

Financial Statements

UK Export Finance 2015–16

at 31 March 2016

Statement of Comprehensive Net Income

For the year ended 31 March 2016			
	Note	2015-16 £'000	2014-15 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		113,524	123,226
Less ceded to reinsurers		(40,788)	(19,175)
Net premium income	3(a)	72,736	104,051
Net investment return	3(b)	16,263	15,573
Claims credit for the year	5	21,063	10,883
Changes in insurance liabilities (net of reinsurance)	19	6,157	-
Net foreign exchange gain	6	10,461	33,791
Total income		126,680	164,298
Expenses			
Changes in insurance liabilities (net of reinsurance)	19	-	(11,336)
Staff costs	7	(15,136)	(13,823)
Other administration and operating costs	8	(13,399)	(16,433)
Total expenses		(28,535)	(41,592)
Net income arising from Export Credit Guarantees and Insurance Activities		98,145	122,706
Export Finance Assistance			
Income			
Net investment return	3(b)	7,421	7,575
Net foreign exchange gain	6	2,596	107
Total income		10,017	7,682
Expenses			
Staff costs	7	(966)	(428)
Other administration and operating costs	8	(855)	(508)
Total expenses		(1,821)	(936)
Net Income arising from Export Finance Assistance Activities		8,196	6,746
Net operating income for the year		106,341	129,452

All income and expenditure is derived from continuing operations.

The notes on pages 154 to 195 form part of these accounts.

Statement of Financial Position

As at 31 March 2016			
	Note	31 March 2016 £'000	31 March 2015 £'000
Non-current assets:			
Plant and equipment	9(a)	253	697
Intangibles	9(b)	5	27
Financial assets			
Fair value through profit or loss	10(a)	3,806	5,840
Loans and receivables	10(b)	84,528	56,003
Insurance contracts			
Insurance assets	11	468,853	556,494
Reinsurers' share of insurance liabilities	12	332,196	306,786
Insurance and other receivables	13	5,434	11,657
Total non-current assets		895,075	937,504
Current assets:			
Financial assets			
Fair value through profit or loss	10(a)	3,174	5,201
Loans and receivables	10(b)	21,113	25,099
Insurance contracts			
Insurance assets	11	94,234	117,561
Insurance and other receivables	13	13,161	11,458
Cash and cash equivalents	14	164,840	252,684
Total current assets		296,522	412,003
Total assets		1,191,597	1,349,507
Current liabilities:			
Financial liabilities			
Fair value through profit or loss	16	(2,525)	(4,059)
Payable to Consolidated Fund	17	(164,840)	(252,684)
Provisions	18(b)	(115)	(259)
Insurance and other payables	18(a)	(18,400)	(44,219)
Total current liabilities		(185,880)	(301,221)
Non-current assets plus net current assets		1,005,717	1,048,286
Non-current liabilities			
Financial liabilities			
Fair value through profit or loss	16	(4,966)	(8,267)
Insurance contracts			
Insurance liabilities	19	(879,018)	(859,765)
Provisions	18(b)	(271)	(517)
Total non-current liabilities		(884,255)	(868,549)
Assets less liabilities		121,462	179,737
Taxpayers' equity			
Exchequer Financing		(3,267,608)	(3,122,968)
Cumulative Trading Surplus		3,402,848	3,304,703
General Fund		(13,778)	(1,998)
Total taxpayers' equity		121,462	179,737

The notes on pages 154 to 195 form part of these accounts.



Louis Taylor
Chief Executive and Accounting Officer
UK Export Finance
30 June 2016

Statement of Cash Flows

As at 31 March 2016

	Note	2015-16 £'000	2014-15 £'000
Cash flows from operating activities			
Net operating income		106,341	129,452
Adjustments for non-cash transactions:			
Depreciation & amortisation			
Depreciation of equipment	8	444	388
Amortisation of intangible assets	8	22	44
Other:			
Audit fees	8	224	218
Amortised loans & receivables income	10(b)	(5,498)	(6,114)
Net unrealised foreign exchange (gain)/ loss on net assets other than cash	6	(10,660)	(31,675)
Provisions:			
Insurance liabilities net of reinsurance movement	19	(6,157)	11,336
Claims provision movement	11(a)	(21,310)	(11,424)
Interest on claims provision movement	11(b)	21,325	23,060
Early retirement, onerous lease and dilapidation movement	18(b)	(390)	(81)
Movements in Working Capital other than cash:			
Claims assets before provisions	11(a)	127,558	109,493
Interest on claims assets before provisions	11(b)	(9,856)	(13,106)
Loans & receivables	10(b)	17,117	7,865
Insurance & other receivables		4,958	(5,711)
Insurance & other payables		(24,630)	23,943
Financial assets held at fair value	10(a)	4,061	4,523
Financial liabilities held at fair value	16	(4,835)	(5,356)
Net cash inflow from operating activities		198,714	236,855
Cash flows from investing activities			
Purchase of equipment and intangibles	9	-	(580)
Recovery from disposal of plant, equipment and intangibles			
Export Finance Assistance loans:			
Advances	10(b)	(58,196)	(6,664)
Recoveries	10(b)	24,322	29,173
Net cash inflow from investing activities		(33,874)	21,929
Net increase in cash and cash equivalents in the year before adjusting for receipts and payments to the Consolidated Fund not related to supply			
		164,840	258,784
Payments to the Consolidated Fund of amounts:			
relating to the prior year	14	(252,684)	(232,938)
relating to current year	14	-	(6,100)
Net decrease in cash and cash equivalents in the year after adjusting for payments to the Consolidated Fund not relating to supply			
		(87,844)	19,746
Cash and cash equivalents at the beginning of the year	14	252,684	232,938
Cash and cash equivalents at the end of the year	14	164,840	252,684

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

The notes on pages 154 to 195 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2016					
	Note	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2014		(2,872,165)	3,181,997	(981)	308,851
Changes in taxpayers' equity for 2014-15					
Non-Cash Adjustments:					
Auditors' remuneration	8	218	-	-	218
Movements in Reserves:					
Transfers between reserves		7,763	-	(7,763)	-
Recognised in Statement of Comprehensive Net Income		-	122,706	6,746	129,452
Total recognised income and expense for 2014-15		7,981	122,706	(1,017)	129,670
Amounts arising in year payable to the consolidated fund		(258,784)	-	-	(258,784)
Balance at 31 March 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	14	(164,840)	-	-	(164,840)
Balance at 31 March 2016		(3,267,608)	3,402,848	(13,778)	121,462

The notes on pages 154 to 195 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 2015-16 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 existing financial guarantee contracts as insurance contracts. Further details are given in policy note (D) below.

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

Future accounting developments

The 2015-16 FReM applies financial reporting standards that are effective for the financial year.

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

The new standard set out below will have an impact on the financial statements when it becomes effective.

UKEF has not determined the detailed impact. However the changes to loan impairments particularly will require changes to systems and may lead to increased volatility in reported numbers.

- IFRS 9 Financial Instruments – this standard is designed to replace IAS 39 and amends some of the requirements of IFRS 7 Financial Instruments. The effective date of IFRS 9 is 1 January 2018.

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

Amendments to IFRSs

- 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, including IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transaction involving Advertising Services. Out of scope are 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. The effective date is 1 January 2018.

Major FReM changes for 2016-17

UKEF has reviewed the major FReM changes for 2016-17 and determined that 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.

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

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

- Unpredictability of claims payments and recoveries including interest on unrecovered claims – losses that might arise are very difficult to assess and calculate with any degree of confidence, particularly over the longer term; the protracted underwriting cycle, which can be several decades if a Paris Club recovery is involved, means that the actual outturn may not be known for many years; and
- The narrow base of risk – UKEF has a far narrower risk base than would normally apply in commercial insurance which makes the underwriting outcome more vulnerable to changes in risk conditions.

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

(C) Summary of significant accounting policies

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

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

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

(D) Insurance contracts

Product classification

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

Fund Basis of Accounting for insurance contracts

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

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

(G) Foreign exchange

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

(H) Plant and equipment and intangible assets

i) Plant and equipment

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

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

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

ii) Intangible assets

Intangible assets 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.

(I) Leases

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

(J) Consolidated Fund

Amounts payable

In accordance with the FReM, net cash inflow from operating activities and investing activities during the year (i.e. net cash requirement) is payable by UKEF to the Consolidated Fund (the government's 'current account', operated by HM Treasury, used for most government payments and receipts). The amount due within one year to the Consolidated Fund is the net cash requirement after deduction of amounts already paid to the Consolidated Fund. The amount payable is equivalent to UKEF's bank balances at the Statement of Financial Position date.

(K) Exchequer financing

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

(L) Pension costs

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

(M) Financial assets

Recognition

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

- 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. All Financial Assets classified 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, such as an improvement in the debtor's credit rating.

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

Interest rate swaps

Interest rate 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.

(N) Financial liabilities

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

(O) Provisions

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

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

- i) The provision for dilapidations represents the cost to return office space to the condition it was in when UKEF entered into the lease.
- ii) UKEF provides for the costs of additional benefits beyond the normal PCSPS benefits in respect of employees who exit early. The Department provides for the costs when the exit is agreed and binding on the Department, effectively charging the full cost at the time of the decision and holding this in a provision. A provision has been established for the total liability falling on the Department for all agreed exits.

(P) Contingent liabilities

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

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

(Q) Financial guarantee contracts

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

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 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
Changes in insurance liabilities net of 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

ii. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2015

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Income						
Gross premium income	-	123,226	-	-	-	123,226
Less ceded to reinsurers	-	(19,175)	-	-	-	(19,175)
Net premium income	-	104,051	-	-	-	104,051
Net investment return income	12,184	3,389	-	7,545	30	23,148
Claims credit for the year	11,258	-	-	-	-	11,258
Changes in insurance liabilities net of reinsurance	14	-	-	-	-	14
Net foreign exchange gain	19,409	14,382	-	-	107	33,898
Total income	42,865	121,822	-	7,545	137	172,369
Expenses						
Net claims charge for the year	-	(375)	-	-	-	(375)
Changes in insurance liabilities net of reinsurance	-	(11,350)	-	-	-	(11,350)
Staff costs	(428)	(13,395)	-	(285)	(143)	(14,251)
Other administration and operating costs	(508)	(15,925)	-	(339)	(169)	(16,941)
Total expenses	(936)	(41,045)	-	(624)	(312)	(42,917)
Net income	41,929	80,777	-	6,921	(175)	129,452

iii. Additional segmental information

For the year ended 31 March 2016, there was one customer (the party paying the premium) who accounted for more than 10% of the total premium revenue, net of amounts ceded to reinsurers. This customer accounted for net premium income of £14 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 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 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

v. Segmental Statement of Financial Position at 31 March 2015

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Non-current assets:						
Equipment assets	-	697	-	-	-	697
Intangible assets	-	27	-	-	-	27
Financial assets						
Fair value through income	-	-	-	5,840	-	5,840
Loans & receivables	-	-	-	50,675	5,328	56,003
Insurance contracts						
Insurance assets	353,265	203,229	-	-	-	556,494
Reinsurers' share of insurance liabilities	-	306,786	-	-	-	306,786
Insurance and other receivables	-	11,657	-	-	-	11,657
Total non-current assets	353,265	522,396	-	56,515	5,328	937,504
Current assets:						
Financial assets						
Fair value through income	-	-	-	5,201	-	5,201
Loans & receivables	-	-	-	25,076	23	25,099
Insurance contracts						
Insurance assets	52,403	65,158	-	-	-	117,561
Insurance and other receivables	-	11,420	-	54	(16)	11,458
Cash and cash equivalents	64,995	163,709	-	29,490	(5,510)	252,684
Total current assets	117,398	240,287	-	59,821	(5,503)	412,003
Total assets	470,663	762,683	-	116,336	(175)	1,349,507
Current liabilities:						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(4,059)	-	(4,059)
Payable to Consolidated Fund	(64,995)	(163,709)	-	(29,490)	5,510	(252,684)
Provisions	-	(259)	-	-	-	(259)
Insurance and other payables	(465)	(43,754)	-	-	-	(44,219)
Total current liabilities	(65,460)	(207,722)	-	(33,549)	5,510	(301,221)
Non-current assets plus net current assets	405,203	554,961	-	82,787	5,335	1,048,286
Non-current liabilities						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(8,267)	-	(8,267)
Insurance contracts						
Insurance liabilities	(4)	(859,761)	-	-	-	(859,765)
Provisions	-	(517)	-	-	-	(517)
Total non-current liabilities	(4)	(860,278)	-	(8,267)	-	(868,549)
Assets less liabilities	405,199	(305,317)	-	74,520	5,335	179,737
Taxpayers' equity						
Exchequer Financing	(1,102,713)	(2,000,426)	(101,682)	74,997	6,856	(3,122,968)
Cumulative Trading Surplus	1,507,912	1,695,109	101,682	-	-	3,304,703
General Fund	-	-	-	(477)	(1,521)	(1,998)
Total taxpayers' equity	405,199	(305,317)	-	74,520	5,335	179,737

3. Premium Income & Net investment return

(a) Premium Income			2015-16	2014-15
			£'000	£'000
Underwriting Premium Income:				
Insurance contracts premium receivable (IFRS4)				
Current Underwriting Year:				
Gross Premium			85,182	118,047
Less ceded to reinsurers			(21,586)	(19,175)
Net Premium income			63,596	98,872
Previous Underwriting Years:				
Gross Premium			23,891	572
Less ceded to reinsurers			(19,202)	-
Net Premium income			4,689	572
Summary				
Gross Premium			109,073	118,619
Less ceded to reinsurers			(40,788)	(19,175)
Net Premium income			68,285	99,444
Financial guarantees premium amortised (IAS 39)				
Summary				
Gross Premium			4,451	4,607
Less ceded to reinsurers			-	-
Net Premium income			4,451	4,607
Total Net premium income			72,736	104,051

(b) Net Investment Return					
	Note	Account 1 £'000	Account 2 £'000	2015-16 Total £'000	2014-15 Total £'000
Export Credit Guarantees and Insurance					
Interest income	4	13,196	3,067	16,263	15,573
Total Income		13,196	3,067	16,263	15,573
Net Income		13,196	3,067	16,263	15,573
	Note	Account 4 £'000	Account 5 £'000	2015-16 Total £'000	2014-15 Total £'000
Export Finance Assistance					
Amortised loans & receivables income	10(b)	4,318	1,180	5,498	6,114
Gain in fair value of derivatives		6,756	-	6,756	8,601
Total Income		11,074	1,180	12,254	14,715
Interest equalisation support costs		-	-	-	(390)
Loss in fair value of derivatives		(4,833)	-	(4,833)	(6,750)
Total Costs		(4,833)	-	(4,833)	(7,140)
Net Income		6,241	1,180	7,421	7,575

4. Interest receivable

	Note	Account 1 £'000	Account 2 £'000	2015-16 Total £'000	2014-15 Total £'000
Interest arising from claims					
- interest charged in the year	11(b)	28,496	12,219	40,715	41,932
- net increase in provisions for unrecovered interest	11(b)	(15,330)	(9,152)	(24,482)	(26,404)
Interest arising from claims net of provisions		13,166	3,067	16,233	15,528
Other Interest		30	-	30	45
Interest credit for the year		13,196	3,067	16,263	15,573

Other Interest includes bank interest on balances with commercial banks.

5. Claims credit for the year

	Note	Account 1 £'000	Account 2 £'000	2015-16 Total £'000	2014-15 Total £'000
Amounts authorised and paid in the year	11(a)	-	(5,381)	(5,381)	(6,387)
Expected recoveries on claims authorised and paid in the year		-	2,325	2,325	2,841
Provision on claims authorised and paid in the year		-	(3,056)	(3,056)	(3,546)
Net decrease in provisions for claims authorised and paid in previous years		15,997	8,122	24,119	14,429
Claims credit for the year		15,997	5,066	21,063	10,883

There is no reinsurance element included within the figures above.

6. Net foreign exchange gain/(loss)

	Note	Account 1 £'000	Account 2 £'000	2015-16 Total £'000	2014-15 Total £'000
Export Credit Guarantees and Insurance					
Net foreign exchange gain/(loss) arising on:					
- recoverable claims after provisions	11(a)	3,326	1,332	4,658	23,352
- recoverable interest on claims after provisions	11(b)	2,071	20	2,091	7,410
- insurance premium receivables		-	438	438	936
- insurance payables		366	511	877	(130)
- cash		-	2,397	2,397	2,223
Net foreign exchange gain/(loss) for year		5,763	4,698	10,461	33,791
		Account 4 £'000	Account 5 £'000	Total £'000	Total £'000
Export Finance Assistance					
Net foreign exchange gain arising on:					
- loans & receivables		-	2,284	2,284	107
- payables		-	312	312	-
Net foreign exchange gain/(loss) for year		-	2,596	2,596	107
				Total £'000	Total £'000
Summary:					
Net foreign exchange gain/(loss) for year on cash assets				2,397	2,223
Net foreign exchange gain/(loss) for year on net assets other than cash				10,660	31,675
Net foreign exchange gain / (loss) for year				13,057	33,898

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

Currency	Currency equivalent to £1	
	31 March 2016	31 March 2015
Euro	1.26	1.38
Japanese Yen	161.54	178.10
US Dollars	1.44	1.48

7. Staff costs

	Note	2015-16 £'000	2014-15 £'000
Salaries and Wages		12,531	11,092
Social Security Costs		1,190	1,093
Early Retirement Payments		343	364
Other Pension Costs		2,305	2,033
Total Costs before provision movements		16,369	14,582
Early Retirement Provision utilisation & adjustment	18(b)	(267)	(331)
Total Staff Costs		16,102	14,251
Of which:			
Export Credit Guarantees and Insurance		15,136	13,823
Export Finance Assistance		966	428

Details of staff numbers, exit packages and UKEF's remuneration policy can be found on pages 127 to 139.

8. Other administration and operating costs

	Note	2015-16 £'000	2014-15 £'000
Agency Staff		2,540	3,361
Penalties		-	500
Training		335	271
Recruitment		296	263
Travel & Subsistence		879	818
Accommodation		2,518	2,457
IT Other		2,956	2,911
Project Costs		1,034	936
Legal		264	176
Business Promotion		602	1,405
Depreciation	9(a)	444	388
Amortisation	9(b)	22	44
Irrecoverable VAT		1,574	1,917
Other Administration		913	1,244
Total costs before provision movements		14,377	16,691
Dilapidation provision utilisation & adjustment	18(b)	(123)	250
Total Administration Costs		(14,254)	16,941
Of which:			
Export Credit Guarantees and Insurance		13,399	16,433
Export Finance Assistance		855	508
Included in the above figures:			
Audit Fees		224	218
Minimum lease payments under operating leases recognised as expense in the year		40	80

9. Equipment and intangible assets

(a) Equipment assets			
	IT equipment £'000	Leasehold improvements £'000	Total £'000
Cost:			
Balance at 1 April 2015	1,467	142	1,609
Disposals	(614)	-	(614)
Balance at 31 March 2016	853	142	995
Accumulated Depreciation:			
Balance at 1 April 2015	892	20	912
On Disposals	(614)	-	(614)
Charge for the Year	429	15	444
Balance at 31 March 2016	707	35	742
Carrying amount:			
31 March 2016	146	107	253
31 March 2015	575	122	697

(b) Intangible assets		Software £'000
Cost		
Balance at 1 April 2015		1,175
Disposals		(1,116)
Balance at 31 March 2016		59
Accumulated Amortisation		
Balance at 1 April 2015		1,148
On Disposals		(1,116)
Charge for the Year		22
Balance at 31 March 2016		54
Carrying amount:		
31 March 2016		5
31 March 2015		27

10. Financial assets

(a) Fair value through profit or loss			
	31 March 2016	31 March 2015	
	£'000	£'000	
Interest rate derivatives in relation to Export Finance Loan Guarantees	6,980	11,041	
Total	6,980	11,041	
Falling due:			
- within one year	3,174	5,201	
- after more than one year	3,806	5,840	

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 2016	31 March 2015	
	£'000	£'000	
Loans & receivables	105,641	81,102	
Total	105,641	81,102	
Falling due:			
- within one year	21,113	25,099	
- after more than one year	84,528	56,003	
	Account 4	Account 5	Total
	£'000	£'000	£'000
Movements:			
Balance at 1 April 2014	105,255	-	105,255
Loans advanced	-	6,664	6,664
Loans recovered	(29,173)	-	(29,173)
Net foreign exchange loss	-	107	107
Amortised income	6,084	30	6,114
Other movement in working capital	(6,415)	(1,450)	(7,865)
Balance at 31 March 2015	75,751	5,351	81,102
Loans advanced	-	58,196	58,196
Loans recovered	(24,322)	-	(24,322)
Net foreign exchange 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
Analysis:			
Capital loans recovered	50,675	68,262	118,937
Net interest receivable	509	442	951
Unamortised income	-	(14,247)	(14,247)
Balance at 31 March 2016	51,184	54,457	105,641
Falling due:			
- within one year	19,031	2,082	21,113
- after more than one year	32,153	52,375	84,528

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

The fair value of Export Finance Loans Account 4 £56,965,000 (2014-15: £84,845,000) and Account 5 £88,844,000 (2014-15: £12,002,000).

11. Insurance assets

	31 March 2016 £'000	31 March 2015 £'000
Recoverable claims	429,122	530,712
Interest on unrecovered claims	133,965	143,343
Total	563,087	674,055
Falling due:		
- within one year	94,234	117,561
- after more than one year	468,853	556,494

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 2014	609,277	465,668	1,074,945
Claims approved in the year	-	6,387	6,387
Recoveries made in the year	(43,974)	(71,365)	(115,339)
Recoveries abandoned in the year	-	(541)	(541)
Net foreign exchange movements	17,654	13,282	30,936
Balance at 31 March 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
Recoverable claims - provisions			
Balance at 1 April 2014	325,051	144,465	469,516
Release of provisions in the year	(11,258)	375	(10,883)
Recoveries abandoned in the year	-	(541)	(541)
Net foreign exchange movements	5,496	2,088	7,584
Balance at 31 March 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
<i>Net recoverable claims as at:</i>			
- 31 March 2016	233,772	195,350	429,122
- 31 March 2015	263,668	267,044	530,712
- 31 March 2014	284,226	321,203	605,429

There are no recoverable claims on Accounts 3 and 4.

(b) Interest on unrecovered claims			
	Account 1	Account 2	Total
	£'000	£'000	£'000
Interest on unrecovered claims - gross			
Balance at 1 April 2014	958,343	102,272	1,060,615
Interest charged in the year	29,274	12,658	41,932
Interest received in the year	(22,031)	(3,451)	(25,482)
Recoveries abandoned in the year	(3,312)	(32)	(3,344)
Net foreign exchange movements	21,794	287	22,081
Balance at 31 March 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 on unrecovered claims - provisions			
Balance at 1 April 2014	813,815	100,913	914,728
Increase in provisions in the year	17,135	9,269	26,404
Recoveries abandoned in the year	(3,312)	(32)	(3,344)
Net foreign exchange movements	14,430	241	14,671
Balance at 31 March 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
Net interest on unrecovered claims as at:			
- 31 March 2016	132,774	1,191	133,965
- 31 March 2015	142,000	1,343	143,343
- 31 March 2014	144,528	1,359	145,887

12. Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 2014	295,636
Movements summary:	
Addition to the underwriting funds in the year	19,174
Net decrease in open credit funds	(5,298)
Net decrease in insurance liabilities on closed funds	(2,726)
Total Movements	11,150
Balance at 31 March 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 are summarised within Note 19.

13. Insurance and other receivables

	31 March 2016 £'000	31 March 2015 £'000
Export Credit Guarantees and Insurance:		
Insurance premiums receivables	17,687	22,487
Insurance prepayments and accrued income	879	590
Total	18,566	23,077
Export Finance Assistance:		
DFID	29	-
Other receivables	-	38
Total	29	38
Total	18,595	23,115
Falling due:		
- within one year	13,161	11,458
- after more than one year	5,434	11,657

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 2014	232,938	
Net cash inflow to UKEF	258,784	
Payments to the Consolidated Fund:		
in respect of amounts received in the previous year	(232,938)	
in respect of amounts received in the current year	(6,100)	
Balance at 31 March 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	
	31 March 2016 £'000	31 March 2015 £'000
Cash and cash equivalents comprise:		
Government Banking Service	105,138	203,814
Commercial banks and cash in hand	59,702	48,870
Total	164,840	252,684

15. Reconciliation of Net Cash Requirement to decrease in cash

	31 March 2016 £'000	31 March 2015 £'000
Amounts payable to the Consolidated Fund - current year	164,840	258,784
Payments to the Consolidated Fund - current year	-	(6,100)
Amounts due to the Consolidated Fund received and not paid over	164,840	252,684
Payments to the Consolidated Fund - prior year	(252,684)	(232,938)
Increase/(Decrease) in cash	(87,844)	19,746

16. Financial liabilities at fair value

	31 March 2016 £'000	31 March 2015 £'000
Interest rate derivatives in relation to Export Finance Loan Guarantees	2,452	4,319
Interest rate derivative contracts entered into for hedging purposes	5,039	8,007
Total	7,491	12,326
Falling due:		
- within one year	2,525	4,059
- after more than one year	4,966	8,267

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 2016 £'000	31 March 2015 £'000
Amounts payable to the Consolidated Fund	164,840	252,684
Total	164,840	252,684
Falling due:		
- within one year	164,840	252,684

The balance due within one year represents UKEF's bank balance as at 31 March 2016.

18. Insurance and other payables, and provisions

(a) Insurance and other payables			
	31 March 2016 £'000	31 March 2015 £'000	
Export Credit Guarantees and Insurance:			
Insurance payables - amounts due to policyholders	111	110	
Income tax and National Insurance	386	324	
Other payables	17,903	43,785	
Total	18,400	44,219	
Falling due:			
- within one year	18,400	44,219	
(b) Provisions for administrative and operating costs			
	31 March 2016 £'000	31 March 2015 £'000	
Dilapidations Provision	127	250	
Early Departure Provision	259	526	
Total	386	776	
Falling due:			
- within one year	115	259	
- after more than one year	271	517	
	Dilapidations Provision £'000	Early Departure Provision £'000	Total £'000
Balance at 31 March 2014	-	857	857
Additions	250	33	283
Utilisation	-	(364)	(364)
Balance at 31 March 2015	250	526	776
Additions	-	76	76
Utilisation	(123)	(343)	(466)
Balance at 31 March 2016	127	259	386

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

19. Insurance liabilities

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

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

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

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

	Account 1 £'000	Account 2 £'000	Total £'000
Insurance liabilities - Gross of reinsurance			
Balance at 1 April 2014	18	837,261	837,279
Movements:			
Addition to the underwriting funds in the year	-	92,369	92,369
Release of excess funds - cash	-	(819)	(819)
Release of excess funds - credit	-	(56,487)	(56,487)
Other fund movements	-	228	228
Change in insurance liabilities on closed funds	(14)	(12,791)	(12,805)
Total Movements	(14)	22,500	22,486
Balance at 31 March 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
Insurance liabilities - Net of reinsurance			
Balance at 1 April 2014	18	541,625	541,643
Movements:			
Addition to the underwriting funds in the year	-	73,195	73,195
Release of excess funds - cash	-	(819)	(819)
Release of excess funds - credit	-	(51,189)	(51,189)
Other fund movements	-	228	228
Change in insurance liabilities on closed funds	(14)	(10,065)	(10,079)
Total Movements	(14)	11,350	11,336
Balance at 31 March 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
Summary of movements:			
2014-15			
Gross changes in insurance liabilities	(14)	22,500	22,486
Reinsurers' share of changes in insurance liabilities	-	(11,150)	(11,150)
Changes in insurance liabilities (net of reinsurance)	(14)	11,350	11,336
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)

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 2006-07 are closed years, as are cash fund years up to and including 2012-13.

	2006-07 fund year £'000	2007-08 fund year £'000	2008-09 fund year £'000	2009-10 fund year £'000	2010-11 fund year £'000	2011-12 fund year £'000	2012-13 fund year £'000	2013-14 fund year £'000	2014-15 fund year £'000	2015-16 fund year £'000
Account 2										
Credit funds										
At end of year	9,322	12,203	14,077	29,302	34,350	32,460	33,987	34,208	46,367	28,315
One year later	12,143	14,080	14,549	26,329	28,410	28,421	26,790	34,184	44,703	
Two years later	12,812	19,337	11,946	20,725	24,153	20,398	26,204	35,429		
Three years later	7,061	17,415	10,156	14,483	15,338	21,011	24,580			
Four years later	5,326	8,934	8,491	10,479	13,602	17,117				
Five years later	2,919	6,252	5,757	7,513	10,628					
Six years later	1,883	4,288	3,639	4,584						
Seven years later	1,072	2,716	2,250							
Eight years later	391	2,245								
Nine years later	218									
Cash funds										
At end of year	20,718	20,423	7,963	544	311	71	8,860	69	261	480
One year later	1,841	21	7,120	109	1	12	7,314	14	291	
Two years later	173	6	4,590	-	1	12	7,583	171		
Three years later	73	6	232	-	1	-	9,438			
Four years later	53	-	244	-	-	-				
Five years later	-	-	221	-	-					
Six years later	-	-	249	-						
Seven years later	-	-	256							
Eight years later	-	-								
Nine years later	-	-								
Credit fund total	218	2,245	2,250	4,584	10,628	17,117	24,580	35,429	44,703	28,315
Cash fund total	-	-	256	-	-	-	9,438	171	291	480
Expected Loss total	218	2,245	2,506	4,584	10,628	17,117	34,018	35,600	44,994	28,795
Summary										180,705
						funds 2006-07 to 2015-16 open	funds 2006-07 to 2015-16 closed	funds 2006-07 to 2015-16 total	funds years to 2005-06 closed	funds grand total
Expected Loss Summary:						£'000	£'000	£'000	£'000	£'000
Account 2:										
Credit fund total						169,851	218	170,069	3,608	173,677
Cash fund total						942	9,694	10,636	12,183	22,819
Account 2 total						170,793	9,912	180,705	15,791	196,496
Account 1 total						-	-	-	-	-
Expected Loss total						170,793	9,912	180,705	15,791	196,496

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 financial risk 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, foreign currency risk, and other price risk);
- b) **Credit risk** (in this context meaning counterparty risk in relation to interest rate derivatives);
- c) **Insurance risk** (including related foreign currency risk);
- d) **Liquidity risk;** and
- e) **Risk measurement.**

(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. See Financial Risk Report in the Performance Section of the Annual Report.

(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 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)
As at 31 March 2015		
Interest rate swap arrangements on Export Finance Loan Guarantees	(412)	169
Interest rate derivative contracts entered into for hedging purposes	1,645	(1,705)
Net impact on profit or loss	1,233	(1,536)

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 2016		
Interest rate swap arrangements on Export Finance Loan Guarantees	(1)	-
Net impact on profit or loss	(1)	-
As at 31 March 2015		
Interest rate swap arrangements on Export Finance Loan Guarantees	(3)	-
Net impact on profit or loss	(3)	-

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 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
As at 31 March 2015				
Interest rate swap arrangements on Export Finance Loan Guarantees	46,115	61,549	7,750	115,414
Interest rate derivative contracts entered into for hedging purposes	33,812	64,539	1,291	99,642

(a)(ii) Foreign currency risk

Foreign currency risk arises from two main areas: transaction risk and translation risk. Transaction risk is the risk of movements in the sterling value of foreign currency interest receipts on conversion into sterling. Translation risk is the risk that UKEF's Statement of Financial Position and net operating income will be adversely impacted by changes in the sterling value of foreign currency denominated assets and liabilities from movements in foreign currency exchange rates. UKEF is heavily exposed to translation risk due to the value of non-sterling assets and liabilities held. The most significant exposure relates to insurance assets (refer Note 21 (c) (iii) below).

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

The currency profile of UKEF's financial instruments and its capital loan commitment is set out below.

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
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
As at 31 March 2015				
Financial assets:				
Fair value through profit or loss	2,016	7,254	1,771	11,041
Account 4 loans at amortised cost	75,751	-	-	75,751
Account 5 loans at amortised cost	-	5,351	-	5,351
Insurance and other receivables	6,486	10,938	5,691	23,115
Financial liabilities:				
Fair value through profit or loss	(6,112)	(5,018)	(1,196)	(12,326)
Insurance and other payables	(44,219)	-	-	(44,219)
Financial Commitments:				
Account 5 amounts available	-	30,180	-	30,180

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

(b) Credit risk

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

UKEF has implemented policies and procedures that seek to minimise credit risk and full details can be found in the Financial Risk Report in the Annual Report (Performance section).

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

Credit concentration risk (financial counterparty)

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

(i) Credit Risk

The following table provides information regarding the credit exposure of loans at cost & commitments;

	Investment grade £'000	Non- investment grade £'000	Total £'000
Gross & Net of reinsurance at 31 March 2016			
Account 5: Direct Lending			
Loans at Cost	32,136	22,321	54,457
Commitments	170,635	46,678	217,313
Gross & Net of reinsurance at 31 March 2015			
Account 5: Direct Lending			
Loans at Cost	5,351	-	5,351
Commitments	30,180	-	30,180

(ii) Credit Concentration

The following table provides information regarding the credit concentration of loans at cost & commitments;

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Gross & Net of reinsurance at 31 March 2016					
Account 5: Direct Lending					
Loans at Cost	8,465	13,856	32,136	-	54,457
Commitments	8,462	38,216	170,635	-	217,313
Gross & Net of reinsurance at 31 March 2015					
Account 5: Direct Lending					
Loans at Cost	-	-	5,351	-	5,351
Commitments	-	-	30,180	-	30,180

(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.

The following table provides information regarding the credit exposure of amount 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

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 2015:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at Risk, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	6,984,343	4,330,493	11,314,836
Other	5,060,517	1,631,159	6,691,676
Total	12,044,860	5,961,652	18,006,512
Account 2: Financial Guarantees			
Total	504,646	156,691	661,337
Amounts at Risk, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	2,365,496	4,330,493	6,695,989
Other	4,401,616	1,631,159	6,032,775
Total	6,767,112	5,961,652	12,728,764
Account 2: Financial Guarantees			
Total	504,646	156,691	661,337
Expected Loss, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	76,778	69,784	146,562
Other	44,080	82,963	127,043
Total	120,858	152,747	273,605
Account 2: Financial Guarantees			
Total	863	5,054	5,917
Expected Loss, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	9,989	69,784	79,773
Other	28,777	82,963	111,740
Total	38,766	152,747	191,513
Account 2: Financial Guarantees			
Total	863	5,054	5,917

Information is presented based upon the grade of the ultimate obligor.

Amounts at risk gross & net of reinsurance on Accounts 1 and 3 at 31 March 2016 were £Nil and £Nil respectively (31 March 2015: £4,313,000 and £Nil respectively).

Expected Loss gross & net of reinsurance on Accounts 1 and 3 at 31 March 2016 were £Nil and £Nil respectively (31 March 2015 : £4,000 and £Nil respectively).

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 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
	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
	169,926	259,196	429,122
	Investment grade £'000	Non-investment grade £'000	Total £'000
Interest on unrecovered claims - gross			
Account 1	94	993,012	993,106
Account 2	626	120,205	120,831
	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
	705	133,260	133,965

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2015:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims - gross			
Account 1	32,029	550,928	582,957
Account 2	217,078	196,353	413,431
	249,107	747,281	996,388
Recoverable claims - net of provisions			
Account 1	31,068	232,600	263,668
Account 2	210,566	56,478	267,044
	241,634	289,078	530,712
	Investment grade £'000	Non-investment grade £'000	Total £'000
Interest on unrecovered claims - gross			
Account 1	122	983,946	984,068
Account 2	807	110,927	111,734
	929	1,094,873	1,095,802
Interest on unrecovered claims - net of provisions			
Account 1	118	141,882	142,000
Account 2	783	560	1,343
	901	142,442	143,343

(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 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

The following table provides an indication of the concentration of credit risk within the UKEF Account 2 portfolio as at 31 March 2015:

	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	6,242,011	1,354,333	1,097,739	2,620,753	11,314,836
Other	1,094,627	739,334	4,075,870	781,845	6,691,676
Total	7,336,638	2,093,667	5,173,609	3,402,598	18,006,512
Account 2: Financial Guarantees					
Total	660,473	-	-	864	661,337
Amounts at Risk, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	1,623,164	1,354,333	1,097,739	2,620,753	6,695,989
Other	435,726	739,334	4,075,870	781,845	6,032,775
Total	2,058,890	2,093,667	5,173,609	3,402,598	12,728,764
Account 2: Financial Guarantees					
Total	660,473	-	-	864	661,337
Expected Loss, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	81,707	13,158	11,101	40,596	146,562
Other	28,606	21,809	51,133	25,495	127,043
Total	110,313	34,967	62,234	66,091	273,605
Account 2: Financial Guarantees					
Total	5,917	-	-	-	5,917
Expected Loss, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	14,918	13,158	11,101	40,596	79,773
Other	13,303	21,809	51,133	25,495	111,740
Total	28,221	34,967	62,234	66,091	191,513
Account 2: Financial Guarantees					
Total	5,917	-	-	-	5,917

(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 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

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2016 is as follows:

- 10% movement would increase / increase the carrying value by £21,306,000 (31 March 2015 by £24,717,000).
- 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 2015:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	704,720	283,529	8,139	996,388
- Provisions	(381,637)	(77,313)	(6,726)	(465,676)
Interest on unrecovered claims				
- Gross	868,079	215,783	11,940	1,095,802
- Provisions	(790,470)	(150,116)	(11,873)	(952,459)
Net insurance assets at 31 March 2015	400,692	271,883	1,480	674,055

(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, 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:

As at 31 March 2016	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Total £'000
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 at 31 March 2016	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 at 31 March 2016	70,565	105,247	18,294	-	194,106
As at 31 March 2015					
As at 31 March 2015	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Total £'000
Account 2: Insurance Contracts					
Gross Amounts at Risk	2,785,584	8,860,109	5,685,571	675,248	18,006,512
Less: Amounts at Risk ceded to reinsurers	(903,788)	(2,486,478)	(1,816,678)	(70,804)	(5,277,748)
Net amounts at risk at 31 March 2015	1,881,796	6,373,631	3,868,893	604,444	12,728,764
Account 2: Financial Guarantees					
Gross Amounts at Risk	65,491	529,707	66,139	-	661,337
Less: Amounts at Risk ceded to reinsurers					
Net amounts at risk at 31 March 2015	65,491	529,707	66,139	-	661,337

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

(e) Risk measurement

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

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

Sensitivity testing and scenario analysis

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

Sensitivity test results

Sensitivity test analysis is conducted on UKEF's Account 2 portfolio twice a year, using criteria endorsed by the 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 financial risk 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%
As at 31 March 2016:	£'000	£'000	£'000	£'000
- 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

	Across the board ratings downgrade by		Increased persistence	Reduced recovery rates
	1 notch	2 notches	+ 2 years	-20%
As at 31 March 2015:	£'000	£'000	£'000	£'000
- Increase in Expected Loss	73,638	162,474	4,640	48,846
- Impact on net income for the year	4,475	19,810	238	6,465

Sensitivity analysis for Account 2 Financial Guarantees is not considered to have any significant impact on net income for the year.

Sensitivity analysis is not performed for Accounts 1 and 3 as there is no remaining exposure.

Insurance assets - unrecovered claims

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

22. 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
Gross & Net of reinsurance		
Balance at 1 April 2014	-	-
Loans issued & effective	35,003	35,003
Amounts drawn	(6,664)	(6,664)
Net foreign exchange adjustments	1,841	1,841
Balance at 31 March 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

23. Contingent liabilities

	31 March 2016 £'000	31 March 2015 £'000
Summary: Gross of reinsurance		
Account 1	-	4,313
Account 2	17,110,570	18,667,849
Total	17,110,570	18,672,162
Summary: Net of reinsurance		
Account 1	-	4,313
Account 2	11,655,172	13,390,101
Balance at 31 March 2016	11,655,172	13,394,414

The following table summarises the total Amount at Risk (AAR) on issued and effective guarantees:

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 guarantees on products which are accounted under IFRS4:

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Total £'000
Gross of reinsurance				
Balance at 1 April 2014	10,069	16,609,850	-	16,619,919
Guarantees and insurance policies issued and renewed	-	3,184,915	-	3,184,915
Run off	(5,756)	(2,413,874)	-	(2,419,630)
Net foreign exchange adjustments	-	1,044,852	-	1,044,852
Interest rate adjustments	-	13,547	-	13,547
Change in Valuation	-	(432,778)	-	(432,778)
Balance at 31 March 2015	4,313	18,006,512	-	18,010,825
Guarantees and insurance policies issued and renewed	-	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

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Total £'000
Net of reinsurance				
Balance at 1 April 2014	10,069	11,513,252	-	11,523,321
Guarantees and insurance policies issued and renewed	-	2,551,425	-	2,551,425
Run off	(5,756)	(1,719,376)	-	(1,725,132)
Net foreign exchange adjustments	-	737,743	-	737,743
Interest rate adjustments	-	17,727	-	17,727
Change in Valuation	-	(372,007)	-	(372,007)
Balance at 31 March 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

23(b) Products accounted for as financial guarantees

The following table summarises movements in Amounts at Risk (AAR) on issued and effective guarantees on products which are accounted for under IAS 39:

Gross & Net of reinsurance	Account 1 £'000	Account 2 £'000	Account 3 £'000	Total £'000
Balance at 1 April 2014	-	574,961	-	574,961
Guarantees and insurance policies issued and renewed	-	133,803	-	133,803
Run off	-	(43,205)	-	(43,205)
Net foreign exchange adjustments	-	1,787	-	1,787
Change in Valuation	-	(6,009)	-	(6,009)
Balance at 31 March 2015	-	661,337	-	661,337
Guarantees and insurance policies issued and renewed	-	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

24. Related party transactions

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

None of the members of UKEF's Board or their related parties has undertaken any material transactions with UKEF during the year.

25. Events after the reporting period date (Non adjusting event)

On 23 June 2016 the referendum on the UK's membership of the European Union was held, with the result being a vote for the UK to leave the European Union. The subsequent impact of this was volatility in the foreign exchange markets leading to a significant weakening of sterling against the US dollar. As UKEF conducts a substantial amount of its business in US dollars, this has had an impact on the valuation of US Dollar denominated assets UKEF holds, and on the overall amount of exposure UKEF has in relation to guarantees and commitments issued. The impact of a 7% weakening of sterling against the dollar (as at 30 June 2016 the GBP / USD rate was 1.34, as at 31 March the rate was 1.44) on UKEF's net asset position would be £22 million, while the impact of UKEF's overall exposure is £1.2 billion.

In addition to foreign exchange volatility the United Kingdom has also had its credit rating downgraded by leading credit rating agencies. In addition to impacting the value of some of UKEF's assets and liabilities (which are held at fair value) this may also have an impact on future business. At this point in time it is not possible to quantify the impact on future business (if any) while the impact on the valuation of assets and liabilities held at fair value is not material.

