partner, Harrison Grant Solicitors)

Members

- Gillian Arthur (previously Head of Philanthropy Services, Sanne Group)
- Alistair Clark (Corporate Director, Environment and Sustainability Department, European Bank for Reconstruction and Development)
- Alexandra Elson (Senior Stakeholder Relations Adviser, Shell plc)
- Neil Holt (Corporate anti-bribery adviser; former Director, Ethics and Business Conduct, CH2M HILL Group; former Trustee, Transparency International)
- John Newgas (over 20 years' experience in the manufacturing industry)
- Anna Soulsby (Associate Professor of Organisational Behaviour, Nottingham University Business School)

Senior officials from UKEF including the Chief Executive attend each of the Council's meetings. They briefed the Council on issues and developments over the year, and on individual export transactions supported by UKEF.

Equator principles and loan conditions

Over the course of the year, the Council was consulted on work related to UKEF's adoption of the Equator Principles. The Council was fully supportive of UKEF joining international financial institutions and ECAs in a global framework to promote sustainable environmental, social and human rights decision-making in financing projects.

The Council was also consulted on UKEF's use of environmental and social (E&S) clauses in loan documentation. A review by UKEF on the use of these clauses has resulted in a more consistent approach to how E&S conditions are negotiated, which is aligned with the Equator Principles. In the Council's view, the approach better reflects current sector best practice and strengthens reporting, monitoring and site visit requirements.

Anti-bribery and corruption

In 2016, OECD member countries discussed a review of the OECD Recommendation on Bribery and Officially Supported Export Credits (OECD Bribery Recommendation). The Council provided advice to UKEF in advance of the multilateral negotiations, supporting the UKEF approach to strengthening the recommendation to raise standards in other ECAs to ensure that UK exporters were not put at a disadvantage. The Council also was regularly consulted on UKEF's anti-bribery and corruption procedures, which are covered in more detail in the Governance Statement and Enterprise Risk sections of the Annual Report on pages 121 and 135.

Each year, the Council also reviews the application by UKEF of the OECD Bribery Recommendation, and in February, considered the annual report from UKEF on its application of the Recommendation. The annual report includes the number of applications made, showing those involving the use of agents, the use of arrangements that restricted information on the identities of agents to three UKEF staff (Special Handling Arrangements[18]). The report provides a picture of anti-bribery due diligence carried out by UKEF over the year.

OECD Common Approaches

In 2016-17 a revised text of the Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches) was adopted by OECD Members. UKEF's application of the Common Approaches is covered in the Head of Environmental and Social Risk's report on page 103.

The Council scrutinises UKEF's application of the OECD Common Approaches, receives regular reports on projects which UKEF has supported and reviews projects which have been classified as Category A or B. The Council's review of category A or B projects take place after UKEF support has been provided, and continue regularly for those projects where UKEF monitors ESHR performance throughout the operation phases of the project.

In 2016-17, the Council reviewed the monitoring work undertaken during a post-issue visit to a project supported by UKEF in Sri Lanka, which involved the construction of over 500 bridges in rural areas. The Council scrutinised the preservation and reinstatement activities associated with the project and noted how regular ECA monitoring of the project had improved ESHR behaviours through training and capacity building.

UKEF also reported to the Council on the ESHR Review of the Liwa Plastic Industries Complex project in Oman. The project involves a natural gas/liquids extraction facility, pipeline and petrochemical plant in central and northeast Oman. Given the nature of the project, which comprises the development of new and large scale assets from both the oil and gas and petrochemical industries, and the potential for diverse risks associated with both environmental and social impacts, the project was classified as a Category A project. The Council heard how UKEF had taken the lead in coordinating the ECA ESHR teams and had visited the site to monitor application of ESHR policies.

In 2016-17 the Council paid particular attention to potential gender issues in connection with projects supported by UKEF and requested a report from UKEF on the international standards relating to gender equality and how UKEF approaches gender equality issues relating to the projects it supports. The Council studied UKEF's initial findings from research into how the issue was considered by other ECAs and IFIs. The Council welcomed UKEF's approach and advised that UKEF could take a leadership role in this area amongst ECAs and project sponsors, by emphasising the positive benefits of gender equality and raising gender issues with project sponsors and exporters at early stages of the projects.

Sustainable lending

Since 2008, OECD members have followed a set of Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries. In 2016 the Council considered the proposals to review the OECD rules and examined how the proposed updates would impact

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18 As of April 2017 Special Handling Arrangements have been discontinued.

UKEF decision making. The Council noted that UKEF would continue to require HM Treasury consent and would consult with the Department for International Development and in-country UK government posts, in addition to undertaking its own sustainable lending assessment to ensure that the project would result in a significant and sustainable economic or social benefit for the country without creating an undue strain on the public finances.

Other

Throughout the course of the year, the Council reviewed UKEF's handling of information requests made under the Freedom of Information Act and the Environmental Information Regulations. The Council recognised the very high proportion of requests answered within statutory deadlines.

The costs of operating the Council during 2016-17 amounted to circa £3,000 largely to reimburse the cost of travel and meeting expenses. The Council's Terms of Reference, Register of Members Interests, minutes of its meetings and contact details can be found on the government's website – www.gov.uk/government/organisations/export-guarantees-advisory-council. For further information on the work of the Council, please contact the Council Secretary on 020 7271 8105 or email CXO@ukexportfinance.gov.uk.

Andrew Wiseman

Accountability

UKEF is based in the HM Treasury building on Horse Guards Road, London.

UKEF Board members

1 Noel Harwerth

Non-executive Chair
Noel Harwerth was appointed Chair of the UKEF Board in January 2017. As part of her role she is also a Non-Executive member of the Department for International Trade Board.

Noel comes from a long career in the finance and mining sectors with significant experience in emerging markets. She is a non-executive director at Standard Life plc, the London Metal Exchange, CHAPS Co and Sirius Minerals. Her executive career has included roles with Citigroup International as its Chief Operating Officer, Citicorp and Dun & Bradstreet.

2 Louis Taylor

Chief Executive
Louis joined UKEF in October 2015. His previous roles include Chief Operating Officer, Group Treasury at Standard Chartered Bank; CEO of Standard Chartered in Vietnam, Cambodia and Laos; and Vice Chair of the European Chamber of Commerce in Vietnam. He is also a member of the Department for International Trade Board.

3 Cameron Fox

Chief Financial Officer
Cameron joined UKEF in January 2006 and has held a number of finance positions within the organisation over this period. Prior to joining, Cameron worked at HM Treasury on various finance projects. Cameron has also worked as an accountant in audit and tax services for public and private sector organisations.

4 David Havelock

Chief Risk Officer
David joined UKEF in October 2005. He is Director of the Credit Risk Group and a member of the Executive Committee. David was Director of Credit Management, Corporate Banking Services at NatWest Bank. More recently, he was a director at Close Brothers corporate finance, and worked for Arthur Andersen and Ernst & Young.

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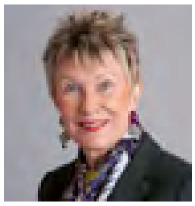

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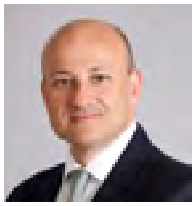

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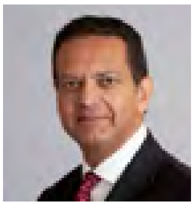

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5 Justin Manson

Ex-officio member of UKEF Board as director at UK Government Investments

Justin joined UK Government Investments as a director at its creation on 1 April 2016. Before that, he was a director in the Shareholder Executive, which he joined in June 2015. Previously he was an investment banker at Morgan Stanley for 20 years and before that at CSFB and First Boston for 8 years. He is a trustee of the Chelsea Academy Foundation and has been a trustee of the Royal National Theatre Foundation.

6 Amin Mawji OBE

Non-executive director and Chair of Audit & Risk Committee

Amin was appointed as a non-executive director of the UKEF Board in 2013. Amin was a partner at Ernst & Young. He has served as a member of the CBI Manufacturing Council and was previously chair of the audit committee and member of the board at UKTI. He was also previously a member of the audit & finance committee at the Department for International Development, and the audit & risk committee at the Department for Environment, Food and Rural Affairs.

7 Sir Eric Peacock

Non-executive director

Sir Eric was appointed as a non-executive director of the UKEF Board in 2011. Knighted in 2003 for his services to international trade, he previously sat on the boards of UKTI, the Foreign and Commonwealth Office and the Department for Business, Innovation and Skills. He is currently Chairman of a number of SMEs and also leads The Peacock Foundation, Uniqueness and the AB Trust, all of which help disadvantaged children and young adults.

8 Oliver Peterken

Non-executive director

Oliver joined the UKEF Board in 2017. He has had a long career in the insurance sector, with significant non-executive experience. He provides specialist guidance and oversight of UKEF's risk management and underwriting activities as a member of the board's Audit & Risk Committee. Oliver brings significant risk management experience to the post, having served as Chief Risk Officer for Bupa and Aspen Insurance and held a number of senior positions with Willis Group and Prudential.

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9 Dr Catherine Raines FRSA MoID

Ex-officio member of UKEF Board as Director General, International Trade and Investment, Department for International Trade

Dr Catherine Raines is Director General of International Trade and Investment, the trade promotion directorate of the Department for International Trade. It delivers advice, support, advocacy and promotion to facilitate UK trade and investment worldwide. Catherine was previously Director-General, UKTI China, a position she held since April 2013, after a 25 year career in both the public and private sectors.

10 Lawrence M Weiss

Non-executive director

Lawrence joined the UKEF Board in 2016. He was the Chief Executive Officer of Bank Leumi (UK) plc from 2008 to 2014. During that period he served as a member of the World Division Committee of the Association of Foreign Banks. From 1990-2008, he held a number of senior management positions in the oil division of Glencore, including responsibility for large project financing in developing countries and Head of Global Credit Risk Management. He began his career in finance at The Chase Manhattan Bank in New York and moved to London in 1982.

Governance statement

Introduction

As Accounting Officer for UK Export Finance (UKEF), I am responsible to ministers and Parliament for the management of UKEF's operations, including the stewardship of financial resources and assets. This Governance Statement sets out how I have discharged this responsibility for the period 1 April 2016 to 31 March 2017.

The areas covered below are:

- the organisational arrangements for managing operations, constituting our corporate governance framework
- my statement on the nature of UKEF's business and its vulnerabilities and resilience to challenges, requiring risk management and controls

Background

Our principal role is to provide support for exporters in the form of insurance, loans and guarantees. In doing so, we complement the provision of support from the private market, taking account of wider government export strategy and policies.

Our mission is to ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer. We exist to complement, not compete with the private sector, and work with a wide range of private credit insurers, lenders and other export credit agencies.

In providing support, we seek to:

- engage with exporters, buyers and delivery partners such as banks, without displacing private providers
- provide a quality of service that is responsive to new business, with a focus on solutions within the bounds of acceptable risk and in accordance with its statute
- maintain the confidence of ministers, Parliament and customers
- communicate what we do to interested parties in an effective way

We are working to ensure we can meet the evolving and increasing needs of UK exporters and of their financing partners. Our new 3-year business plan sets out the scale of our ambition, and how we plan to meet it.

An intended consequence of this change is that we will be better equipped to manage risk while meeting the needs of our customers, ultimately improving our resilience. However, during this period of change, we recognise there will be challenges to our risk environment, before we return to a more 'steady state' control environment.

Corporate governance framework

Department for International Trade

The Prime Minister announced the creation of the Department for International Trade on 14 July 2016 to promote UK exports, maximise opportunities for foreign direct investment and outward direct investment, and develop and deliver trade policy. UKEF is now aligned strategically and operationally with the new department to support our goal of ensuring that no viable UK export fails for lack of finance or insurance. With the creation of the department I was made one of its three Directors General.

In order to facilitate clear and appropriate governance of UKEF's business, UKEF will remain a legally distinct organisation under the Export and Investment Guarantees Act 1991, with its status as a Ministerial Department of State continuing unchanged. I will remain the Chief Executive and Accounting Officer of UKEF.

Along with other UKEF officials, I attend the Department for International Trade Board and its subcommittees with responsibility for all matters related to UKEF's support for British exporters. The Director General of International Trade & Investment, from the Department for International Trade, is an ex-officio member of UKEF's Board.

Statutory powers

Following the creation of the Department for International Trade, UKEF's reporting line was reassigned from the Secretary of State for Business, Innovation and Skills to the Secretary of State for International Trade.

UKEF's statutory powers are derived from the Export and Investment Guarantees Act 1991 (EIGA), as amended. The EIGA provides that the powers may only be exercised with the consent of HM Treasury, which includes a financial framework comprising financial objectives and reporting requirements.

Ministers

Ministers have been provided with regular written and verbal advice and briefings on a range of issues concerning our operations.

HM Treasury

Along with other UKEF officials, I regularly meet with officials from HM Treasury to advise them on matters related to our operations and performance. Throughout the year, and at least monthly, we supply HM Treasury with reports so that it can monitor our financial performance. HM Treasury also attends UKEF Board meetings as an observer.

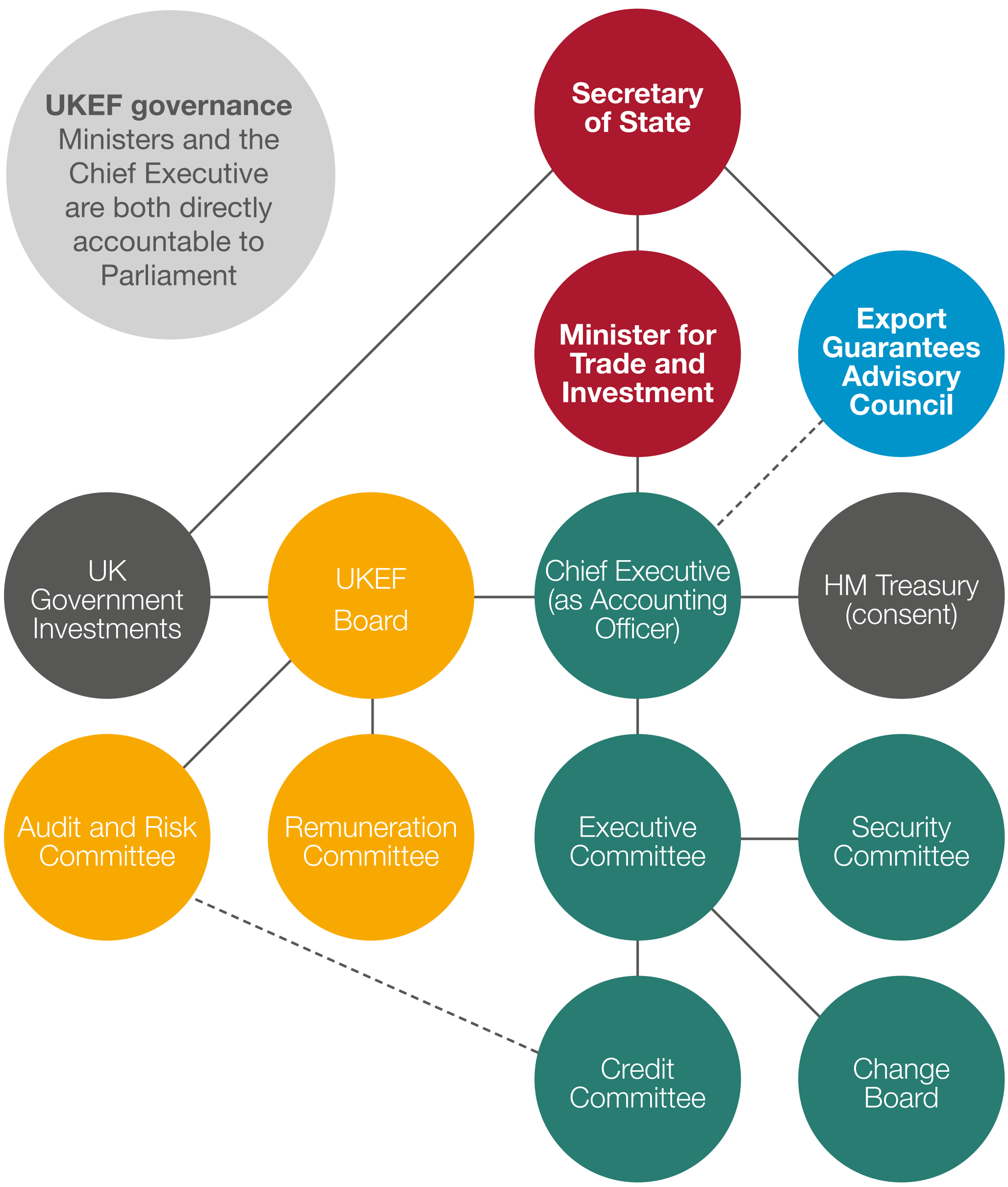
HM Treasury seeks to protect the taxpayer from excessive loss resulting from our lending or our contingent liabilities, and the UK economy from economic disbenefit. It exercises this role primarily by monitoring our performance against ministerially-agreed financial objectives and policy restrictions.

UK Government Investments

UK Government Investments (UKGI) is responsible for providing independent advice to the Secretary of State for International Trade in the exercise of his responsibilities for UKEF. A UKGI representative is an ex-officio member of UKEF's Board, and UKGI monitors UKEF's ongoing performance in relation to HM Treasury requirements. Particular areas of advice are:

- Corporate governance matters such as the appointment and remuneration of UKEF's chair, non-executive directors and Chief Executive Officer
- financial and operating performance and key performance indicators
- risk management functions and processes
- business planning and strategic direction
- alignment of policy objectives with those of other government departments

UKEF's committee structure



Autumn Statement

On 23 November 2016, the Chancellor of the Exchequer announced that UKEF would implement new measures to help boost UK exports, which included doubling its risk appetite.

When HM Treasury agreed this increase, it asked UKGI to augment the oversight of UKEF's risk management framework. As a result, UKEF's Audit & Risk Committee has approved measures of enhanced reporting over credit risk, so that it continues to be managed effectively as we seek to operate at no net cost to the Taxpayer.

Export Guarantees Advisory Council

UKEF has only one arm's length body: the Export Guarantees Advisory Council (EGAC) is an advisory body required by the Export & Investment Guarantees Act 1991. Its role is to advise the Secretary of State for International Trade on the policies that UKEF applies when doing business, particularly those related to:

- environmental, social and human rights
- anti-bribery and corruption
- sustainable lending
- disclosure, in line with information legislation

The Council independently publishes a report of its business in the year, which is available on page 109 and also from the Council's webpages at **www.gov.uk/government/organisations/export-guarantees-advisory-council**.

The Council was officially re-classified in March 2017 from a Non-Departmental Public Body (NDPB) to an Expert Committee, following the Cabinet Office's review of the administrative classification of public bodies, which aimed to simplify, rationalise and clarify the existing classifications.

The classification of public bodies review examined the impact of changing an advisory NDPB to an Expert Committee. The review found that the requirements placed on some of the smaller NDPBs were disproportionate to their size and cost, including reporting, reviews, appointments and documentation. Expert Committee classification allows for a more proportionate approach. The change in classification will not have an impact on the status or importance of the Council, or on UKEF's governance.

EGAC members serve on a voluntary basis. The Committee does not hold any independent budget or spending authority.

UKEF Board

In discharging my responsibilities, I am advised by the UKEF Board, of which I am a member. The Board is led by a non-executive chair. Its membership consists of senior executive directors (the Chief Executive, the Chief Risk Officer and the Chief Financial Officer) and non-executive directors including ex-officio representatives from the Department for International Trade and UKGI. There is also an observer from HM Treasury. The terms of reference require there to be a majority of non-executive and ex-officio members.

The Board's role is an advisory one, supporting the Accounting Officer in the management of UKEF through operational oversight and by providing advice, challenge and assurance.

The non-executive directors are appointed by the Secretary of State through open competition on the basis of relevant expertise and merit. They provide me with an independent source of advice, scrutiny and challenge on strategic and operational issues, on UKEF's financial performance, and on the arrangements for risk management and control.

This year the Secretary of State appointed a new chair to the UKEF Board, following the completion of the previous chair's term in December 2016, as well as two new non-executive directors, to increase the Board's private sector expertise in specific areas such as credit risk. The composition of the Board has also changed this year to reduce the number of executive members by two. As a consequence the Head of Business Group and General Counsel (the latter role having been deleted from UKEF's organisational structure in October 2016) are no longer executive Board members.

The Board reviews its effectiveness every year and an external review is undertaken every three years. Executive Committee members take responsibility for the quality of data provided to the Board from their respective areas of responsibility. The next external review is scheduled for 2017–18.

Through the maintenance of a register of interests, potential conflicts of interest involving the non-executive directors are identified and, if necessary, addressed. No conflicts of interest or potential conflicts of interest have been identified this year.

The minutes of UKEF Board meetings are published on UKEF's website.

The Board has two sub-committees, the Audit & Risk Committee and Remuneration Committee, membership of which comprises non-executive directors and other independent representatives agreed by the UKEF Board.

Audit & Risk Committee

This committee examines and reviews the adequacy of the arrangements for accounting, risk management and control. I attend the meetings, as does the Chief Financial Officer, the Chief Risk Officer (from 26 January 2017), the Chief Operating Officer (from 26 January 2017), the Head of Internal Audit and Assurance Division (IAAD) (from 19 October 2016) and officials from the National Audit Office and UK Government Investments. The Chair formally reports the outcome of meetings to the Board. In accordance with its terms of reference, in 2016–17 the committee reviewed, among other matters, the:

- planned activity and outputs of the IAAD and the external auditors
- operational risk management framework
- accounting policies applied by UKEF
- annual report and accounts

Following the 2016 Autumn Statement announcements, and discussion with HM Treasury and UK Government Investments, the Audit & Risk Committee in November 2016 revised its terms of reference to include increased oversight of credit risk. The Audit & Risk Committee will now receive reports on our management of credit risk exposures at the transaction and portfolio level, and on our compliance with credit risk policies.

Further, in 2017–18, the Audit & Risk Committee will be split into two separate bodies, being an Audit Committee and a Risk Committee, to better manage the areas of oversight of each committee, including the increased oversight of credit risk by the Risk Committee.

Remuneration Committee

This committee considers and agrees proposals from the Chief Executive on individual pay decisions as per the criteria outlined in guidance from the Cabinet Office about the remuneration of its Senior Civil Service (SCS) members; and ensures that these recommendations take into account any requirements or guidance from the Cabinet Office, including that the average increase to the SCS pay bill is within any centrally determined budget.

Executive Committee

I am supported in the management of UKEF by the Executive Committee, which I chair. Its membership is composed of senior executive directors who are all members of the SCS:

- David Havelock, Chief Risk Officer
- Gordon Welsh, Head of Business Group
- Bhaskar Dasgupta, Chief Operating Officer (from 3 October 2016)
- Lucy Wylde, General Counsel (until 30 November 2016)
- Cameron Fox, Chief Financial Officer
- Shane Lynch, HR Director
- Davinder Mann, Head of Legal Services (from 1 December 2016)

The minutes of Executive Committee meetings are published on UKEF's website.

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

- Credit Committee, chaired by the Chief Risk Officer, which advises on the effective management of UKEF's credit risk exposures at the transaction and portfolio level, and on compliance with credit risk policies.
- Change Board, chaired by the Chief Operating Officer, which advises on whether UKEF's investment in maintaining and improving its infrastructure, systems and processes is appropriate and effectively targeted and managed, and represents value for money.
- Security Committee, chaired by the Chief Operating Officer, which advises on the security of the assets required for UKEF's business operations, systems and processes, ensuring that they are appropriately secured in accordance with legal, regulatory and government requirements.

This year a register of interests was created to identify any potential conflicts of interest involving the senior executive directors and, if necessary, address them. No conflicts of interest or potential conflicts of interest have been identified this year.

Governance in 2016–17

As Accounting Officer, I state that:

- all instructions given to me by ministers were in accordance with the EIGA, HM Treasury consent requirements and applicable international agreements.
- it was not necessary in the year to seek a written direction from the minister resulting from concerns about financial regularity, propriety or feasibility.
- UKEF met all its financial objectives in the financial year.
- I met UK Government Investments, HM Treasury and Department for International Trade officials as necessary to brief them on issues related to UKEF, so that they could provide informed advice to ministers if and when required.
- measures were taken to recruit additional non-executive directors to allow for a majority of non-executive directors and ex-officio members on the UKEF Board.
- the Executive Committee met at least twice a month throughout the year.
- the UKEF Board met eight times in the year, the Audit & Risk Committee met five times and the Remuneration Committee met two times, consistent with their terms of reference.

Senior executive directors and their roles

The roles of the senior executive directors are as follows:

- Head of Business Group: responsible for our support for exporters and business development.
- Chief Operating Officer (from 3 October 2016): responsible for ongoing business and technology operations, operational oversight, change management, compliance and security.
- General Counsel (until 30 November 2016): responsible for all legal matters, compliance, security and for managing legal risk. This position has now been deleted, and replaced with the new Head of Legal Services role.
- Head of Legal Services (from 01 December 2016): responsible for core legal matters and supporting the Department in managing legal risk.
- Chief Financial Officer: responsible for finance and accounting, and business insight and analytics.
- Chief Risk Officer: responsible for financial risk and related management systems and practices.
- Human Resources Director: responsible for all people-related issues, staff administrative functions and strategic workforce planning.

Members of the UKEF Board and its sub-committees (with attendance figures)

Name of Board member	Role	UKEF Board	Audit & Risk Committee	Remuneration Committee
Guy Beringer (until 31 Dec 2016)	Non-executive Chair	5/5	2/3	2/2
Noel Harwerth (from 1 Jan 2017)	Non-executive Chair	3/3	2/2	0/0*
Amin Mawji	Non-executive director and Chair of Audit & Risk Committee	7/8	5/5	2/2
Sir Eric Peacock	Non-executive director	7/8	5/5	2/2
Justin Manson	Ex-officio Board member, UK Government Investments	8/8	3/5	2/2
Louis Taylor	Executive board director	8/8	5/5	2/2
Cameron Fox	Executive board director	8/8	5/5	-
David Havelock	Executive board director	8/8	2/2	-
Catherine Raines (from 1 Jan 2017)	Ex-officio board member, Department for International Trade	0/3	-	-
Lawrence Weiss (from 1 Nov 2016)	Non-executive board director	4/4	2/2	0/0*
Oliver Peterken (from 1 Feb 2017)	Non-executive board director	2/2	1/1	0/0*
Gordon Welsh (until 20 Oct 2016)	Executive board director	5/5	-	-
Lucy Wylde (until 30 Oct 2016)	Executive board director	4/5	2/3	-
Jane Owen (until 21 July 2016)	Ex-officio board member, UK Trade & Investment	2/3	-	-

*Meetings took place before appointees joined the organisation

Third-party delivery partners

UKEF works with a number of banks who act as delivery partners in the provision of its direct lending product. The terms of these contractual partnerships are governed by a panel memorandum agreement to ensure agreed levels of service are maintained.

Looking forward, UKEF expects to extend its delivery partner relationships, to improve levels of support to its customers.

Risk management and control

Our financial risk management is described in detail in the Chief Risk Officer's review on pages 67 and 93.

Strategic and operational risk

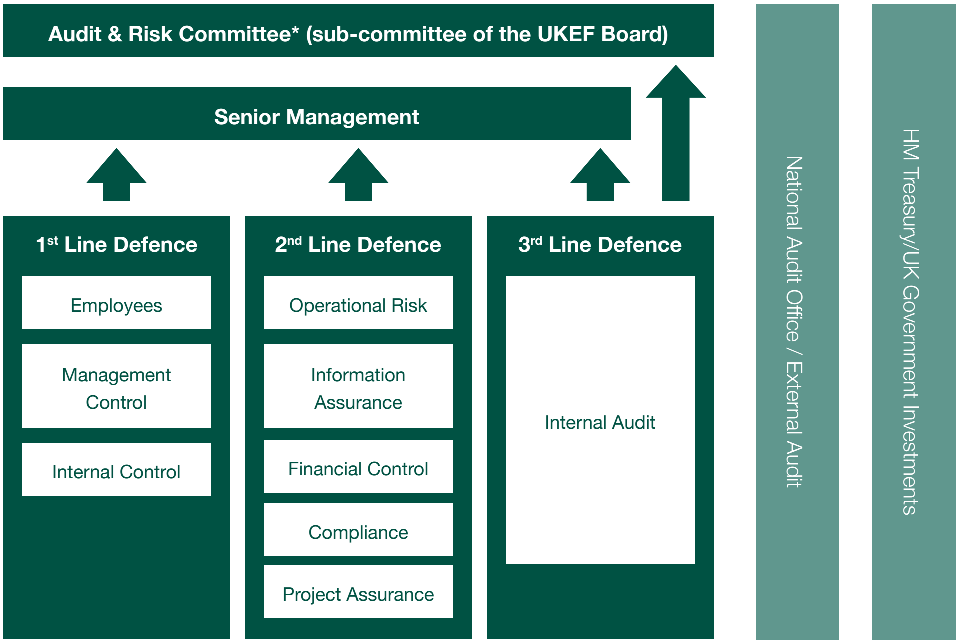
The Department has a strategic risk register in place that identifies named individuals from among UKEF's senior leadership who are responsible for UKEF's response to each recorded strategic risk. Strategic risks are regularly reviewed by the Executive Committee and the Board.

UKEF's operational risks primarily arise from our business-as-usual activities. These risks typically involve the possibility of error or oversight leading to a financial loss (other than as a result of properly managed exposure to credit risk) or a failure to properly discharge our obligations.

UKEF's operational risk management framework is designed to:

- identify risks
- assess the likelihood of risks materialising and the severity of their impacts
- evaluate and provide assurance in respect of controls already in place
- identify and prioritise any further mitigating actions required
- agree whether residual levels of risk are acceptable

Since it is not practical to eliminate all risk, the intention is to manage risks and mitigate them to a tolerable level. The Operational Risk Division (ORD) is part of the 'second line' within UKEF's 'three lines of defence' structure (see diagram below). ORD owns the policy through which the operational risk management framework is implemented, and maintains our operational risk register. It works with the other second line and third line assurance functions and the heads of functional areas across UKEF to reinforce ownership and accountability for risks and controls.



*The Audit & Risk Committee will be split into an Audit Committee and a Risk Committee in the following Financial Year.

ORD's activities and the operational risk management framework were overseen by the Audit & Risk Committee during 2016–17, and will be overseen by the new Risk Committee during 2017–18.

Governance assurance exercise

In 2016–17 we strengthened our governance assurance process by undertaking the first of what will be an annual governance exercise at the end of each financial year. Divisional heads produce a letter of assurance (LoA), reporting to the Accounting Officer on the effectiveness of governance, risk management, and control within their areas of responsibility. These are reviewed by the assurance functions – internal audit, operational risk, and compliance – who may seek further opinion from other functions (such as finance, human resources, or legal) to validate the answers provided.

To provide further assurance to me as Accounting Officer I have introduced an annual challenge panel which I chair, supported by an independent party such as the UK Government Investments representative on the Board, which questions Directors on LoAs within their remit. I intend to supplement this by meeting with heads of functional areas throughout the year.

Information security risk

Information security risk in UKEF is reviewed on a regular basis. The Senior Information Risk Owner (SIRO) is the Committee-level representative responsible for information risk and chairs the Security Committee (currently our Chief Operating Officer).

Our security policy and procedures are managed by the Departmental Security Officer and his deputy, both of whom report to the SIRO. We measure ourselves against government security and information assurance standards every year.

The last full annual review, in May 2016, found that information security risk was being appropriately managed and no significant weaknesses were apparent. Independent sources of assurance are provided to the Security Committee as part of an annual programme of work, including assessment of UKEF suppliers, the results of incident management and disaster recovery testing, penetration testing and accreditation of core services. The next review is scheduled for early in 2016-17.

The programme of work also includes regular communications and briefings to the Board, Senior Leadership Team and all staff. A security risk register, which includes information security risks, is reviewed as a standing item at each meeting of the Security Committee.

Individual staff members are responsible for the identification of information assets and their location, use and protection, and an information asset register is in place to record these assets.

Access to sensitive information is restricted on a 'need-to-know' basis, and staff are trained in information security so that they understand the risks associated with handling information both within and outside UKEF. Each area is overseen by Information Asset Owners who are responsible to the SIRO for the use of information within their area.

Procedures are in place to administer responses to requests for information from the public under information legislation that gives the public rights of access. Procedures and training are in place to ensure compliance with relevant legislation, such as the Data Protection Act and with central government requirements, such as the security policy framework.

Data management

Management of data has proved to be challenging during a period of major IT change and continued organisational restructuring.

The Department's outsourced IT services contract with CGI terminated on 31 July 2016. The Export Finance IT (EFit) programme to replace CGI's contract with a number of third party providers was discussed in detail in the previous Governance Statement, with successful implementation and completion this financial year.

With the exception of the Email Archive System (EAS), the process of transfer took place without any error. UKEF has experienced a partial data loss of attachments and some text from some archived emails, relating to a discrete period. This loss of emails has left UKEF with an incomplete record of communication which might cause operational difficulties in the future.

Completion of the EFit programme has, overall, strengthened our IT infrastructure. IT measures have been improved to help prevent accidental disclosures of information and further training and communications have also been put in place.

The EFit contracts were awarded through competition across pre-existing government frameworks. Active contract management by commercial experts ensures that we continue to have a service which meets our requirements and delivers value for money throughout the contract lifecycle. These services provided by the third parties support UKEF's digital presence and interfaces with customers.

The Department has experienced a number of unrelated cases where official data was accidentally sent to external parties outside the Department when it should not have been. Staff members involved reported the incidents and have worked collectively to mitigate any impacts. As a result, IT measures are now in place to help prevent further accidental disclosure and further training and communications have also been put in place.

All appropriate regulatory authorities and stakeholders were notified.

Whistleblowing policy

We have a whistleblowing and raising-a-concern policy in place. The policy is based on guidance provided by the Civil Service employee policy, one of the expert services for the Civil Service. This was last updated and approved by UKEF's Executive Committee and Audit & Risk Committee in 2015 following a number of recommendations from the Public Accounts Committee.

No disclosures were made under the policy in 2016–17.

Internal audit and assurance

The internal audit charter is the policy document that defines the purpose, authority, and responsibility of the Internal Audit and Assurance Division (IAAD).

The charter establishes IAAD's position within UKEF; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities during 2016–17. Final approval of the internal audit charter resides with the Audit & Risk Committee acting on behalf of the UKEF Board. This changed in May 2017 following the separation of the Audit & Risk Committee and was passed to the new Audit Committee.

Additionally, during 2016–17 IAAD implemented a programme of embedded assurance reviews to provide more timely assurances over change activity.

On the basis of IAAD's continued engagement throughout 2016–17, the Head of Internal Audit's opinion was 'Limited'. This means that enhancements are recommended in the framework of governance, risk management and control in significant or important areas. This reflects the increased demands on the control environment of a sustained period of internal change.

Audit information

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

Our accounts are audited by the Comptroller and Auditor General. I confirm that, so far as I am aware, there is no relevant audit information of which UKEF's auditor is unaware and that I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that UKEF's auditor is aware of that information.

Compliance

UKEF is committed to following best practice and public sector standards in areas of governance, accountability, transparency and risk management to achieve its objectives. As part of its business operations, UKEF faces risks of financial loss and risk of damage to its integrity and reputation from any failure to comply with all applicable laws and regulations. UKEF has an independent compliance function, which reports directly to the Chief Operating Officer, who is responsible for ensuring that these risks are appropriately managed.

The compliance function monitors and updates the regulatory framework within which UKEF operates and maintains oversight of the controls in place to ensure compliance. It is a key component of UKEF's 'three lines of defence' framework, working closely with operational risk and internal audit functions.

In 2016–17 we reviewed our policy on security of information for the provision of details of agents' identities in applications for support. Following the review I concluded that, in the interests of transparency, we would stop offering applicants the option to request special handling arrangements, which allow an applicant to disclose the identity of an agent in such a way that knowledge of the identity of the agent is restricted to only three members of UKEF staff. We communicated this decision to stakeholders on 24 April 2017.

Significant risks and mitigating measures

Support for Airbus

In April 2016, UKEF received information from Airbus relating to its historic use of overseas agents. UKEF referred this information to the Serious Fraud Office (SFO). The SFO then took the decision to open an investigation.

UKEF is working with Airbus and the French and German export credit agencies to understand the extent of the matter and to seek assurances about current compliance practices.

No applications for support were received from Airbus during the period of this Annual Report. UKEF remains open to applications from any UK exporter, including Airbus, subject to conducting appropriate due diligence.

Rolls-Royce Deferred Prosecution Agreement

In January 2017 the SFO and the United States Department of Justice authorities entered into deferred prosecution agreements (DPA) with Rolls-Royce following an investigation into bribery and corruption. The DPAs cover a range of jurisdictions and cover civil and defence aerospace transactions as well as energy projects.

Following extensive enquiry, UKEF is satisfied that significant and meaningful reform has taken place in the company since the events referred to in the DPAs. Consequently, for future transactions involving Rolls-Royce, UKEF can consider support subject to an enhanced due diligence process in respect of the specific circumstances of each transaction.

Resources

A significant proportion of roles performed in UKEF are not found widely in the Civil Service, being specialised and requiring financial services experience.

UKEF salary levels lag behind financial services and related public sector comparators. This inability to offer competitive salary packages has impacted on recruitment and retention in key business areas.

Several divisions have experienced low staff resourcing for part of the year, while other areas are reliant on contract workers to deliver their work programmes.

UKEF has increased the capability and capacity of the recruitment team which has resulted in a surge of hires during the last quarter of 2016–17 to address a number of vacancies.

As a tactical solution, we have also brought in a number of staff on secondments or fixed term contracts from private sector organisations to address skills shortages.

Strategically, the Executive Committee has identified a number of key skills required across the Department and the HR team have put a learning and development plan in place to support this. A new approach to talent management and succession planning was embedded during the year and development work is also taking place at divisional and individual levels

UKEF remains committed to developing existing staff to grow their own skills and ultimately develop them in to the next wave of senior managers. A number of internal recruitment campaigns were run during 2016–17 which led to significant numbers of staff progressing to more senior roles.

Digital programme

UKEF's commitment to 'digital first' is reinforced in its 2017–20 business plan. In line with the Government's Transformation Strategy, UKEF is taking an integrated approach to digital-enabled transformation, bringing a digital programme forward together with an overall change plan.

Significant investment is being made to implement improvements to UKEF systems, processes and web-presence, to cope with growth in demand for UKEF services, such as our direct lending facility.

The risk appetite of the private sector can change materially and within a relatively short timeframe. If it does so, and at the same time demand for new or novel cases exceeds expectations in the short term, then operational processes, infrastructure and staff resources could come under significant pressure, potentially resulting in performance or internal control issues. The new governance, organisation, processes, data, technology and digital-first strategy will provide us with greater resilience, flexibility and scalability to address these issues.

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

In preparing this statement, I have taken into account the Corporate Governance in Central Government Department Code of Practice, 2011. I am satisfied that UKEF is able to demonstrate compliance with this code where it applies to UKEF for the relevant period.

Louis Taylor
Chief Executive and Accounting Officer
UK Export Finance
3 July 2017

“As I have learnt more about the Department and our mission to help UK exporters I have become increasingly proud of what we do. I even welcome that question from family and friends: what exactly do you do and what is UK Export Finance?”

Ben Robey, UKEF Information Officer. Ben joined UKEF in September 2016.

Our people

One of our strategic objectives is to make sure UK Export Finance is a great place to work.

It helps that we are unique. Our people can gain experience of working on award-winning transactions, recognised within the financial service sector for their innovation. At the same time, they gain experience of working in a central government department, perhaps shaping international policy, or briefing ministers on export finance. This mix of a government and commercial focus offers the opportunity to develop a wide range of skills, and we are committed to doing more to help our staff reach their full potential.

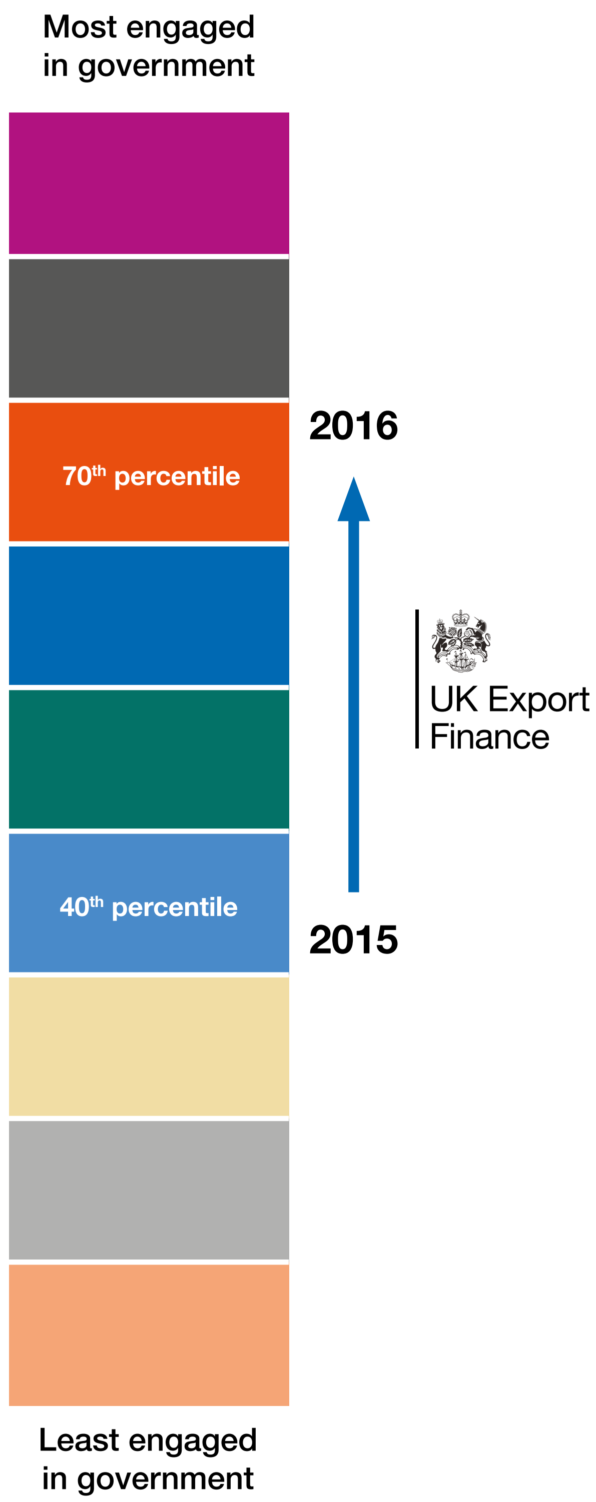
Staff engagement

The 2016 People Survey results showed that staff engagement was 62%, the highest since the surveys began in 2009 and up 4 percentage points on 2015. The results tell us the improvement was driven by greater confidence in leadership, a clearer purpose, more development opportunities and the rewards of working here.

Our improvement relative to the rest of government is more striking. In a year when the government's trade agenda has received historically high levels of attention, UKEF rose up the rankings from the 40th to the 70th percentile in terms of engagement levels. Our ambition is to have the most engaged workforce in the Civil Service.

> "Firstly I believe UKEF is a great place to work! I genuinely enjoy coming to work and supporting our customers. However there are certainly areas where we can improve."

> "[We should do more to] listen to employees who face customers and their needs and use this knowledge to develop new products or make changes



The survey also confirmed the areas where we will continue to seek improvements, to further climb in the rankings:

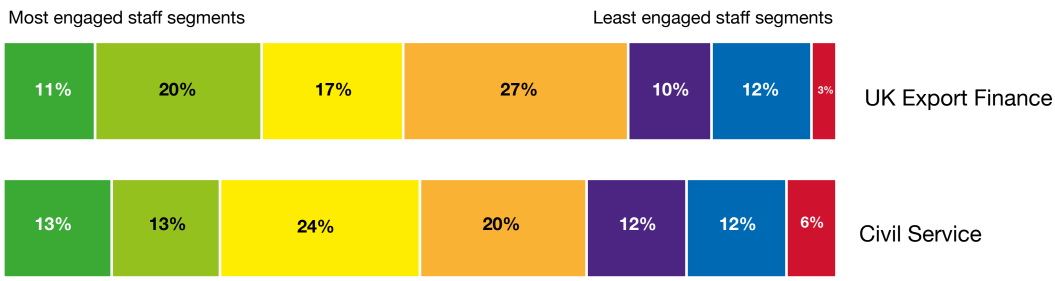
- Greater career development
- Improving management of people and change
- Developing leadership skills
- Rewards
- Eliminating bullying and harassment

We are also using profiles of our employees' experiences to ensure that actions taken are meaningful for the widest possible range of staff working in UKEF.

Engagement segments

This employee experience segmentation identifies groups of employees who have responded in similar ways, not just to the engagement questions, but also those within the core themes.

The employee experience segmentation approach provides a more holistic picture for understanding different groups within our organisation.



Workforce size and composition

Full Time Equivalents	31 March 2017	31 March 2016	31 March 2015	31 March 2014
Permanent	256.4	233.0	241.5	217.9
Fixed-term contracts [19]	9	6	0	2

Headcount	31 March 2017	31 March 2016	31 March 2015	31 March 2014
Payroll Staff	272	243	246	225
Off-payroll Staff [20]	27	24	33	36

Average full time equivalent over 2016-17	2016/17	2015/16	2014/15	2013/14
Payroll Staff	246	242	238	202
Off-payroll Staff	21.2	24.2	35	24

Workforce shape: headcount (%)

19 Fixed-term appointment of less than 12 months.

20 Off-payroll staff encompasses consultants and contingent labour, for example, interim managers, specialist contractors and agency staff.

Recruitment

All UKEF recruitment is carried out in accordance with the relevant employment legislation and the recruitment principles issued by the Civil Service commission. The recruitment market remained quite challenging during 2016-17 due to the lack of competitiveness in our pay offering compared to financial services comparators, and the relative buoyancy of the private sector market. In 2016–17 UK Export Finance appointed the following:

	Permanent appointments [21]	Fixed-term appointments	Loans from other government departments	Secondments	Total
Administrative Assistants and Officers	8	3	0	0	11
Executive Officers	10	1	0	0	11
Higher and Senior Executive Officers	29	3	0	0	32
Grade 6/7	15	2	1	0	18
Senior Civil Servants[21]	2	0	0	0	2

Learning and development

We want to ensure that we continue to develop our staff to equip them with the specialist technical skills required to deliver our mandate, supported by the core skills needed to be better managers and leaders.

During 2016–17 the average number of days spent on learning and development per FTE was 3.5 days, with an average spend of £840 per FTE, including formal training courses as well as other forms of development such as coaching and on-the-job training. We continue to grow our technical expertise by delivering a project finance and credit risk training programme which we will further develop during 2017–18.

Our overall engagement score for learning and development continues to grow, which is an indication of our commitment to developing our people.

For 2017–18 our Executive Committee has outlined the key capabilities and skills we need to deliver against the ambitions set out in our 2017–20 business plan. The top five priorities are:

- management and leadership skills
- building relationships
- project and programme management
- customer focus
- commercial awareness

Our 2017–18 learning and development plans are currently being developed to address these priorities.

21 15 Senior Civil Servants as at 31 December 2017: SCS3: 1; SCS2: 4; SCS1: 10

Diversity

The Civil Service talent action plan sets out an ambitious programme for removing barriers to success for every talented, committed and hard-working civil servant. A refreshed plan was published in 2016 that indicates the priorities as: recruitment and selection; talent and progression; creating a more inclusive culture; and social mobility.

We share these ambitions and want ensure that we are building on the talents of all our employees. We want to create an environment that is inclusive while valuing and embracing diversity, building a great place to work where everyone is able to realise their potential. Our diversity and inclusion strategy, published in June 2016, sets out how we will work towards achieving this.

A key part of the plan is engaging UKEF staff to make diversity and inclusion everyone's responsibility. Working closely with colleagues from across the Department for International Trade, we have supported the creation of staff networks across all the protected characteristics. We have also set up two sub-groups within UKEF; the gender network and LGB&T+ network. We are using diversity data to highlight any areas of under-representation within UKEF and will continue to do this on an annual basis in order to inform our plans.

A range of HR policies support our diversity and inclusion agenda and we have an ambitious work programme to ensure that our policy framework reflects best practice in this area.

The recruitment process is a key facilitator of having a more diverse workforce. The application process is anonymous to protect against bias. We use the government's Guaranteed Interview Scheme whereby any disabled candidate, whose application meets the minimum criteria, will be guaranteed an interview. We require all staff to complete an e-learning course on equality, diversity and unconscious bias.

Diversity as of 31 March 2017

	Women (%)	Black and Minority Ethnic (%)	Disabled (%)
Administrative Assistants and Officers	18 (78.3)	12 (52.2)	1 (4.3)
Executive Officers	17 (54.8)	18 (58.1)	4(12.9)
Higher and Senior Executive Officers	38 (29.0)	30 (22.9)	4 (3.0)
Grade 6/7	23 (31.9)	10 (13.9)	1 (1.4)
Senior Civil Servants	3 (20.0)	2 (13.3)	0 (0.0)
Total	99 (36.4)	72 (26.5)	10 (3.7)

Health, safety and well-being

We published our first health and wellbeing strategy in 2016, with the ambition to create an environment which allows our employees to achieve their full potential for the benefit of themselves and their organisation.

UKEF has an employee assistance programme in place support employees addressing challenges across their work, family and personal lives. We also have an occupational health service to ensure that we put in place any reasonable adjustments that would facilitate a return to work or support employees at work. UKEF also provides staff with a cycle to work scheme, flu jabs and annual health screenings.

We have seen a significant reduction in our sickness levels from 7.2 days in 2015-16 to 4.7 days in 2016-17. This is below the average for the Civil Service (7.2 days) and private sector (5.8 days). The cost of sickness absence in UKEF for 2016–17 was £195,000. More than 58% of staff have had no sickness absence in 2016–17.

Sickness absence data

	31 March 2017	31 March 2016	31 March 2015
Average Working Days lost	4.7	7.2	6.3
% Staff with no sickness absence.	58.5%	49.6%	50%

Reward and recognition

HM Treasury has overall responsibility for the government's public sector pay policy. This includes defining the overall parameters for civil service pay uplifts each year to ensure that civil service pay awards are consistent with the government's overall objectives.

Cabinet Office has responsibility for civil service management. It works with departments and agencies on workforce and reward strategies to encourage greater consideration of workforce needs and properly tailored reward policies.

Departments have responsibility for implementing civil service pay policy for their workforce in a way that is consistent with the civil service pay guidance and reflects the needs of their business and their labour market position.

All pay remits must be approved by a secretary of state or responsible minister, and each department, through its accounting officer, is responsible for the propriety of the pay award to staff. UKEF operated its 2016-17 pay award and performance awards within the guidance set by HM Treasury.

UKEF also operates an in-year reward scheme to recognise exceptional pieces of work, effort or activity, which support UKEF in achieving its overall objectives. We made 121 awards to employees through this scheme in 2016-17. We also rolled out a range of staff benefits including a revised childcare vouchers scheme, a cycle to work scheme and a staff discount scheme.

Remuneration policy

The remuneration arrangements for senior civil servants are set by the Prime Minister following independent advice from the senior salaries review body. The review body also advises the Prime Minister from time to time on the pay and pensions of MPs 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 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
- the government's inflation target

The review body takes account of the evidence it receives concerning 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 senior civil service (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 on the operation of the pay system
- ensures succession management for executive positions on the UKEF board

As at 31 March 2017, the membership was:

- Noel Harwerth – non-executive chair
- Sir Eric Peacock – non-executive director
- Amin Mawji OBE – non-executive director
- Lawrence Weiss – non-executive director
- Oliver Peterken – non-executive director

The Chief Executive attends meetings, other than during discussion of his own performance. A representative from the Chief Executive's Office 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 limited circumstances when appointments can be made on any other basis.

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 UKEF board are recruited through fair and open competition and are appointed for an initial period of three years with the option to extend for a further agreed period. These appointments can be terminated with a 1 month notice period. There is no provision for compensation for early termination.

Salary and pension entitlements for senior management

The salary and pension entitlements of the most senior management (that is, Executive Committee members) of UKEF are set out below. As well as all members of the Executive Committee at 31 March 2017, this table also includes the former members who left the department or ceased to be members during the year. These disclosures have been subject to external audit.

Single total figure of remuneration

Officials	Salary £'000		Bonus payments £'000		Pension Benefits[22] £'000		Total £'000	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Louis Taylor *Chief Executive*	250-255	110-115 (250-255 FTE)	0	0	96	44	345-350	155-160
Bhaskar Dasgupta *Chief Operating Officer started Oct 2016*	65-70 (135-140 FTE)	NA	0	NA	26	NA	90-95	NA
Gordon Welsh *Head of Business Group*	140-145	NA	0	NA	221	NA	360-365	NA
Cameron Fox *Chief Financial Officer*	90-95	85-90	10-15	10-15	36	34	140-145	130-135
David Havelock *Chief Risk Officer*	135-140	130-135	0-5	10-15	28	37	165-170	185-190
Lucy Wylde *General Counsel*	160-165	160-165	0	10-15	0	0	160-165	175-180

Notes:

'Salary' includes gross salary; overtime; reserved rights to London weighting or 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.

22 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.

Bonuses are based on attained performance levels 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 that for which the performance has been assessed. Therefore, the bonuses reported in 2016–17 relate to performance in 2015–16 and the comparative bonuses reported for 2015–16 relate to the performance in 2014–15.

None of the most senior managers received any benefits-in-kind during the year.

Pay multiples

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

	2016-17	2015-16
Band of Highest Paid Director's Remuneration[23] (£000)	250-255	250-255
Median Total10 [24](£)	40,785	38,923
Remuneration Ratio[25]	6.1	6.5

The banded remuneration of the highest-paid director in UK Export Finance in the financial year 2016–17 was £250,000-£255,000 (the same in 2015–16). In 2016–17 this was 6.1 times (2015–16, 6.5) the median remuneration of the workforce, which was £40,785 (2015–16, £38,923).

The ***Hutton Review of Fair Pay***, recommended a maximum remuneration ratio of 20 for public bodies. The average ratio across the FTSE 100 has been calculated to be 150[26].

In both 2016–17 and the previous year, 0 employees received remuneration in excess of the highest-paid director. Remuneration ranged from £20,220 to £250,000 (2015–16, £20,020-£250,000).

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 organisation's 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

23 The banded, full-time equivalent, annualised of the highest paid director as at 31 March 2017.

24 The median, full-time equivalent total remuneration of the staff, excluding the highest paid director as at 31 March 2017.

25 The pay multiple (ratio) between the highest paid director and all other staff.

26 David Oakley, ***Financial Times***, 12 Jun 2015.

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.

The ratio this year reversed the increase of last year. Unlike last year where several staff were taken on at salaries towards the bottom of grade/salary ranges, this year more new staff were recruited at salaries higher up the salary ranges.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. Civil servants may be in one of five defined benefit schemes; either a final salary scheme (**classic, premium or classic plus**); or a whole career scheme (**nuvos**, or **alpha** which was introduced on 1 April 2015). The normal pension age for staff in **alpha** is equal to the member's state pension age. Since 1 April 2015, newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic, premium or classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

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, nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes). 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 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. 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** and **alpha** 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% (nuvos) or 2.32% (alpha) 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 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 0.5% 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;** for **alpha**, the higher of 65 or state pension age.

Further details about the Civil Service pension arrangements can be found at:
www.civilservicepensionscheme.org.uk

Pension benefits **Officials**	**Accrued pension at pension age as at 31/3/17 and related lump sum** £'000	**Real increase in pension and related lump sum at pension age** £'000	**CETV at 31/3/17** £'000	**CETV at 31/3/16** £'000	**Real increase in CETV** £'000	**Employer contribution to partnership pension account** Nearest £100
Louis Taylor *Chief Executive*	45-50	45-47.5	530	29	54	0
Bhaskar Dasgupta *Chief Operating Officer*	45-50	47.5-50	523	0	-1	0
Gordon Welsh *Head of Business Group*	40-45 plus 20-25 lump sum	10-12.5 plus 2.5-5 lump sum	841	601	208	0
Cameron Fox *Chief Financial Officer*	5-10	5-10	37 (alpha); 20 (PCSPS)	18 (alpha); 19 (PCSPS)	12 (alpha); 0 (PCSPS)	0
David Havelock *Chief Risk Officer*	20-25	0-2.5	367	367	31	0
Lucy Wylde *General Counsel*	0	0	0	0	0	0

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 the senior capacity to which the disclosure requirement 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.

Staff pension costs

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme and 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 2012. The details in the resource accounts of the Cabinet Office are available at the Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2016–17, employers' contributions of £2,317,532 were payable to the PCSPS (2015–16 £2,238,114) at 1 of 4 rates in the range 20.0% to 24.5% 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 2016–17 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. Employer's contributions of £66,360 (2015–16: £61,993) 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 (adjusted to between 8% and 14.75% from October 2015). The employer also matches employees' contributions of up to 3% of pensionable pay. In addition, employer contributions of £1,968 (2015–16: £2,318), 0.5% of pensionable pay (adjusted from 0.8% last year), 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.

Fees paid to non-executive directors

Non-executive directors are paid a fee for their attendance at UKEF Board, Audit & Risk committee, Remuneration Committee and other ad hoc meetings, and the performance of other duties as required. They are also paid travel and subsistence expenses.

The total payments to non-executive directors for the year were in the following ranges:

Non-executive member	Fees for 2016-17 £000	Fees for 2015-16 £000
Guy Beringer CBE *Chair of Management Board* *Left 31 Dec 2016*	35-40 (45-50 FTE)	45-50
Noel Harwerth *Chair of Management Board* *Started 1 Jan 2017*	10-15 (45-50 FTE)	0
Lawrence Weiss *Member of Management Board* *Started 1 Nov 2016*	5-10 (10-15 FTE)	0
Amin Mawji OBE *Member of Management Board* *Chair of Audit & Risk Committee*	15-20	15-20
Sir Eric Peacock *Member of Management Board* *Member of Audit & Risk Committee*	10-15	10-15
Oliver Peterken *Member of Management Board* *Started 1 Feb 2017*	0-5 (10-15 FTE)	0

Civil servants employed by other departments do not receive fees for their attendance at UKEF Board meetings.

Off-payroll engagements

Following the review of tax arrangements of public sector appointees published by the Chief Secretary to the Treasury in 2012, departments now publish annual information on their highly paid and/or senior off-payroll engagements. The tables below provide information on those off-payroll engagements paid more than £220 per day during 2016–17.

Off payroll engagements that had lasted longer than 6 months as at 31 March 2017

Number of existing engagements at 31 March 2017	8
of which, had existed for	
less than 1 year	2
between 1 and 2 years	5
between 2 and 3 years	0
between 3 and 4 years	1
4 years or more at the time of reporting	0
Total	8

Tax assurance for new off-payroll engagements

Number of new engagements, plus those that reached six months duration, between 1 April 2016 and 31 March 2017	28
Number of these engagements that include, or included, contractual clauses giving the department the right to request assurance in relation to income tax and national insurance obligations	28
Number for whom assurance has been requested	28
of which	
assurance has been received	27
assurance has not been received	1
have been terminated as a result of assurance not being received	1

Off-payroll engagements of board members and/or senior officials with significant financial responsibility

No. of off-payroll engagements of board members, and/or senior officials with significant financial responsibility during the year	0
No. of individuals that have been “deemed” board members and or senior officials with significant financial responsibility during the year.	13

Cost of off-payroll engagements

The total cost for 2016–17 including engagements of individuals whose daily cost was less than £220 per day was £2,392,686 (2015–16: £2,540,820).

Expenditure on consultancy

Total expenditure on consultancy in 2016–17 amounted to £24,885 (2015–16: £164,574).

Compensation for loss of office

Four members of staff left under voluntary exit terms during 2016–17. They received a compensation payment of between £11,700 and £31,000.

One member of staff left under compulsory redundancy terms.

	2016-17			2015-16		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	2	2	-	2	2
£25,000 - £50,000	-	2	2	-	4	4
£50,000 - £100,000	1	-	1	-	2	2
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
Total no. of exit packages	1	4	5	-	8	8
Total cost/£k	53	92	145	-	348	348

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS) unless specified as otherwise below. The CSCS is a statutory scheme under the Superannuation Act 1972 and 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 above.

During 2016–17 no individuals retired early on ill-health grounds (2015–16: nil); the total additional accrued pension liabilities in the year amounted to £0 for 2016–17 (2015–16: £0).

Louis Taylor
Chief Executive and Accounting Officer
UK Export Finance
6 July 2017

Parliamentary accountability and Audit

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 UKEF 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
- 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 include the propriety and regularity of the public finances for which they are answerable, keeping proper records and safeguarding UKEF's assets. The responsibilities are set out in Managing Public Money, published by HM Treasury.

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and takes personal responsibility for the judgments required for determining it is fair, balanced and understandable.

Statement of Parliamentary Supply

For the year ended 31 March 2017

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires UK Export Finance to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The SoPs and related notes are subject to audit.

Summary of Resource and Capital Outturn 2016-17

		Estimate			Outturn			2016-17 Voted outturn compared with Estimate: savings/ (excess)	2015-16 Outturn
	Note	Voted £'000	Non-Voted £'000	Total £'000	Voted £'000	Non-Voted £'000	Total £'000	£'000	Total £'000
Departmental Expenditure Limit									
- Resource	SoPS1(a)	1	-	1	-	-	-	1	-
- Capital	SoPS1(b)	300	-	300	64	-	64	236	-
Annually Managed Expenditure									
- Resource	SoPS1(a)	120,320	-	120,320	(149,382)	-	(149,382)	269,702	(106,341)
- Capital	SoPS1(b)	935,376	-	935,376	250,724	-	250,724	684,652	33,874
Total Budget		**1,055,997**	**-**	**1,055,997**	**101,406**	**-**	**101,406**	**954,591**	**(72,467)**
Total Resource		120,321	-	120,321	(149,382)	-	149,382)	269,703	(106,341)
Total Capital		935,676	-	935,676	250,788	-	250,788	684,888	33.874
Total		**1,055,997**	**-**	**1,055,997**	**101,406**	**-**	**101,406**	**954,591**	**(72,467)**

Net cash requirement 2016-17

	Note	2016-17 Estimate £'000	2016-17 Outturn £'000	2016-17 Outturn compared with Estimate: savings/ (excess) £'000	2015-16 Outturn £'000
Total	**SoPS2**	**908,812**	**(21,277)**	**930,277**	**(164,840)**

Administration Costs 2016-17

	2016-17 Estimate £'000	2016-17 Outturn £'000	2015-16 Outturn £'000
Total	**1**	**-**	**-**

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 within the Chief Financial Officer's Report and within SoPS Note 1 below.

The notes on pages 155 to 157 form part of the Statement of Parliamentary Supply.

SoPS1 Analysis of net outturn by section

SoPS1(a) Resource											
									2016-17		2015-16
							Outturn	Estimate	Outturn compared with Estimate: savings/ (excess)	Outturn compared with Estimate, adjusted for virements	Outturn Total
	Administration					Programme	Total	Total			
Note	Gross	Income	Net	Gross	Income	Net	Net	Net			Net
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)											
A Export Credit Guarantees and Investments	30,417	(30,417)	-	-	-	-	-	1	1	1	-
Total	**30,417**	**(30,417)**	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**1**	**-**
Voted spending in Annually Managed Expenditure (AME)											
B Export Credits	-	-	-	35,396	(165,427)	(130,031)	(130,031)	15,316	145,347	145,347	(96,324)
C Fixed Rate Export Finance Assistance	-	-	-	3,049	(4,484)	(1,435)	(1,435)	4,232	5,667	5,667	(1,923)
D Refinanced Loans and interest equalisation	-	-	-	-	(2,819)	(2,819)	(2,819)	(2,810)	9	9	(4,318)
E Direct Lending	-	-	-	-	(15,097)	(15,097)	(15,097)	103,582	118,679	118,679	(3,776)
Total	**-**	**-**	**-**	**38,445**	**(187,827)**	**(149,382)**	**(149,382)**	**120,320**	**269,702**	**269,702**	**(106,341)**
Total Resource	**30,417**	**(30,417)**	**-**	**38,445**	**(187,827)**	**(149,382)**	**(149,382)**	**120,321**	**269,703**	**269,703**	**(106,341)**

Explanation of variances between Estimate and outturn:

A Voted spending in RDEL – For 2016-17 UKEF operated (with HM Treasury approval) a zero net RDEL regime for administration costs whereby a proportion of UKEF's trading income is treated as negative RDEL to fund administration costs. As part of the Spending Review 2015 SR(15) UKEF has a maximum amount of income (agreed per year over the 4 years) which can be used to fully offset expenditure. Also annually (as part of the Supply Estimates process) HM Treasury then approve the maximum amount of UKEF's trading income that can be treated as negative RDEL based on its expected level of activity and affordability. This arrangement is in place as it reflects the fact that UKEF prices premium written to cover risk and administration costs. A net RDEL outturn of zero shows UKEF is covering its administration costs from the premium that was written.

B Export Credits £145 million – the variance largely relates to a change in economic outlook with regard to the recoverability of insurance assets as well as foreign exchange movements that were significant in 2016-17 due to a 13% weakening of the Sterling against the US Dollar.

C Fixed Rate Export Finance Assistance £6 million – this relates to changes in fair value of financial instruments.

E Direct Lending - £119 million – this variance relates to foreign exchange movements on expected lending activity which cannot be forecast with certainty and which is unhedged. A more detailed explanation of UKEF's foreign exchange risk can be found in the Chief Risk Officer's report in the Performance section of the Annual Report and Note 21 of the Financial Statements.

SoPS1(b) Capital

					2016-17	2015-16
			Outturn	Estimate		Outturn
	Gross £'000	Income £'000	Net £'000	Net £'000	Net total compared with Estimate £'000	Net £'000
Voted spending in Departmental Expenditure Limit (DEL)						
A Export Credit Guarantees and Investments	64	-	64	300	236	-
Total	**64**	**-**	**64**	**300**	**236**	**-**
Voted spending in Annually Managed Expenditure (AME)						
D Refinanced loans and interest equalisation	-	(18,522)	(18,522)	(11,917)	6,605	(24,322)
E Direct Lending	271,103	(1,857)	269,246	947,293	678,047	58,196
Total	**271,103**	**(20,379)**	**250,724**	**935,376**	**684,652**	**33,874**
Total Capital	**271,167**	**(20,379)**	**250,788**	**935,676**	**684,888**	**33,874**

Explanation of variances between Estimate and outturn:

D Loans and interest equalisation £7 million – this reflects timing differences with regards settlement.

E Direct Lending £678 million – due to the fact the Direct Lending facility had a lower take up than the headroom provided (to meet possible demand) in the Estimate. More details of UKEF's risks including foreign currency and liquidity risk can be found in the Chief Risk Officer's report in the Performance section of the Annual Report and Note 21 of the Financial Statements.

SoPS2 Reconciliation of Net Resource Outturn to Net Cash Requirement

SoPS2	SoPS Note	2016-17 Estimate £'000	2016-17 Outturn £'000	2016-17 Variance £'000
Resource Outturn	SoPS1(a)	120,321	(149,382)	269,703
Capital Outturn	SoPS1(b)	935.676	250,788	684,888
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation & amortisation of Equipment and Intangible Assets		(250)	(180)	(70)
Net foreign exchange differences & other non cash items		(108,405)	50,484	(158,889)
New provisions and adjustments to previous provisions		(97,361)	(23,100)	(74,261)
Adjustments to reflect movements in working balances:				
Increase/(Decrease) in receivables		91	(118,517)	118,608
(Increase)/Decrease in payables		58,740	(31,800)	90,540
Use of provisions		-	242	(242)
Net cash requirement		**908,812**	**(21,465)**	**930,277**

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 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise Statement of Comprehensive Net Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability 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 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 2017 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 2017 and of the Department's 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

Without qualifying my opinion, I draw your attention to the disclosures made in Note 1b to the financial statements concerning the significant uncertainty attached to the final outcome of the underwriting activities. The long-term nature of the risk underwritten 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. Details of the impact of this on the financial statements are provided in Note 1b to the financial statements.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability 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.

Sir Amyas C E Morse
Comptroller and Auditor General
12 July 2017

National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP

Statutory limits

The Export and Investment Guarantees Act 1991 sets limits on our commitments and requires us to report our commitments against these limits annually. The table shows the statutory limits at 31 March 2017 and 31 March 2016
and the outstanding commitments against them.

	At 31 Mar 2017				At 31 Mar 2016			
	Sterling £m	Foreign currency SDRm	Sterling equivalent SDRm	Total SDRm	Sterling £m	Foreign currency SDRm	Sterling equivalent £m	Sterling total £m
Section 6(1) amounts								
Statutory limit	-	67,700	-	67,700	-	67,700	-	67,700
Assets (see note below)		-		-	-	-	-	-
Total commitments	453	19,276	416	19,691	738	19,756	755	20,511
Section 6(3) amounts								
Statutory limit	-	26,200	-	26,200	-	26,200	-	26,200
Assets (see note below)	-	-		-	-	-	-	-
Total commitments	1	2	1	3	1	4	1	5

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 2017				At 31 Mar 2016			
	Sterling £m	Foreign currency SDRm	Sterling equivalent SDRm	Total SDRm	Sterling £m	Foreign currency SDRm	Sterling equivalent £m	Sterling total £m
Section 6(1) amounts								
Assets	1	3	1	4	1	6	1	7
Section 6(3) amounts								
Assets	32	-	31	31	51	-	50	50

Financial Statements UK Export Finance 2016-17 at 31 March 2017

Statement of Comprehensive Net Income

For the year ended 31 March 2017

	Note	2016-17 £'000	2015-16 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		120,061	113,524
Less ceded to reinsurers		(18,432)	(40,788)
Net premium income	3(a)	101,629	72,736
Net investment return	3(b)	20,731	16,263
Claims credit for the year	5	26,121	21,063
Changes in insurance liabilities (net of reinsurance)	19	-	6,157
Net foreign exchange gain	6	47,287	10,461
Total income		**195,768**	**126,680**
Expenses			
Changes in insurance liabilities (net of reinsurance)	19	(35,638)	-
Staff costs	7	(14,800)	(15,136)
Other administration and operating costs	8	(12,201)	(13,399)
Total expenses		**(62,639)**	**(28,535)**
Net income arising from Export Credit Guarantees and Insurance Activities		**133,129**	**98,145**
Export Finance Assistance			
Income			
Net investment return	3(b)	9,817	7,421
Net foreign exchange gain	6	9,534	2,596
Total income		**19,351**	**10,017**
Expenses			
Staff costs	7	(1,698)	(966)
Other administration and operating costs	8	(1,400)	(855)
Total expenses		**(3,098)**	**(1,821)**
Net Income arising from Export Finance Assistance Activities		**16,253**	**8,196**
Net operating income for the year		**149,382**	**106,341**

All income and expenditure is derived from continuing operations.

The notes on pages 168 to 209 form part of these accounts.

Statement of Financial Position

As at 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 £'000
Non-current assets:			
Plant and equipment	9(a)	135	253
Intangibles	9(b)	7	5
Financial assets			
Fair value through profit or loss	10(a)	2,157	3,806
Loans and receivables	10(b)	280,676	84,528
Insurance contracts			
Insurance assets	11	438,971	468,853
Reinsurers' share of insurance liabilities	12	348,216	332,196
Insurance and other receivables	13	6,048	5,434
Total non-current assets		**1,076,210**	**895,075**
Current assets:			
Financial assets			
Fair value through profit or loss	10(a)	2,017	3,174
Loans and receivables	10(b)	50,758	21,113
Insurance contracts			
Insurance assets	11	63,113	94,234
Insurance and other receivables	13	4,614	13,161
Cash and cash equivalents	14	107,465	164,840
Total current assets		**227,967**	**296,522**
Total assets		**1,304,177**	**1,191,597**
Current liabilities:			
Financial liabilities			
Fair value through profit or loss	16	(1,652)	(2,525)
Payable to Consolidated Fund	17	(107,465)	(164,840)
Provisions		(81)	(115)
Insurance and other payables	18	(12,420)	(18,400)
Total current liabilities		**(121,618)**	**(185,880)**
Non-current assets plus net current assets		**1,182,559**	**1,005,717**
Non-current liabilities			
Financial liabilities			
Fair value through profit or loss	16	(2,245)	(4,966)
Insurance contracts			
Insurance liabilities	19	(930,676)	(879,018)
Provisions		(63)	(271)
Total non-current liabilities		**(932,984)**	**(884,255)**
Assets less liabilities		**249,575**	**121,462**
Taxpayers' equity			
Exchequer Financing		(3,236,619)	(3,267,608)
Cumulative Trading Surplus		3,535,977	3,402,848
General Fund		(49,783)	(13,778)
Total taxpayers' equity		**249,575**	**121,462**

The notes on pages 168 to 209 form part of these accounts.

Louis Taylor
Chief Executive and Accounting Officer
UK Export Finance
6 July 2017

Statement of Cash Flows

As at 31 March 2017

	Note	2016-17 £'000	2015-16 £'000
Cash flows from operating activities			
Net operating income		149,382	106,341
Adjustments for non-cash transactions:			
Depreciation & amortisation			
Depreciation of equipment	8	180	444
Amortisation of intangible assets	8	-	22
Other:			
Audit fees	8	196	224
Amortised loans & receivables income	10(b)	(8,382)	(5,498)
Net unrealised foreign exchange (gain) / loss on net assets other than cash	6	(42,298)	(10,660)
Provisions:			
Insurance liabilities net of reinsurance movement	19	35,638	(6,157)
Claims provision movement	11(a)	(26,338)	(21,310)
Interest on claims provision movement	11(b)	13,800	21,325
Early retirement and dilapidation movement		(242)	(390)
Movements in Working Capital other than cash:			
Claims assets before provisions	11(a)	111,497	127,558
Interest on claims assets before provisions	11(b)	(3,951)	(9,856)
Loans & receivables	10(b)	43,794	17,117
Insurance & other receivables		8,032	4,958
Insurance & other payables		(8,267)	(24,630)
Financial assets held at fair value	10(a)	2,806	4,061
Financial liabilities held at fair value	16	(3,594)	(4,835)
Net cash inflow from operating activities		272,253	198,714
Cash flows from investing activities			
Purchase of equipment and intangibles	9	(64)	-
Export Finance Assistance loans:			
Advances	10(b)	(271,103)	(58,196)
Recoveries	10(b)	20,379	24,322
Net cash outflow from investing activities		(250,788)	(33,874)
Net cash inflow from operating and investing activities		21,465	164,840
Cash flows from financing activities			
Receipts from the Consolidated Fund (Supply):			
relating to the current year		86,000	-
Net cash flow from financing activities		86,000	-
Net increase in cash and cash equivalents in the year before adjusting payments to the Consolidated Fund		107,465	164,840
Payments to the Consolidated Fund:			
relating to the prior year	14	(164,840)	(252,684)
Net decrease in cash and cash equivalents in the year		(57,375)	(87,844)
Cash and cash equivalents at the beginning of the year	14	164,840	252,684
Cash and cash equivalents at the end of the year	**14**	**107,465**	**164,840**

The net decrease in cash and cash equivalents in the year includes the effect of foreign exchange rate changes on cash held in foreign currency of £14.5 million (refer to Note 6).

The notes on pages 168 to 209 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2017

	Note	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2015		(3,122,968)	3,304,703	(1,998)	179,737
Changes in taxpayers' equity for 2015-16					
Non-Cash Adjustments:					
Auditors' remuneration	8	224	-	-	224
Movements in Reserves:					
Transfers between reserves		19,976	-	(19,976)	-
Recognised in Statement of Comprehensive Net Income		-	98,145	8,196	106,341
Total recognised income and expense for 2015-16		*20,200*	*98,145*	*(11,780)*	*106,565*
Amounts arising in year payable to the consolidated fund		(164,840)	-	-	(164,840)
Balance at 31 March 2016		(3,267,608)	3,402,848	(13,778)	121,462
Changes in taxpayers' equity for 2016-17					
Non-Cash Adjustments:					
Auditors' remuneration	8	196	-	-	196
Movements in Reserves:					
Transfers between reserves		52,258	-	(52,258)	-
Recognised in Statement of Comprehensive Net Income		-	133,129	16,253	149,382
Total recognised income and expense for 2016-17		*52,454*	*133,129*	*(36,005)*	*149,578*
Amounts arising in year payable to the consolidated fund	14	(21,465)	-	-	(21,465)
Balance at 31 March 2017		**(3,236,619)**	**3,535,977**	**(49,783)**	**249,575**

The notes on pages 168 to 209 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 2016-17 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 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 some 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 2016-17 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 standards set out below will have an impact on the financial statements when they become effective.

- IFRS 9 *Financial Instruments* – this standard is designed to replace IAS 39 *Financial Instruments: Recognition and Measurement* and amends some of the requirements of IFRS 7 *Financial Instruments – Disclosures*. UKEF has not determined the detailed impact however the changes to loan impairments particularly will require changes to UKEF systems and may lead to increased volatility in reported numbers. The effective date of IFRS 9 is for periods beginning on or after 1 January 2018.

- IFRS 17 *Insurance Contracts* – this standard is designed to replace IFRS 4 *Insurance Contracts.* IFRS 4 allowed entities to use different accounting policies to measure insurance contracts. IFRS 17 removes these inconsistencies and requires entities to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty. Entities will also be required to recognise profit as insurance services are delivered and to provide information about the insurance contract profits that are expected to be recognised in the future. These changes will necessitate a shift from UKEF's fund basis of accounting for insurance contracts. IFRS 17 has yet to be endorsed by the EU and its application in the public sector context has yet to be confirmed by the FReM. There is therefore still some uncertainty about how it may affect UKEF. The effective date of IFRS 17 is for periods beginning on or after 1 January 2021.

The new standard set out below is not expected to have any significant impact on UKEF's financial statements.

- IFRS 15 *Revenue from Contracts with Customers* – The new standard applies to revenue from contracts with customers and replaces all of the revenue standards and interpretations in IFRS. Insurance contracts within the scope of IFRS 4 *Insurance Contracts* as well as Financial Instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments* or IAS *39 Financial Instruments: Recognition and Measurement* are out of scope. The effective date is for periods beginning on or after 1 January 2018.

Major FReM changes for 2016-17

UKEF has reviewed the major FReM changes for 2016-17 and determined there are no changes that will have a significant impact on the Department’s 2016-17 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. There have been no major changes on these assumptions in the current year.

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 significant 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 some 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

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 (which has now been withdrawn and replaced with FRS 103). 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

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 interest income receivable for the year, movement in provisions for amortised cost on loans and receivables, 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 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) 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.

(G) Plant and equipment and intangible assets

i. Plant and equipment

Plant and equipment consists 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 relate to computer software. 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.

(H) Leases

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

(I) Consolidated Fund Payable

The amount payable is equivalent to UKEF's bank balances at the Statement of Financial Position date. The amount due within one year to the Consolidated Fund is the net cash requirement (the net cash inflow from operating activities and investing activities during the year) after adjusting for any amounts already paid or received from the Consolidated Fund.

(J) 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.

(K) 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.

(L) Financial assets

Recognition

Financial assets are recognised and derecognised on the trade date and are classified into the following specified categories:

i. Fair value through profit or loss and

ii. 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 includes derivative instruments that are not designated as effective hedging instruments. 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' include insurance receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market. These 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'. In the case of any loans the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Net income. The carrying amount of the asset is reduced directly only upon write off. 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.

Derivative financial instruments

UKEF uses derivative financial instruments to manage its exposure to interest rate risk, including 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 re-measured 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.

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 in the Statement of Financial Position, as they do not represent the potential gain or loss associated with such transactions.

Interest rate 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. Exposure to gain or loss on any derivative contracts will increase or decrease over their respective lives as a function of maturity dates, interest rates, credit rating and timing of payments.

(M) 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.

(N) 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.

(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.

(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*. These contingent liabilities are disclosed as the amounts reported to Parliament.

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.

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.
- **Account 5** – Direct Lending activity for business since 2014.

i. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2017

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Income						
Gross premium income	-	120,061	-	-	-	120,061
Less ceded to reinsurers	-	(18,432)	-	-	-	(18,432)
Net premium income	-	101,629	-	-	-	101,629
Net investment return income	18,550	2,181	-	4,254	5,563	30,548
Claims credit for the year	21,042	5,079	-	-	-	26,121
Net foreign exchange gain	24,529	22,758	-	-	9,534	56,821
Total income	**64,121**	**131,647**	**-**	**4,254**	**15,097**	**215,119**
Expenses						
Changes in insurance liabilities net of reinsurance	-	(35,638)	-	-	-	(35,638)
Staff costs	(330)	(14,470)	-	(297)	(1,401)	(16,498)
Other administration and operating costs	(272)	(11,929)	-	(245)	(1,155)	(13,601)
Total expenses	**(602)**	**(62,037)**	**-**	**(542)**	**(2,556)**	**(65,737)**
Net income	**63,519**	**69,610**	**-**	**3,712**	**12,541**	**149,382**

ii. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2016

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Income						
Gross premium income	-	113,524	-	-	-	113,524
Less ceded to reinsurers	-	(40,788)	-	-	-	(40,788)
Net premium income	-	72,736	-	-	-	72,736
Net investment return income	13,196	3,067	-	6,241	1,180	23,684
Claims credit for the year	15,997	5,066	-	-	-	21,063
reinsurance	4	6,153	-	-	-	6,157
Net foreign exchange gain	5,763	4,698	-	-	2,596	13,057
Total income	**34,960**	**91,720**	**-**	**6,241**	**3,776**	**136,697**
Expenses						
Staff costs	(483)	(14,653)	-	(322)	(644)	(16,102)
Other administration and operating costs	(428)	(12,971)	-	(285)	(570)	(14,254)
Total expenses	**(911)**	**(27,624)**	**-**	**(607)**	**(1,214)**	**(30,356)**
Net income	**34,049**	**64,096**	**-**	**5,634**	**2,562**	**106,341**

iii. Additional segmental information

For the year ended 31 March 2017, there were three customers (the parties paying the premium) who accounted for more than 10% of the total premium revenue, net of amounts ceded to reinsurers. These customers accounted for net premium income of £72 million.

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 2017

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Non-current assets:						
Equipment assets	-	135	-	-	-	135
Intangible assets	-	7	-	-	-	7
Financial assets						
Fair value through income	-	-	-	2,157	-	2,157
Loans & receivables	-	-	-	14,819	265,857	280,676
Insurance contracts						
Insurance assets	312,549	126,422	-	-	-	438,971
Reinsurers' share of insurance liabilities	-	348,216	-	-	-	348,216
Insurance and other receivables	-	6,048	-	-	-	6,048
Total non-current assets	**312,549**	**480,828**	**-**	**16,976**	**265,857**	**1,076,210**
Current assets:						
Financial assets						
Fair value through income	-	-	-	2,017	-	2,017
Loans & receivables	-	-	-	17,723	33,035	50,758
Insurance contracts						
Insurance assets	43,445	19,668	-	-	-	63,113
Insurance and other receivables	-	4,610	-	3	1	4,614
Cash and cash equivalents	74,160	157,590	-	21,594	(145,879)	107,465
Total current assets	**117,605**	**181,868**	**-**	**41,337**	**(112,843)**	**227,967**
Total assets	**430,154**	**662,696**	**-**	**58,313**	**153,014**	**1,304,177**
Current liabilities:						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(1,652)	-	(1,652)
Payable to Consolidated Fund	(74,160)	(157,590)	-	(21,594)	145,879	(107,465)
Provisions	-	(81)	-	-	-	(81)
Insurance and other payables	(604)	(11,798)	-	(2)	(16)	(12,420)
Total current liabilities	**(74,764)**	**(169,469)**	**-**	**(23,248)**	**145,863**	**(121,618)**
Non-current assets plus net current assets	**355,390**	**493,227**	**-**	**35,065**	**298,877**	**1,182,559**
Non-current liabilities						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(2,245)	-	(2,245)
Insurance liabilities	-	(930,676)	-	-	-	(930,676)
Provisions	-	(63)	-	-	-	(63)
Total non-current liabilities	**-**	**(930,739)**	**-**	**(2,245)**	**-**	**(932,984)**
Assets less liabilities	**355,390**	**(437,512)**	**-**	**32,820**	**298,877**	**249,575**
Taxpayers' equity						
Exchequer Financing	(1,250,090)	(2,266,327)	(101,682)	32,153	349,327	(3,236,619)
Cumulative Trading Surplus	1,605,480	1,828,815	101,682	-	-	3,535,977
General Fund	-	-	-	667	(50,450)	(49,783)
Total taxpayers' equity	**355,390**	**(437,512)**	**-**	**32,820**	**298,877**	**249,575**

v. Segmental Statement of Financial Position at 31 March 2016

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Non-current assets:						
Equipment assets	-	253	-	-	-	253
Intangible assets	-	5	-	-	-	5
Financial assets						
Fair value through income	-	-	-	3,806	-	3,806
Loans & receivables	-	-	-	32,153	52,375	84,528
Insurance contracts						
Insurance assets	319,065	149,788	-	-	-	468,853
Reinsurers' share of insurance liabilities	-	332,196	-	-	-	332,196
Insurance and other receivables	-	5,434	-	-	-	5,434
Total non-current assets	**319,065**	**487,676**	**-**	**35,959**	**52,375**	**895,075**
Current assets:						
Financial assets						
Fair value through income	-	-	-	3,174	-	3,174
Loans & receivables	-	-	-	19,031	2,082	21,113
Insurance contracts						
Insurance assets	47,481	46,753	-	-	-	94,234
Insurance and other receivables	-	13,132	-	29	-	13,161
Cash and cash equivalents	73,217	108,731	-	29,452	(46,560)	164,840
Total current assets	**120,698**	**168,616**	**-**	**51,686**	**(44,478)**	**296,522**
Total assets	**439,763**	**656,292**	**-**	**87,645**	**7,897**	**1,191,597**
Current liabilities:						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(2,525)	-	(2,525)
Payable to Consolidated Fund	(73,217)	(108,731)	-	(29,452)	46,560	(164,840)
Provisions	-	(115)	-	-	-	(115)
Insurance and other payables	(515)	(17,885)	-	-	-	(18,400)
Total current liabilities	**(73,732)**	**(126,731)**	**-**	**(31,977)**	**46,560**	**(185,880)**
Non-current assets plus net current assets	**366,031**	**529,561**	**-**	**55,668**	**54,457**	**1,005,717**
Non-current liabilities						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(4,966)	-	(4,966)
Insurance contracts						
Insurance liabilities	-	(879,018)	-	-	-	(879,018)
Provisions	-	(271)	-	-	-	(271)
Total non-current liabilities	**-**	**(879,289)**	**-**	**(4,966)**	**-**	**(884,255)**
Assets less liabilities	**366,031**	**(349,728)**	**-**	**50,702**	**54,457**	**121,462**
Taxpayers' equity						
Exchequer Financing	(1,175,930)	(2,108,933)	(101,682)	50,675	68,262	(3,267,608)
Cumulative Trading Surplus	1,541,961	1,759,205	101,682	-	-	3,402,848
General Fund	-	-	-	27	(13,805)	(13,778)
Total taxpayers' equity	**366,031**	**(349,728)**	**-**	**50,702**	**54,457**	**121,462**

3 Premium Income & Net investment return

3(a) Premium Income

	2016-17 £'000	2015-16 £'000
Underwriting Premium Income:		
Insurance contracts premium receivable (IFRS4)		
Current Underwriting Year:		
Gross Premium	116,779	85,182
Less ceded to reinsurers	(18,432)	(21,586)
Net Premium income	**98,347**	**63,596**
Previous Underwriting Years:		
Gross Premium	201	23,891
Less ceded to reinsurers	-	(19,202)
Net Premium income	**201**	**4,689**
Summary		
Gross Premium	116,980	109,073
Less ceded to reinsurers	(18,432)	(40,788)
Net Premium income	**98,548**	**68,285**
Financial guarantees premium amortised (IAS 39)		
Summary		
Gross Premium	3,081	4,451
Less ceded to reinsurers	-	-
Net Premium income	**3,081**	**4,451**
Total Net premium income	**101,629**	**72,736**

3(b) Net Investment Return

	Note	Account 1 £'000	Account 2 £'000	2016-17 Total £'000	2015-16 Total £'000
Export Credit Guarantees and Insurance					
Interest income	4	18,550	2,181	20,731	16,263
Total Income		**18,550**	**2,181**	**20,731**	**16,263**
Net Income		**18,550**	**2,181**	**20,731**	**16,263**

	Note	Account 4 £'000	Account 5 £'000	2016-17 Total £'000	2015-16 Total £'000
Export Finance Assistance					
Amortised loans & receiveables income	10(b)	2,819	5,563	8,382	5,498
Gain in fair value of derivatives		4,484	-	4,484	6,756
Total Income		**7,303**	**5,563**	**12,866**	**12,254**
Loss in fair value of derivatives		(3,049)	-	(3,049)	(4,833)
Total Costs		**(3,049)**	**-**	**(3,049)**	**(4,833)**
Net Income		**4,254**	**5,563**	**9,817**	**7,421**

4 Interest receivable

	Note	Account 1 £'000	Account 2 £'000	2016-17 Total £'000	2015-16 Total £'000
Interest arising from claims					
- interest charged in the year	11(b)	26,112	10,924	37,036	40,715
- net increase in provisions for unrecovered interest	11(b)	(7,600)	(8,743)	(16,343)	(24,482)
Interest arising from claims net of provisions		18,512	2,181	20,693	16,233
Other Interest		38	-	38	30
Interest credit for the year		**18,550**	**2,181**	**20,731**	**16,263**

Other Interest includes bank interest on balances with commercial banks.

5 Claims credit for the year

	Note	Account 1 £'000	Account 2 £'000	2016-17 Total £'000	2015-16 Total £'000
Amounts authorised and paid in the year	11(a)	-	(8,416)	(8,416)	(5,381)
Expected recoveries on claims authorised and paid in the year		-	3,836	3,836	2,325
Provision on claims authorised and paid in the year		-	(4,580)	(4,580)	(3,056)
Net decrease in provisions for claims authorised and paid in previous years		21,042	9,659	30,701	24,119
Claims credit for the year		**21,042**	**5,079**	**26,121**	**21,063**

There is no reinsurance element included within the figures above.

6 Net foreign exchange gain / (loss)

	Note	Account 1 £'000	Account 2 £'000	2016-17 Total £'000	2015-16 Total £'000
Export Credit Guarantees and Insurance					
Net foreign exchange gain/(loss) arising on:					
- recoverable claims after provisions	11(a)	15,635	8,852	24,487	4,658
- recoverable interest on claims after provisions	11(b)	9,460	58	9,518	2,091
- insurance premium receivables		-	99	99	438
- insurance payables		(566)	(774)	(1,340)	877
- cash		-	14,523	14,523	2,397
Net foreign exchange gain/(loss) for year		**24,529**	**22,758**	**47,287**	**10,461**

	Note	Account 4 £'000	Account 5 £'000	Total £'000	Total £'000
Export Finance Assistance					
Net foreign exchange gain arising on:	10(b)				
- loans & receivables		-	10,481	10,481	2,284
- payables		-	(947)	(947)	312
Net foreign exchange gain/(loss) for year		**-**	**9,534**	**9,534**	**2,596**

	Total £'000	Total £'000
Summary:		
Net foreign exchange gain/(loss) for year on cash assets	14,523	2,397
Net foreign exchange gain/(loss) for year on net assets other than cash	42,298	10,660
Net foreign exchange gain / (loss) for year	**56,821**	**13,057**

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 equivalent to £1	
Currency	**31 March 2017**	**31 March 2016**
Euro	1.17	1.26
Japanese Yen	139.31	161.54
US Dollars	1.25	1.44

7 Staff costs

	2016-17 £'000	2015-16 £'000
Salaries and Wages	12,562	12,531
Social Security Costs	1,418	1,190
Early Retirement Payments	200	343
Other Pension Costs	2,433	2,305
Total Costs before provision movements	16,613	16,369
Early Retirement Provision utilisation & adjustment	(115)	(267)
Total Staff Costs	**16,498**	**16,102**
Of which:		
Export Credit Guarantees and Insurance	14,800	15,136
Export Finance Assistance	1,698	966

Details of staff numbers, exit packages and UKEF's remuneration policy can be found in the *Our People* section of the Annual Report.

8 Other administration and operating costs

	Note	2016-17 £'000	2015-16 £'000
Agency Staff		2,393	2,540
Training		207	335
Recruitment		230	296
Travel & Subsistence		654	879
Accomodation		2,524	2,518
IT Other		3,202	2,956
Project Costs		1,562	1,034
Legal		580	264
Business Promotion		94	602
Depreciation	9(a)	180	444
Amortisation	9(b)	-	22
Irrecoverable VAT		1,505	1,574
Other Administration		597	913
Total Costs before provision ulilisation and adjustment		13,728	14,377
Dilapidation provision utilisation & adjustment		(127)	(123)
Total Other Administrative Costs		**13,601**	**14,254**
Of which:			
Export Credit Guarantees and Insurance		12,201	13,399
Export Finance Assistance		1,400	855
Included in the above figures:			
Audit Fees		196	224

9 Equipment and intangible assets

(a) Equipment assets

	IT equipment £'000	Leasehold improvements £'000	Total £'000
Cost:			
Balance at 1 April 2016	853	142	995
Disposals	(637)	-	(637)
Additions	62	-	62
Balance at 31 March 2017	**278**	**142**	**420**
Accumulated Depreciation:			
Balance at 1 April 2016	707	35	742
On Disposals	(637)	-	(637)
Charge for the Year	159	21	180
Balance at 31 March 2017	**229**	**56**	**285**
Carrying amount:			
31 March 2017	**49**	**86**	**135**
31 March 2016	146	107	253

(b) Intangible assets

	Software £'000
Cost:	
Balance at 1 April 2015	1,175
Disposals	(1,116)
Balance at 1 April 2016	59
Disposals	(54)
Additions	2
Balance at 31 March 2017	**7**
Accumulated Amortisation:	
Balance at 1 April 2015	1,148
Disposals	(1,116)
Charge for the Year	22
Balance at 1 April 2016	54
Disposals	(54)
Balance at 31 March 2017	**-**
Carrying amount:	
31 March 2017	**7**
31 March 2016	5

10 Financial assets

(a) Fair value through profit or loss

	31 March 2017 £'000	31 March 2016 £'000
Interest rate derivatives in relation to Export Finance Loan Guarantees	4,174	6,980
Total	**4,174**	**6,980**
Falling due:		
- within one year	2,017	3,174
- after more than one year	2,157	3,806

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 & receivables

	31 March 2017 £'000	31 March 2016 £'000
Loans & receivables	331,434	105,641
Total	**331,434**	**105,641**
Falling due:		
- within one year	50,758	21,113
- after more than one year	280,676	84,528

	Note	Account 4 £'000	Account 5 £'000	Total £'000
Movements:				
Balance at 1 April 2015		**75,751**	**5,351**	**81,102**
Loans advanced	22	-	58,196	58,196
Loans recovered		(24,322)	-	(24,322)
Net foreign exchange gain/(loss)		-	2,284	2,284
Amortised income		4,318	1,180	5,498
Other movement in working capital		(4,563)	(12,554)	(17,117)
Balance at 31 March 2016		**51,184**	**54,457**	**105,641**
Loans advanced	22	-	271,103	271,103
Loans recovered		(18,522)	(1,857)	(20,379)
Net foreign exchange gain/(loss)		-	10,481	10,481
Amortised income		2,819	5,563	8,382
Other movement in working capital		(2,939)	(40,855)	(43,794)
Balance at 31 March 2017		**32,542**	**298,892**	**331,434**
Of which:				
Capital loans recoverable		32,153	349,327	381,480
Net interest receivable		389	1,096	1,485
Unamortised income		-	(51,531)	(51,531)
Falling due:				
- within one year		17,723	33,035	50,758
- after more than one year		14,819	265,857	280,676

Loans are calculated on the amortised cost basis (refer to accounting policy Note 1(L)).

The fair value of Export Finance Loans for Account 4 was £35,829,000 (2015-16: £56,965,000) and Account 5 £360,963,000 (2015-16: £88,844,000).

11 Insurance assets

	31 March 2017 £'000	31 March 2016 £'000
Recoverable claims	368,450	429,122
Interest on unrecovered claims	133,634	133,965
Total	**502,084**	**563,087**
Falling due:		
- within one year	63,113	94,234
- after more than one year	438,971	468,853

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 2015	582,957	413,431	996,388
Claims approved in the year	-	5,381	5,381
Recoveries made in the year	(49,219)	(83,473)	(132,692)
Recoveries abandoned in the year	(169)	(78)	(247)
Net foreign exchange movements	5,228	2,335	7,563
Balance at 31 March 2016	**538,797**	**337,596**	**876,393**
Claims approved in the year	-	8,416	8,416
Recoveries made in the year	(47,150)	(72,546)	(119,696)
Recoveries abandoned in the year	-	(217)	(217)
Net foreign exchange movements	22,772	11,849	34,621
Balance at 31 March 2017	**514,419**	**285,098**	**799,517**
Recoverable claims - provisions			
Balance at 1 April 2015	319,289	146,387	465,676
Release of provisions in the year	(15,997)	(5,066)	(21,063)
Recoveries abandoned in the year	(169)	(78)	(247)
Net foreign exchange movements	1,902	1,003	2,905
Balance at 31 March 2016	**305,025**	**142,246**	**447,271**
Release of provisions in the year	(21,042)	(5,079)	(26,121)
Recoveries abandoned in the year	-	(217)	(217)
Net foreign exchange movements	7,137	2,997	10,134
Balance at 31 March 2017	**291,120**	**139,947**	**431,067**
Net recoverable claims as at:			
- 31 March 2017	**223,299**	**145,151**	**368,450**
- 31 March 2016	233,772	195,350	429,122
- 31 March 2015	263,668	267,044	530,712

There are no recoverable claims on Accounts 3 and 4.

(b) Interest on unrecovered claims

	Account 1 £'000	Account 2 £'000	Total £'000
Interest on unrecovered claims - gross			
Balance at 1 April 2015	984,068	111,734	1,095,802
Interest charged in the year	28,496	12,219	40,715
Interest received in the year	(24,463)	(3,239)	(27,702)
Recoveries abandoned in the year	(3,152)	(5)	(3,157)
Net foreign exchange movements	8,157	122	8,279
Balance at 31 March 2016	**993,106**	**120,831**	**1,113,937**
Interest charged in the year	26,112	10,924	37,036
Interest received in the year	(28,051)	(2,491)	(30,542)
Recoveries abandoned in the year	(2,171)	(372)	(2,543)
Net foreign exchange movements	33,333	457	33,790
Balance at 31 March 2017	**1,022,329**	**129,349**	**1,151,678**
Interest on unrecovered claims - provisions			
Balance at 1 April 2015	842,068	110,391	952,459
Increase in provisions in the year	15,330	9,152	24,482
Recoveries abandoned in the year	(3,152)	(5)	(3,157)
Net foreign exchange movements	6,086	102	6,188
Balance at 31 March 2016	**860,332**	**119,640**	**979,972**
Increase in provisions in the year	7,600	8,743	16,343
Recoveries abandoned in the year	(2,171)	(372)	(2,543)
Net foreign exchange movements	23,873	399	24,272
Balance at 31 March 2017	**889,634**	**128,410**	**1,018,044**
Net interest on unrecovered claims as at:			
- 31 March 2017	**132,695**	**939**	**133,634**
- 31 March 2016	132,774	1,191	133,965
- 31 March 2015	142,000	1,343	143,343

12 Reinsurers’ share of insurance liabilities

	£’000
Balance at 1 April 2015	306,786
Movements summary:	
Addition to the underwriting funds in the year	21,586
Net decrease in open credit funds	(5,189)
Other fund movements	19,202
Net decrease in insurance liabilities on closed funds	(10,189)
Total Movements	*25,410*
Balance at 31 March 2016	**332,196**
Movements summary:	
Addition to the underwriting funds in the year	18,432
Net decrease in insurance liabilities on closed funds	(2,412)
Total Movements	*16,020*
Balance at 31 March 2017	**348,216**

Movements are summarised within Note 19.

13 Insurance and other receivables

	31 March 2017 £'000	31 March 2016 £'000
Export Credit Guarantees and Insurance:		
Insurance premium receivables	9,110	17,687
Insurance prepayments and accrued income	1,548	879
Total	10,658	18,566
Export Finance Assistance:		
DFiD	-	29
Other receivables	4	-
Total	4	29
Total	**10,662**	**18,595**
Falling due:		
- within one year	4,614	13,161
- after more than one year	6,048	5,434

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 2015	252,684
Net cash inflow to UKEF	164,840
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(252,684)
Balance at 31 March 2016	**164,840**
Net cash inflow to UKEF	21,465
Receipts from the Consolidated Fund:	
in respect of amounts received in the current year	86,000
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(164,840)
Balance at 31 March 2017	**107,465**

Cash and cash equivalents comprise:	31 March 2017 £'000	31 March 2016 £'000
Government Banking Service	39,636	105,138
Commercial banks and cash in hand	67,829	59,702
Total	**107,465**	**164,840**

15 Reconciliation of Net Cash Requirement to decrease in cash

	31 March 2017 £'000	31 March 2016 £'000
Net cash inflow from operating and investing activities	21,465	164,840
Receipts from the Consolidated Fund relating to the current year	86,000	-
Amounts due to the Consolidated Fund	107,465	164,840
Payments to the Consolidated Fund relating to the prior year	(164,840)	(252,684)
Increase/(Decrease) in cash	**(57,375)**	**(87,844)**

16 Financial liabilities at fair value

	31 March 2017	31 March 2016
	£'000	£'000
Interest rate derivatives in relation to Export Finance Loan Guarantees	1,118	2,452
Interest rate derivative contracts entered into for hedging purposes	2,779	5,039
Total	**3,897**	**7,491**
Falling due:		
- within one year	1,652	2,525
- after more than one year	2,245	4,966

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.

17 Payable to the Consolidated Fund

	31 March 2017	31 March 2016
	£'000	£'000
Amounts payable to the Consolidated Fund	107,465	164,840
Total	**107,465**	**164,840**
Falling due:		
- within one year	107,465	164,840

The balance due within one year represents UKEF's bank balance as at 31 March 2017.

18 Insurance and other payables

	31 March 2017 £'000	31 March 2016 £'000
Export Credit Guarantees and Insurance:		
Insurance payables - amounts due to policyholders	112	111
Income Tax and National Insurance	402	386
Deferred income and other payables	11,888	17,903
Total	12,402	18,400
Export Finance Assistance:		
Other payables	18	-
Total	18	-
Total	**12,420**	**18,400**
Falling due:		
- within one year	12,420	18,400

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	Total £'000
Insurance liabilities - Gross of reinsurance			
Balance at 1 April 2015	4	859,761	859,765
Movements:			
Addition to the underwriting funds in the year	-	61,382	61,382
Release of excess funds - cash	-	(19,003)	(19,003)
Release of excess funds - credit	-	(22,507)	(22,507)
Other fund movements	-	21,555	21,555
Change in insurance liabilities on closed funds	(4)	(22,170)	(22,174)
Total Movements	*(4)*	*19,257*	*19,253*
Balance at 31 March 2016	**-**	**879,018**	**879,018**
Movements:			
Addition to the underwriting funds in the year	-	93,219	93,219
Release of excess funds - cash	-	(212)	(212)
Release of excess funds - credit	-	(18,149)	(18,149)
Other fund movements	-	(1,508)	(1,508)
Change in insurance liabilities on closed funds	-	(21,692)	(21,692)
Total Movements	*-*	*51,658*	*51,658*
Balance at 31 March 2017	**-**	**930,676**	**930,676**
Insurance liabilities - Net of reinsurance			
Balance at 1 April 2015	4	552,975	552,979
Movements:			
Addition to the underwriting funds in the year	-	39,796	39,796
Release of excess funds - cash	-	(19,003)	(19,003)
Release of excess funds - credit	-	(17,318)	(17,318)
Other fund movements	-	2,353	2,353
Change in insurance liabilities on closed funds	(4)	(11,981)	(11,985)
Total Movements	*(4)*	*(6,153)*	*(6,157)*
Balance at 31 March 2016	**-**	**546,822**	**546,822**
Movements:			
Addition to the underwriting funds in the year	-	74,787	74,787
Release of excess funds - cash	-	(212)	(212)
Release of excess funds - credit	-	(18,149)	(18,149)
Other fund movements	-	(1,508)	(1,508)
Change in insurance liabilities on closed funds	-	(19,280)	(19,280)
Total Movements	*-*	*35,638*	*35,638*
Balance at 31 March 2017	**-**	**582,460**	**582,460**

	Account 1 £'000	Account 2 £'000	Total £'000
Summary of movements:			
2015-16			
Gross changes in insurance liabilities	*(4)*	*19,257*	*19,253*
Reinsurers' share of changes in insurance liabilities	*-*	*(25,410)*	*(25,410)*
Changes in insurance liabilities (net of reinsurance)	***(4)***	***(6,153)***	***(6,157)***
2016-17			
Gross changes in insurance liabilities	*-*	*51,658*	*51,658*
Reinsurers' share of changes in insurance liabilities	*-*	*(16,020)*	*(16,020)*
Changes in insurance liabilities (net of reinsurance)	***-***	***35,638***	***35,638***

Movements in reinsurance are analysed within Note 12.

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. Credit funds up to and including 2007-08 and cash fund years up to and including 2013-14 are closed years.

	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	2014-15 fund year £'000	2015-16 fund year £'000	2016-17 fund year £'000
Account 2										
Credit funds										
At end of year	12,203	14,077	29,302	34,350	32,460	33,987	34,208	46,367	28,315	32,214
One year later	14,080	14,549	26,329	28,410	28,421	26,790	34,184	44,703	29,114	-
Two years later	19,337	11,946	20,725	24,153	20,398	26,204	35,429	48,413	-	-
Three years later	17,415	10,156	14,483	15,338	21,011	24,580	35,278	-	-	-
Four years later	8,934	8,491	10,479	13,602	17,117	22,511	-	-	-	-
Five years later	6,252	5,757	7,513	10,628	15,215	-	-	-	-	-
Six years later	4,288	3,639	4,584	8,044	-	-	-	-	-	-
Seven years later	2,716	2,250	4,036	-	-	-	-	-	-	-
Eight years later	2,245	1,575	-	-	-	-	-	-	-	-
Nine years later	1,854	-	-	-	-	-	-	-	-	-
Cash funds										
At end of year	20,423	7,963	544	311	71	8,860	69	261	480	689
One year later	21	7,120	109	1	12	7,314	14	291	-	-
Two years later	6	4,590	-	1	12	7,583	171	78	-	-
Three years later	6	232	-	1	-	9,438	27	-	-	-
Four years later	-	244	-	-	-	4,462	-	-	-	-
Five years later	-	221	-	-	-	-	-	-	-	-
Six years later	-	249	-	-	-	-	-	-	-	-
Seven years later	-	256	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-
Credit fund total	1,854	1,575	4,036	8,044	15,215	22,511	35,278	48,413	29,114	32,214
Cash fund total	-	-	-	-	-	4,462	27	78	-	689
Expected Loss total	**1,854**	**1,575**	**4,036**	**8,044**	**15,215**	**26,973**	**35,305**	**48,491**	**29,114**	**32,903**
Summary										**203,510**

Expected Loss Summary:	funds 2007-08 to 2016-17 open £'000	funds 2007-08 to 2016-17 closed £'000	funds 2007-08 to 2016-17 total £'000	funds years to 2006-07 closed £'000	funds grand total £'000
Account 2:					
Credit fund total	196,400	1,854	198,254	1,958	200,212
Cash fund total	767	4,489	5,256	1	5,257
Account 2 total	197,167	6,343	203,510	1,959	205,469
Expected Loss total	**197,167**	**6,343**	**203,510**	**1,959**	**205,469**

20 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, consider 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.

Full details of UKEF's approach to managing financial risk can be found in the Chief Risk Officer’s report in the Performance section of the Annual Report.

Operational risk is described in the Governance Statement which can be found in the accountability section of the Annual Report.

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

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

b) **Credit risk**;

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

d) **Liquidity risk;** and

e) **Risk measurement.**

(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.

Sensitivities to movements in interest rates were:

	1% increase in interest rates £'000	1% decrease in interest rates £'000
As at 31 March 2017		
Interest rate swap arrangements on Export Finance Loan Guarantees	(178)	438
Interest rate derivative contracts entered into for hedging purposes	657	(674)
Net impact on profit or loss	**479**	**(236)**
As at 31 March 2016		
Interest rate swap arrangements on Export Finance Loan Guarantees	(341)	619
Interest rate derivative contracts entered into for hedging purposes	1,068	(1,102)
Net impact on profit or loss	**727**	**(483)**

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 2017		
Interest rate swap arrangements on Export Finance Loan Guarantees	-	-
Net impact on profit or loss	**-**	**-**
As at 31 March 2016		
Interest rate swap arrangements on Export Finance Loan Guarantees	(1)	-
Net impact on profit or loss	**(1)**	**-**

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 2017				
Interest rate swap arrangements on Export Finance Loan Guarantees	24,965	23,031	-	47,996
Interest rate derivative contracts entered into for hedging purposes	16,245	27,670	-	43,915
As at 31 March 2016				
Interest rate swap arrangements on Export Finance Loan Guarantees	27,731	39,270	4,308	71,309
Interest rate derivative contracts entered into for hedging purposes	28,003	40,155	-	68,158

(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 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 and its capital loan commitments is set out below.

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
As at 31 March 2017				
Financial assets:				
Fair value through profit or loss	469	3,083	622	4,174
Account 4 loans at amortised cost	32,542	-	-	32,542
Account 5 loans at amortised cost	-	281,473	17,419	298,892
Insurance and other receivables	4,452	1,854	4,356	10,662
Financial liabilities:				
Fair value through profit or loss	(1,804)	(1,556)	(537)	(3,897)
Insurance and other payables	(12,420)	-	-	(12,420)
Financial Commitments:				
Account 5 amounts available	-	256,839	951	257,790
As at 31 March 2016				
Financial assets:				
Fair value through profit or loss	1,038	4,838	1,104	6,980
Account 4 loans at amortised cost	51,184	-	-	51,184
Account 5 loans at amortised cost	-	45,992	8,465	54,457
Insurance and other receivables	1,702	11,730	5,163	18,595
Financial liabilities:				
Fair value through profit or loss	(3,581)	(3,085)	(825)	(7,491)
Insurance and other payables	(18,400)	-	-	(18,400)
Financial Commitments:				
Account 5 amounts available	-	208,851	8,462	217,313

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 lending counterparties failing to meet all or part of their obligations as they fall due. Credit risk related to UKEF's insurance contracts, including financial guarantees, is discussed under Insurance Risk (Note 21 (c)(i) below)

UKEF has implemented policies and procedures that seek to minimise credit risk. Full details can be found in the Chief Risk Officer's report in the Performance section of the Annual Report.

(b)(i) Credit risk

The following table summarises the credit exposure of loans at amortised cost & loan commitments (Investment grade is defined as a credit rating of BBB minus or above):

	Investment grade £'000	Non-investment grade £'000	Total £'000
As at 31 March 2017			
Account 5: Direct Lending			
Loans at amortised cost	94,635	204,257	298,892
Commitments	136,553	121,237	257,790
As at 31 March 2016			
Account 5: Direct Lending			
Loans at amortised cost	32,136	22,321	54,457
Commitments	170,635	46,678	217,313

(b)(ii) Credit concentration risk

The following table provides information regarding the credit concentration of loans at amortised cost & loan commitments:

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
As at 31 March 2017					
Account 5: Direct Lending					
Loans at amortised cost	17,419	52,850	228,623	-	298,892
Commitments	951	11,861	244,978	-	257,790
As at 31 March 2016					
Account 5: Direct Lending					
Loans at amortised cost	8,465	13,856	32,136	-	54,457
Commitments	8,462	38,216	170,635	-	217,313

(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.

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.

(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.

Full details of the policies and procedures that have been implemented to seek to minimise credit risk can be found in the Chief Risk Officer's report in the Performance section of the Annual Report.

The following table provides information regarding the credit exposure of Amounts at Risk and Expected Loss within the UKEF Account 2 portfolio as at 31 March 2017:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at Risk, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	7,314,831	3,493,110	10,807,941
Other	5,042,246	2,795,594	7,837,840
Total	**12,357,077**	**6,288,704**	**18,645,781**
Account 2: Financial Guarantees			
Total	**-**	**212,755**	**212,755**
Amounts at Risk, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	2,296,141	3,493,110	5,789,251
Other	4,030,711	2,795,594	6,826,305
Total	**6,326,852**	**6,288,704**	**12,615,556**
Account 2: Financial Guarantees			
Total	**-**	**212,755**	**212,755**
Expected Loss, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	71,118	67,945	139,063
Other	37,116	100,162	137,278
Total	**108,234**	**168,107**	**276,341**
Account 2: Financial Guarantees			
Total	**-**	**6,423**	**6,423**
Expected Loss, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	8,295	67,945	76,240
Other	29,067	100,162	129,229
Total	**37,362**	**168,107**	**205,469**
Account 2: Financial Guarantees			
Total	**-**	**6,423**	**6,423**

The following table provides information regarding the credit exposure of Amounts at Risk and Expected Loss within the UKEF Account 2 portfolio as at 31 March 2016:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at Risk, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	7,674,867	3,875,689	11,550,556
Other	3,135,876	2,230,032	5,365,908
Total	**10,810,743**	**6,105,721**	**16,916,464**
Account 2: Financial Guarantees			
Total	**-**	**194,106**	**194,106**
Amounts at Risk, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	2,544,630	3,875,689	6,420,319
Other	2,810,715	2,230,032	5,040,747
Total	**5,355,345**	**6,105,721**	**11,461,066**
Account 2: Financial Guarantees			
Total	**-**	**194,106**	**194,106**
Expected Loss, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	82,547	71,392	153,939
Other	27,903	93,262	121,165
Total	**110,450**	**164,654**	**275,104**
Account 2: Financial Guarantees			
Total	**-**	**5,454**	**5,454**
Expected Loss, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	8,871	71,392	80,263
Other	22,971	93,262	116,233
Total	**31,842**	**164,654**	**196,496**
Account 2: Financial Guarantees			
Total	**-**	**5,454**	**5,454**

Information is presented based upon the grade of the ultimate obligor.

Amounts at Risk and Expected Loss on Accounts 1 and 3 at 31 March 2017 were £Nil (31 March 2016: £Nil).

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 following table provides information regarding the credit exposure of the recoverable claims and related interest as at 31 March 2017.

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims - gross			
Account 1	16,193	498,226	514,419
Account 2	105,016	180,082	285,098
Total	**121,209**	**678,308**	**799,517**
Recoverable claims - net of provisions			
Account 1	16,031	207,268	223,299
Account 2	103,966	41,185	145,151
Total	**119,997**	**248,453**	**368,450**
Interest on unrecovered claims - gross			
Account 1	72	1,022,257	1,022,329
Account 2	461	128,888	129,349
Total	**533**	**1,151,145**	**1,151,678**
Interest on unrecovered claims - net of provisions			
Account 1	72	132,623	132,695
Account 2	457	482	939
Total	**529**	**133,105**	**133,634**

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2016:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims - gross			
Account 1	22,629	516,168	538,797
Account 2	150,766	186,830	337,596
Total	**173,395**	**702,998**	**876,393**
Recoverable claims - net of provisions			
Account 1	22,176	211,596	233,772
Account 2	147,750	47,600	195,350
Total	**169,926**	**259,196**	**429,122**
Interest on unrecovered claims - gross			
Account 1	94	993,012	993,106
Account 2	626	120,205	120,831
Total	**720**	**1,113,217**	**1,113,937**
Interest on unrecovered claims - net of provisions			
Account 1	92	132,682	132,774
Account 2	613	578	1,191
Total	**705**	**133,260**	**133,965**

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 Credit 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.

Information is presented based upon the geographical location of the ultimate obligor.

The table below provides an indication of the concentration of credit risk within the UKEF Account 2 portfolio as at 31 March 2017.

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	6,350,568	953,383	1,101,674	2,402,316	10,807,941
Other	1,538,078	1,339,548	4,012,309	947,905	7,837,840
Total	**7,888,646**	**2,292,931**	**5,113,983**	**3,350,221**	**18,645,781**
Account 2: Financial Guarantees					
Total	**212,755**	**-**	**-**	**-**	**212,755**
Amounts at Risk, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	1,331,878	953,383	1,101,674	2,402,316	5,789,251
Other	530,247	1,335,844	4,012,309	947,905	6,826,305
Total	**1,862,125**	**2,289,227**	**5,113,983**	**3,350,221**	**12,615,556**
Account 2: Financial Guarantees					
Total	**212,755**	**-**	**-**	**-**	**212,755**
Expected Loss, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	75,559	15,850	11,658	35,996	139,063
Other	20,922	33,899	55,808	26,649	137,278
Total	**96,481**	**49,749**	**67,466**	**62,645**	**276,341**
Account 2: Financial Guarantees					
Total	**6,423**	**-**	**-**	**-**	**6,423**
Expected Loss, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	12,736	15,850	11,658	35,996	76,240
Other	12,873	33,899	55,808	26,649	129,229
Total	**25,609**	**49,749**	**67,466**	**62,645**	**205,469**
Account 2: Financial Guarantees					
Total	**6,423**	**-**	**-**	**-**	**6,423**

The following table provides an indication of the concentration of credit risk within the UKEF Account 2 portfolio as at 31 March 2016:

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	6,692,650	1,172,796	1,178,121	2,506,989	11,550,556
Other	785,876	1,005,464	2,742,434	832,134	5,365,908
Total	**7,478,526**	**2,178,260**	**3,920,555**	**3,339,123**	**16,916,464**
Account 2: Financial Guarantees					
Total	**194,106**	**-**	**-**	**-**	**194,106**
Amounts at Risk, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	1,562,413	1,172,796	1,178,121	2,506,989	6,420,319
Other	460,715	1,005,464	2,742,434	832,134	5,040,747
Total	**2,023,128**	**2,178,260**	**3,920,555**	**3,339,123**	**11,461,066**
Account 2: Financial Guarantees					
Total	**194,106**	**-**	**-**	**-**	**194,106**
Expected Loss, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	87,831	13,327	12,312	40,469	153,939
Other	18,920	36,224	39,902	26,119	121,165
Total	**106,751**	**49,551**	**52,214**	**66,588**	**275,104**
Account 2: Financial Guarantees					
Total	**5,454**	**-**	**-**	**-**	**5,454**
Expected Loss, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	14,155	13,327	12,312	40,469	80,263
Other	13,988	36,224	39,902	26,119	116,233
Total	**28,143**	**49,551**	**52,214**	**66,588**	**196,496**
Account 2: Financial Guarantees					
Total	**5,454**	**-**	**-**	**-**	**5,454**

c)(iii) Foreign currency risk

Insurance assets – unrecovered claims

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 2017:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	552,718	243,459	3,340	799,517
- Provisions	(349,237)	(78,714)	(3,116)	(431,067)
Interest on unrecovered claims				
- Gross	886,418	250,357	14,903	1,151,678
- Provisions	(822,038)	(181,168)	(14,838)	(1,018,044)
Net insurance assets at 31 March 2017	**267,861**	**233,934**	**289**	**502,084**

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2017 is as follows:

- 10% movement would increase / increase the carrying value by £21,267,000 (31 March 2016 by £21,306,000).
- 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 2016:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	619,747	247,912	8,734	876,393
- Provisions	(364,459)	(77,136)	(5,676)	(447,271)
Interest on unrecovered claims				
- Gross	879,266	221,147	13,524	1,113,937
- Provisions	(808,999)	(157,560)	(13,413)	(979,972)
Net insurance assets at 31 March 2016	**325,555**	**234,363**	**3,169**	**563,087**

(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 HM Government, UKEF has access to funds required to meet its obligations as they fall due, drawing on funds from the Exchequer (see note 20) as required.

The scheduled maturity profile of UKEF's insurance contracts and financial guarantees, 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	Between one and five years	Between five and ten years	Between ten and fifteen years	Total
	£'000	£'000	£'000	£'000	£'000
As at 31 March 2017:					
Account 2: Insurance Contracts					
Gross Amounts at Risk	2,569,208	9,635,947	5,798,240	642,386	18,645,781
Less: Amounts at Risk ceded to reinsurers	(845,071)	(3,336,797)	(1,761,144)	(87,213)	(6,030,225)
Net amounts at risk	**1,724,137**	**6,299,150**	**4,037,096**	**555,173**	**12,615,556**
Account 2: Financial Guarantees					
Gross Amounts at Risk	70,948	108,289	33,518	-	212,755
Less: Amounts at Risk ceded to reinsurers					
Net amounts at risk	**70,948**	**108,289**	**33,518**	**-**	**212,755**
As at 31 March 2016:					
Account 2: Insurance Contracts					
Gross Amounts at Risk	2,312,237	8,549,441	5,488,458	566,328	16,916,464
Less: Amounts at Risk ceded to reinsurers	(740,735)	(2,840,060)	(1,801,987)	(72,616)	(5,455,398)
Net amounts at risk	**1,571,502**	**5,709,381**	**3,686,471**	**493,712**	**11,461,066**
Account 2: Financial Guarantees					
Gross Amounts at Risk	70,565	105,247	18,294	-	194,106
Less: Amounts at Risk ceded to reinsurers					
Net amounts at risk	**70,565**	**105,247**	**18,294**	**-**	**194,106**

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 potential future exposure for its Account 2 insurance 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 Credit 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.

For full details see the Chief Risk Officer's report in the Performance section of the Annual Report.

The following table sets out the impact of the movements indicated on issued and effective guarantees on: (i) total Expected Loss, and (ii) Statement of Comprehensive Net Income which for insurance contracts takes account of the utilisation of the underwriting fund.

	Across the board ratings downgrade by		Increased persistence	Reduced recovery rates
	1 notch	2 notches	+ 2 years	-20%
	£'000	£'000	£'000	£'000
As at 31 March 2017:				
Account 2: Insurance Contracts				
- Increase in Expected Loss	80,235	190,652	7,101	68,040
- Impact on net income for the year	3,699	39,231	37	3,960
As at 31 March 2016:				
Account 2: Insurance Contracts				
- Increase in Expected Loss	75,806	172,733	4,188	54,922
- Impact on net income for the year	6,715	35,733	59	5,917

There is no remaining exposure on Accounts 1 and 3.

Sensitivity analysis for Account 2 Financial Guarantees is not considered to have any significant impact on net income for the year.

22 Capital Loan Commitments

The following table summarises the movement in amounts authorised and available to be drawn on issued and effective lending products which are accounted for on an amortised cost basis under IAS 39:

	Account 5 £'000	Total £'000
Movements:		
Balance at 1 April 2015	**30,180**	**30,180**
Loans issued & effective	233,995	233,995
Amounts drawn	(58,196)	(58,196)
Net foreign exchange adjustments	11,334	11,334
Balance at 31 March 2016	**217,313**	**217,313**
Loans issued & effective	282,868	282,868
Amounts drawn	(271,103)	(271,103)
Net foreign exchange adjustments	22,471	22,471
Change in Cover	6,241	6,241
Balance at 31 March 2017	**257,790**	**257,790**

23 Contingent liabilities

The following table summarises the total Amount at Risk (AAR) on issued and effective products:

	31 March 2017 £'000	31 March 2016 £'000
Summary: Gross of reinsurance		
Account 1	-	-
Account 2	18,858,536	17,110,570
Total	**18,858,536**	**17,110,570**
Summary: Net of reinsurance		
Account 1	-	-
Account 2	12,828,311	11,655,172
Total	**12,828,311**	**11,655,172**

23(a) Products accounted as insurance contracts on a fund accounted basis

The following tables summarise movements in Amounts at Risk (AAR) on issued and effective products which are accounted under IFRS4:

Gross of reinsurance	**Account 1 £'000**	**Account 2 £'000**	**Total £'000**
Balance at 1 April 2015	4,313	18,006,512	18,010,825
Guarantees and insurance policies issued and effective	-	1,969,640	1,969,640
Run off	(4,313)	(3,571,931)	(3,576,244)
Net foreign exchange adjustments	-	631,666	631,666
Interest rate adjustments	-	193,592	193,592
Change in Valuation	-	(347,127)	(347,127)
Change in Cover	-	34,112	34,112
Balance at 31 March 2016	**-**	**16,916,464**	**16,916,464**
Guarantees and insurance policies issued and effective	-	2,870,607	2,870,607
Run off	-	(3,347,277)	(3,347,277)
Net foreign exchange adjustments	-	2,154,603	2,154,603
Interest rate adjustments	-	194,108	194,108
Change in Valuation	-	(142,724)	(142,724)
Balance at 31 March 2017	**-**	**18,645,781**	**18,645,781**

Net of reinsurance	**Account 1 £'000**	**Account 2 £'000**	**Total £'000**
Balance at 1 April 2015	4,313	12,728,764	12,733,077
Guarantees and insurance policies issued and effective	-	1,407,166	1,407,166
Run off	(4,313)	(2,762,115)	(2,766,428)
Net foreign exchange adjustments	-	417,066	417,066
Interest rate adjustments	-	142,640	142,640
Change in Valuation	-	(248,560)	(248,560)
Change in Cover	-	(223,895)	(223,895)
Balance at 31 March 2016	**-**	**11,461,066**	**11,461,066**
Guarantees and insurance policies issued and effective	-	2,093,457	2,093,457
Run off	-	(2,411,789)	(2,411,789)
Net foreign exchange adjustments	-	1,438,500	1,438,500
Interest rate adjustments	-	163,363	163,363
Change in Valuation	-	(129,041)	(129,041)
Balance at 31 March 2017	**-**	**12,615,556**	**12,615,556**

23(b) Products accounted for as financial guarantees

The following table summarises movements in Amounts at Risk (AAR) on issued and effective products which are accounted for under IAS 39:

Gross & Net of reinsurance	Account 2 £'000	Total £'000
Balance at 1 April 2015	661,337	661,337
Guarantees and insurance policies issued and effective	100,144	100,144
Run off	(571,883)	(571,883)
Net foreign exchange adjustments	2,680	2,680
Change in Valuation	1,828	1,828
Balance at 31 March 2016	**194,106**	**194,106**
Guarantees and insurance policies issued and effective	84,411	84,411
Run off	(79,045)	(79,045)
Net foreign exchange adjustments	12,821	12,821
Change in Valuation	462	462
Balance at 31 March 2017	**212,755**	**212,755**

24 Related party transactions

UKEF is a Department of the Secretary of State for International Trade. As such, it has a number of transactions with other Government Departments and other central Government bodies.

None of the members of UKEF's Board or their related parties has undertaken any material transactions with UKEF during the year.

25 Events after the reporting period

There are no reportable non-adjusting events after the reporting period.

The Accounting Officer authorised these financial statements for issue on the same date as the date of the Certificate and Report of the Comptroller and Auditor General.

Annexes

Business supported

Export credits

Exporter/investor	Buyer/airline/operating lessor	Project/goods and services	Product	Maximum liability (£)
Brazil				
IHC Engineering Business Ltd	Sapura Jade GmbH	Pipe-laying vessels	Buyer credit	62,018,982
Multiple exporters	Petrobras Global Trading BV	Offshore oil and gas development	Buyer credit	265,672,177
El Salvador				
Multiple exporters	Opp Film El Salvador SA De CV	Packaging equipment	Buyer credit	7,278,357
Ghana				
Dints International Ltd	Gold Fields Ghana Ltd	Mining equipment	Supplier credit finance	7,997,121
GE Oil & Gas UK Ltd	Vitol Upstream Ghana Ltd	Offshore oil and gas development	Buyer credit/ direct lending	372,292,075
India				
Multiple exporters	Reliance Industries Ltd	Expansion of an oil refiner	Buyer credit	47,404,649
Indonesia				
Details not disclosed for reasons of commercial confidentiality	Details not disclosed for reasons of commercial	Air training system	Bond insurance	781,319
Iraq				
Biwater International Ltd	Kurdistan Regional Government	Water treatment project	Direct lending	28,511,639
Oman				
Amec Foster Wheeler Energy Ltd	Orpic Plastics LLC Petrochemical complex	Petrochemical complex	Buyer credit	154,504,467
BAE Systems	Ministry of Defence (Oman)	Typhoon and Hawk aircraft	Buyer credit	1,709,583,352
Philippines				
Nectar Holdings Ltd	Seasia Nectar Port Services Incorporated	Bulk handling and cargo equipment	Supplier credit finance	1,665,156
Qatar				
Details not disclosed for reasons of commercial confidentiality	Details not disclosed for reasons of commercial confidentiality	Architectural services	Bond insurance	5,094,926

Russia				
Joy Global (UK) Ltd	Suek Limited	Mining equipment	Buyer credit	22,801,557
Saudi Arabia				
Fluor Ltd	Sadara Chemical Company	Petrochemical complex	Buyer credit	31,148,155
United Arab Emirates				
IHC Engineering Business Ltd	Petrofac Limited	Equipment for pipe-laying vessels	Buyer credit	110,388,848
USA				
GE Caledonian Ltd	Atlas Air Incorporated	Engine servicing	Buyer credit	7,123,914

Trade finance and insurance: business supported by sector

Product type	Number of exporters[27]	SMEs	Number of destination countries[28]	Maximum Liability (£)[29]
Accommodation and food service activities				
Export insurance	1	1	1	9,715
Administrative and support service activities				
Bond support	3	2	6	9,140,131
Exporting working capital	2	2	2	557,478
Agriculture, forestry and fishing				
Export insurance	1	0	1	226,663
Arts, entertainment and recreation				
Bond support	1	1	1	4,646,247
Construction				
Bond support	6	5	7	2,082,028
Export insurance	4	4	5	2,468,337
Information and communication				
Bond support	5		4	846,117
Manufacturing				
Bond support	44	38	36	35,048,605
Export insurance	23	14	14	38,995,200
Export working capital	27	27	19	14,954,937
Letter of credit guarantee	1	1	1	986,202
Mining and quarrying				
Bond support	1	1	1	24,252
Professional, scientific and technical activities				
Bond support	4	4	5	1,057,995
Export insurance	2	2	2	3,932,385
Export working capital	1	1	1	193,156
Water supply; sewerage, waste management and remediation activities				
Bond support	1	1	1	25,198
Wholesale and retail trade				
Bond support	3	3	5	1,140,042
Export insurance	9	6	7	1,918,082
Export working capital	2	2	5	13,708,727

For a more detailed list of support provided under our trade finance products in 2016–17, visit our website at *www.gov.uk/uk-export-finance*

27 Some exporters used more than one product. The total number of unique exporters using trade finance products was 135.

28 Destination countries may have received goods from multiple sectors and/or may have received goods supported by more than one product type. Therefore these numbers do not tally with the overall count of unique destination countries, which was 63.

29 For our trade finance products, UKEF's maximum liability is often only a fraction of the final export contract value. The total value of the export contracts supported for 2016–17 was £585 million. We believe the export contract values are a better indicator of the impact of our support, while maximum liability is important as representing new exposure to credit risk.

Sustainability of our estate

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

The Greening Government Commitments (GGC) are the government's commitments for delivering sustainable operations and procurement. They 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. The 2016-17 reporting year is the second year of the 5-year performance reporting cycle to 2020. Compared to a 2009-10 baseline, by 2019-20, the government will:

- Cut GHG emissions by 31% from the whole estate and UK business transport
- Reduce the number of domestic business flights taken by 30%
- Reduce waste sent to landfill to less than 10% of overall waste; continue to reduce the amount of waste generated and increase the proportion of waste which is recycled
- Reduce paper consumption by 50%

Bespoke targets apply to individual departments from 2016-17 onwards.

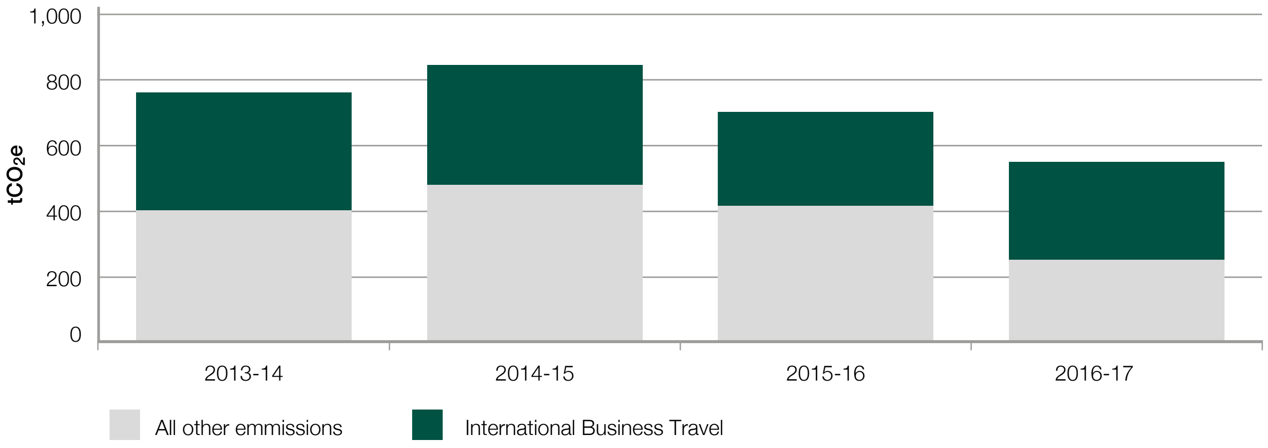
Summary of performance

Area		2009-10 Baseline	2016-17 Performance
Greenhouse gas emissions from UK estate and domestic travel	tonnes of CO2 equivalent (tCO2e)	485.55	414.36
Estate Waste	Amount (Tonnes)	78.62	78.62
Estate Water	Consumption (m3)	2,762	2,762

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

Emissions

Emmissions – five-year summary



		2013-14	2014-15	2015-16	2016-17
Non-Financial Indicators (tco_2e)	Total Gross Emissions (inc. international travel)	761.53	844.72	702.70	N/A
	Total Gross Emissions – In Scope	402.91	481.06	416.70	273.83
	Scope 1 (Direct)*	41.26	38.65	23.06	0.87
	Scope 2 (Indirect)*	316.27	331.89	184.54	225.9
	Scope 3 (Indirect):				
	– Transmission & Distribution losses**	23.36	25.04	N/A	N/A
	– domestic business travel	22.02	85.48	76	
	– international travel	358.62	363.66	286	262
Related Energy Consumption (kWh)	Electricity: Renewable	613,202	580,279	463,237	470,097
	Gas	224,209	212,888	48,876	3,794***
	Whitehall District Heating System (WDHS)	162,237	171,480	120,306	121,207
Financial Indicators	Expenditure on Energy (£)	113,711	102,645	N/A	N/A
	CRC Licence Expenditure (2010 onwards) £	3,452	2,562	2,848	1,290
	Expenditure on GCOF II (£)	0	0	0	0
	Expenditure on official business travel (£)	457,809	519,326	560,533	458,454

*In previous years, Scope 1 & 2 had been combined during reporting. For 2016/17 and all previous years, including the baseline period, these are now reported separately. This is in order to reflect the restated carbon footprint for all years in order to account for material changes to the conversion factors provided by Defra for reporting purposes.

**Transmission and Distribution (T&D) electrical losses have also been split out and reported separately as scope 3 emissions. Data for calculation had previously been unavailable.

*** Reduction due to closure of Cardiff Office and archive

Definition of terms:

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

Scope 2 – Indirect energy emissions, including electricity consumed supplied by another party and heat supplied through the Whitehall district heating system.

Scope 3 – Other indirect emissions, including emissions relating to official business travel directly paid for (ie not business travel re-charged by contractors) and T&D losses. 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

New targets set for government departments are to reduce GHG emissions from their estate and UK business-related transport by 31% per cent by the end of the 5-year reporting period at 2020 against a 2009-10 baseline.

Estate: UKEFs closure of its archive site in Lambourne Crescent, Cardiff in September 2015 has seen a reduction in GHG emissions of its estate. It has also seen a reduction in waste generated and a reduction in water consumption.

Domestic travel: the government's strategy for trade and investment has placed increased emphasis on the role of exports, in which UKEF is a key player. One of UKEF's proactive approaches to help achieve the ambitious targets set by government has been to appoint 24 regional export finance managers to work closely with UK exporters, banks and local trade bodies to raise awareness of UKEF. This has led to a significant increase in domestic air and rail travel.

Domestic business travel flights from a 2009-10 baseline		
Baseline (2009-10)	2016-17 Flights	% Change
27	63	133%

Due to the change in strategy and the introduction of the EFMs, UKEF will not reach the 30% reduction in cutting domestic flights. Flights have increased, albeit from a very low baseline.

Overseas travel: Another aspect of the government's strategy is to raise awareness of UKEF's products and services overseas, particularly the support of the High Value Opportunities programme. Alongside increased business in the civil (non-aerospace) sector, this involves a significant degree of international air travel.

Controllable impacts commentary

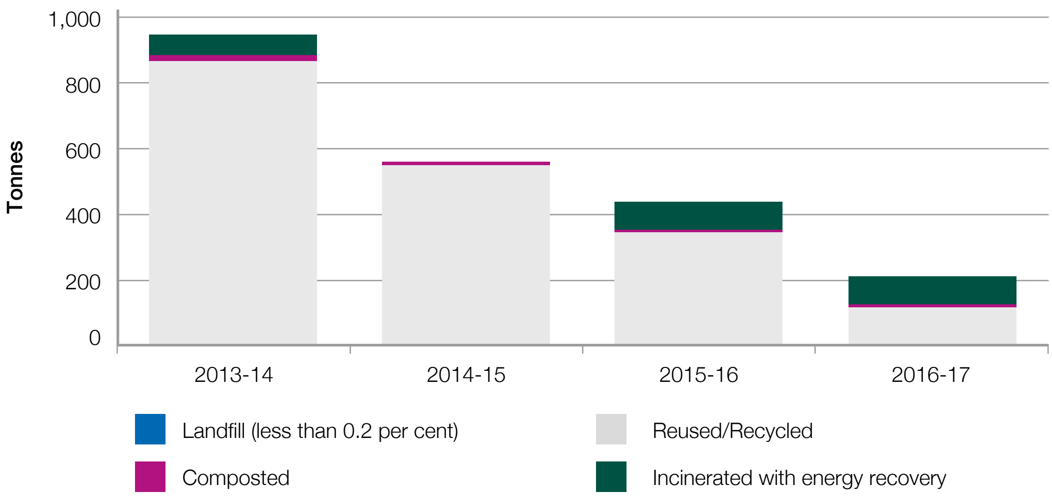
UKEF is a minor occupier in 1HGR, occupying 8.07% of the total net internal area. The HMT building is managed as a private finance initiative and a number of initiatives have been introduced over the years to reduce emissions.

Overview of influenced impacts

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

Waste

Waste disposal – four-year summary



			2013/14	2014/15	2015/16	2016/17
Non-Financial Indicators (tonnes)	Total Waste		94.73	56.00	34.33	24.44
	Hazardous Waste	Total	N/A	N/A	N/A	N/A
	Non- Hazardous Waste	Landfill	0.1	0.2	0	0
		Reused/Recycled	86.56*	54.87	12.24	11.87
		Composted	1.94	0.93	0.81	1.1
		Incinerated with energy recovery	6.22*	0	8.59	12.24
Financial Indicators	Total Disposal Cost (£)		47,527	N/K	N/K	N/K

*2013/14 figure revised due to clarification from HMT that waste is not sent for energy recovery but is fully recycled. As a result, 7.45t of waste has been transferred to Recycled for this period.

Performance commentary

UKEF has a target to reduce waste sent to landfill to less than 10% of overall waste and continue to reduce the amount of waste generated and increase the proportion of waste which is recycled. UKEF has seen a reduction in waste generated by 57% against the 2009–10 baseline primarily due to the relocation of UKEF to 1HGR, with its reduced footprint and better recycling facilities, and the closure of its Cardiff site.

Controllable impacts commentary

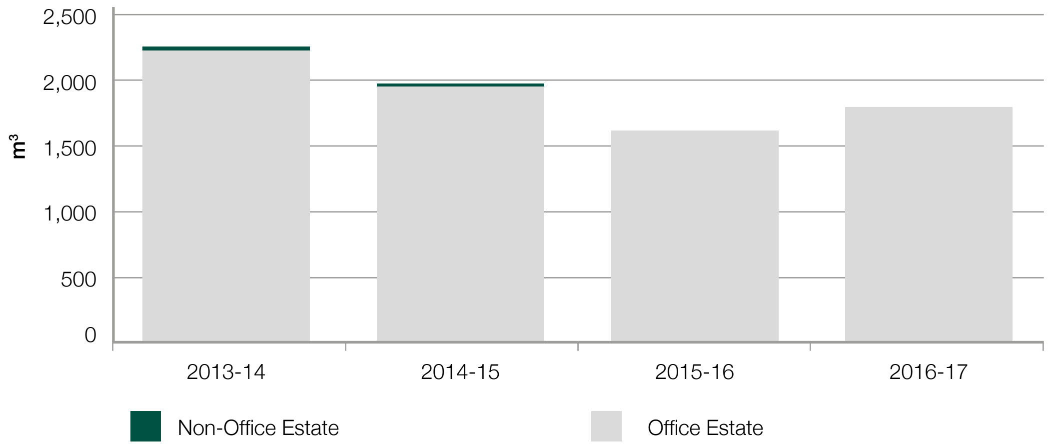
UKEF has recycling points located strategically on the office floor. All ICT waste is either recycled or reused through UKEF's contract with the Disposal Services Agency.

Overview of influenced impacts

UKEF has begun the roll out of its electronic case management system and has closed its archive and repository site, which should see a reduction in paper consumption in the department.

Water Consumption

Water consumption – four-year summary



			2013/14	2014/15	2015/16	2016/17
Non-Financial Indicators (m3)	Water Consumption (Office Estate)	Supplied	2,218	1,943	1,608.55	1,821
		Abstract	N/A	N/A	N/A	N/A
	Water Consumption (Non-Office Estate)	Supplied	31.60	23.89	N/A	N/A
		Abstract	N/A	N/A	N/A	N/A
Financial Indicators	Water Supply Costs (Office Estate) £		4,195	4,770	3,949	N/A
	Water Supply Costs (Non-Office Estate) £		197	184	N/A	N/A

Performance commentary

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

- ≥6m^3 water consumption per FTE: poor practice
- 4m3 to 6m^3 per FTE: good practice
- ≤4m^3 per FTE: best practice

UKEF does not meet the good practice benchmark: its consumption is >6m3 per FTE. This is based on a percentage of the figure provided for the building by HMT.

Controllable impacts commentary

UKEF's water is not measured separately from other tenants and UKEF reports water consumption as being a proportion for the whole building at 1HGR.

Overview of influenced impacts

UKEF will liaise with the 1HGR landlord and consider options to improve water consumption.

Sustainable procurement

UKEF uses existing framework agreements which have been centrally procured through Crown Commercial Services. Additionally, UKEF's key facilities management suppliers have sustainable objectives and environmental policies in place committed to sustainable development.

Biodiversity and natural environment

UKEF's London office has 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:

- 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%
- 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