UK Export Finance

UK Export Finance
Annual Report and Accounts 2015–16

UK Export
Finance

Export Credits Guarantee Department (UK Export Finance) Annual Report and Accounts 2015–16

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

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

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

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

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UK Export
Finance

Who we are

UK Export Finance (UKEF) is the UK's export credit agency and a government department.

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

Our mission

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

How we do it

We help companies access private sector support.

We encourage private sector support by offering to share credit risks.

We provide insurance, guarantees or finance ourselves, where the private sector won't, backed by the strength of the government's balance sheet.

Our work means that:

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

We manage over £20 billion of financial risk. Taking on this risk helps UK companies realise export opportunities and protects trade during times of market disruptions.

As the world's first export credit agency, we've been supporting UK exports for nearly 100 years.

We work in partnership with more than 70 banks, brokers and other providers to supply export finance and insurance that complements their commercial business. We do not seek to compete with private sector providers of finance and insurance.

UKEF is focused on developing its digital processes and its use of technology.

Minister's foreword Lord Price

I am pleased to present UK Export Finance's Annual Report and Accounts for 2015-16.

It shows an organisation continuing to seek improvements in the way it operates and in the support it can provide to business. It shows an organisation providing an example of how business and government can work together to increase growth and UK competitiveness. And it shows an organisation, under new leadership, ready to play its part in the ambitious whole-of-government push for 100,000 new exporters and £1 trillion of exports by 2020.

As it approaches its centenary, UKEF's mission remains steadfast: to ensure no viable UK export fails for lack of finance or insurance. It operates at no net cost to the UK taxpayer and is a hugely important safety net for both UK exporters and buyers across the world.

It is also adapting to the times: meeting the ever changing demands of businesses as they seek to compete in an increasingly global and digital market place. This will require UKEF to keep pace with technological advances, to continuously innovate, and to embrace partnerships in order to support UK companies as effectively as possible.

Already, in my short time in government, I have seen examples of UKEF rising to these challenges. It has been recognised for its innovation – its Islamic financing, its direct lending and its support for loans in local currencies all stand out. It continues to grow its trade finance support for smaller companies, with ambitious plans to make a further step-change in scale. Its close working partnership with UK Trade & Investment is stronger than ever. And it has made great strides in developing future digital processes and technology.

I am delighted to see that UKEF members of staff, through the results of the annual staff survey, are growing prouder of their work and the impact it has. I suspect this is because they, like me, understand that business is a force for good. Their work is fuelling the growth of the UK economy: helping businesses generate the tax receipts which in turn fund our vital public services.

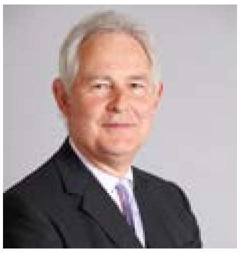
I'd like to extend my thanks to all the staff for warmly welcoming me in my new role and for all their hard work. I hope they continue to challenge themselves to give the best possible support for UK business success overseas.

Lord Price
Minister for Trade and Investment
23 June 2016

Performance

UKEF's non-executive chair leads the UKEF Board as it advises the Accounting Officer on all matters of material importance to the department, such as business and operational planning, business performance, financial risk management and compliance with risk policies.

Chairman's report Guy Beringer CBE



I was pleased to welcome Louis Taylor to the board in October as the new UKEF Chief Executive. His predecessor, David Godfrey, left the department after 2 years' service as Chief Executive, and having previously been a non-executive director. David oversaw many developments in the department during his tenure as Chief Executive, and the board thanks him for his time and leadership in the role and for the sound footing on which he left the department.

This year also saw the retirement of the Business Group Director, Steve Dodgson. Steve was an Executive Committee member and board member, and served the department in various roles for 42 years. The board would also like to thank him for his considerable contribution to the success of the organisation.

There has been a renewed appetite from the commercial markets to get involved in export finance, so we have not been called upon for support at levels recently experienced, especially in the aerospace sector. This is not unique to UKEF but also applies to other export credit agencies across the world, as they look to support their respective industrial base. We continue, however, to find new ways in which we can give support to UK exporters and their customers, and we are reaching greater numbers of exporters, particularly SMEs, as we seek to broaden our reach to all sizes of business.

The UKEF business plan sets out the main elements of the strategic direction for the department. One of the priorities is that we will have a competitive offering. The department seeks to ensure that it is one of the most competitive export credit agencies in the global marketplace by providing a full range of financing tools and making sure that there is a level playing field for UK exporters faced with competition supported by comparable export credit agencies.

Our other strategic priorities are to improve customer delivery and awareness, be agile and adaptable, and ensure that the organisation is a great place to work for the staff.

I am pleased, therefore, that feedback on UKEF's performance from trade bodies such as the British Exporters Association, and the trade press such as Global Trade Review and TXF: Trade & Export Finance, remains very encouraging. The broadening of UKEF's legal powers and a fully operational direct lending product are both significant developments in the department adapting to new market requirements. Along with this, UKEF's already broad product range, strong guarantee and flexible foreign content rules are all advantages for supporting exporters across the UK.

These innovations already implemented and new measures being piloted to streamline trade finance products will help to ensure that we remain one of the most competitive and responsive export credit agencies anywhere in the world.

Guy Beringer CBE
Chairman
23 June 2016

Our mission is to ensure no viable UK export fails for want of finance or insurance, while operating at no net cost to the taxpayer.

Chief Executive's report Louis Taylor

We made significant progress towards our mission in the year, increasing the number of exporters who benefited from our support and continuing our work to develop and enhance the range of solutions we offer to UK companies.

I joined UKEF in October 2015, taking over from David Godfrey, whom I would like to thank for the good shape of the department, and in particular for formulating such a comprehensive and apposite strategy for UKEF. This foundation contributed to our progress in the year.

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

Our interventions:

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

Our support is not aid:

- we charge a premium[1] to reflect the risk we assume
- commercial rates of interest are charged on lending
- the premium we charge must cover our long-term losses, as well as our long-term operating costs
- we aim to operate at no net cost to the taxpayer over business cycles
- we do not seek to make a profit

We have reviewed our performance against each of our 4 strategic aims within our 2014 to 2017 business plan:

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

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

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

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

1 When we use the term 'Premium' this should be taken to include guarantee fees or other fees.

In 2015-16 we have continued to:

grow by 23% the number of businesses that directly benefit from our support – you can read some of their stories on pages 49 to 63

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

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

encourage innovation and a positive customer experience, by continually examining what we do and making improvements to ensure that our support continues to match or exceed the support provided by other export credit agencies

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

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

increase the learning and development provided to our staff

cooperate across government, for example:

- as part of the Exporting is GREAT campaign
- with UK Trade & Investment (UKTI) on how best to support overseas marketing for UK companies
- with the British Business Bank, to review the finance challenges facing small and medium-sized enterprises (SMEs) that export or are looking to export, to ensure that government support best addresses their needs

UKEF's strategic aims:

Agile and adaptable

Competitive offering

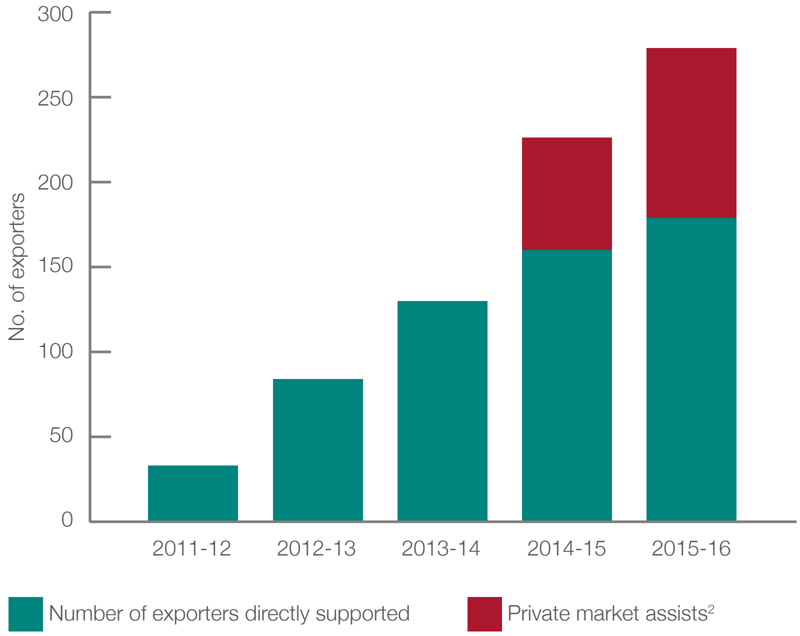
Customer Service and awareness

Great place to work

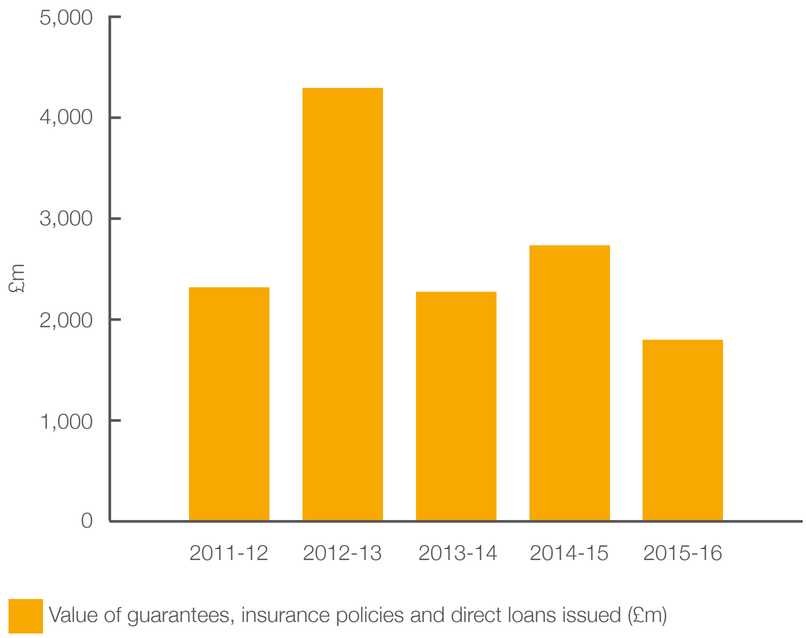
Businesses supported

We supported 279 companies in 2015-16. The maximum liability on all new business was £1.8 billion. Our trade finance products supported £818 million of export contracts won by UK businesses.

Number of exporters supported

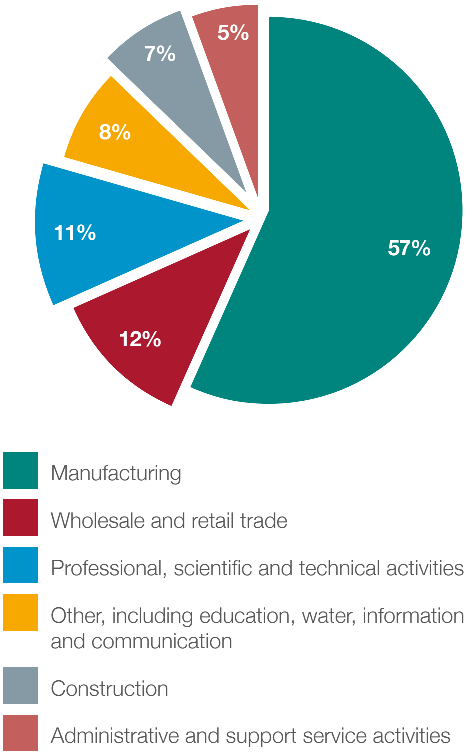


Value of business issued

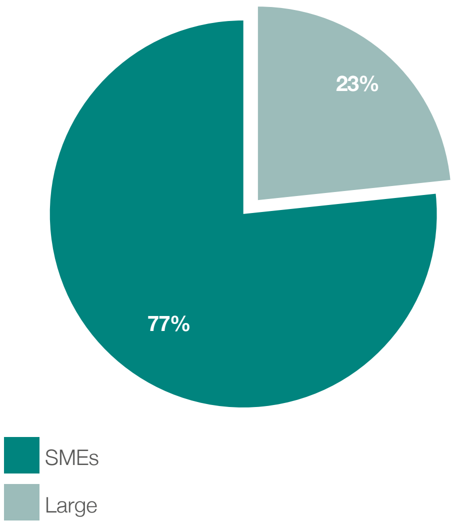


2 A 'private market assist' is when our engagement has had a material contribution to a company receiving support from the private sector, resulting in an export contract going ahead that was unlikely to have proceeded otherwise.

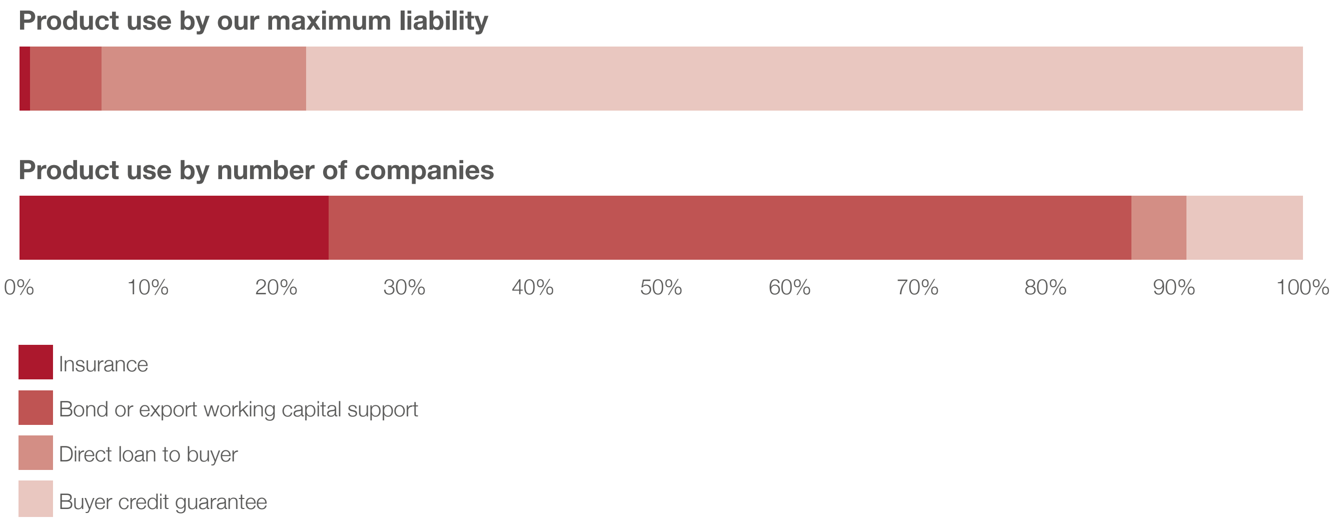
Sectors



Company size



Destinations for exports supported in 2015-16: darker shading indicates higher value of UKEF support.



> **“Exporting can help businesses grow – and grow fast. The statistics show that in the first two years of exporting alone, a business can grow by up to one-third. That means more jobs, more profits, more tax revenue and more benefit to society.”**

Lord Price, Minister for Trade and Investment

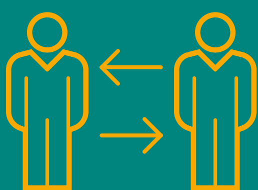
Highlights in 2015-16

UKEF supported more than
£800 million
of new UK export contracts via our trade finance and insurance products and issued **£1,679 million** of export credit support

We reached an agreement with GE that was instrumental in the company committing to a significant investment in the UK, with the potential to create
more than 1,000 jobs

We exceeded **£3 billion** of export contracts supported through new products introduced in 2011 in response to the economic downturn

UKEF was the first export credit agency outside China to guarantee a
loan in chinese currency
(the offshore renminbi), paving the way for UK companies to export more easily to the Chinese market



Our export finance advisers held more than 2,500
one-to-one interactions
with UK companies and more than 1,500 with intermediaries this year

More than
7,000 companies
are likely to benefit from our support via large exporter supply chains

The department began development of a
new digital interface
to support customer applications that will be made available in 2016-17

We reintroduced cover to support UK companies seeking to compete for
business in Iran

We completed a public consultation that allowed for
simplification
of our application process

We continued to be a
recognised leader
among OECD export credit agencies in the application of environmental, social and human rights due diligence

We developed detailed
online product guides
to help and encourage bank staff and insurance brokers to use them in support of their clients

We adopted the
equator principles
during the year, alongside our parallel commitment to meet OECD recommended standards

Finances

UKEF achieved an operating surplus for the year ended 31 March 2016 of £106 million compared with £129 million for the year to 31 March 2015. The decrease in net operating income for the year was largely the result of:

- a decrease in the release from the underwriting funds closed in the current year to £36 million in 2015-16 from £52 million in 2014-15
- a lower foreign exchange gain of £13 million for 2015-16 compared with a gain of £34 million in 2014-15

We met all our financial objectives, which are set for us by HM Treasury.

Page 34 sets out our results against our financial objectives and page 93 contains a comprehensive report of our financial performance.

Image UKEF are heavily involved in the whole-of-government's Exporting is GREAT campaign, which is promoting live export opportunities for UK companies and highlighting the support available.

How we protect the taxpayer

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

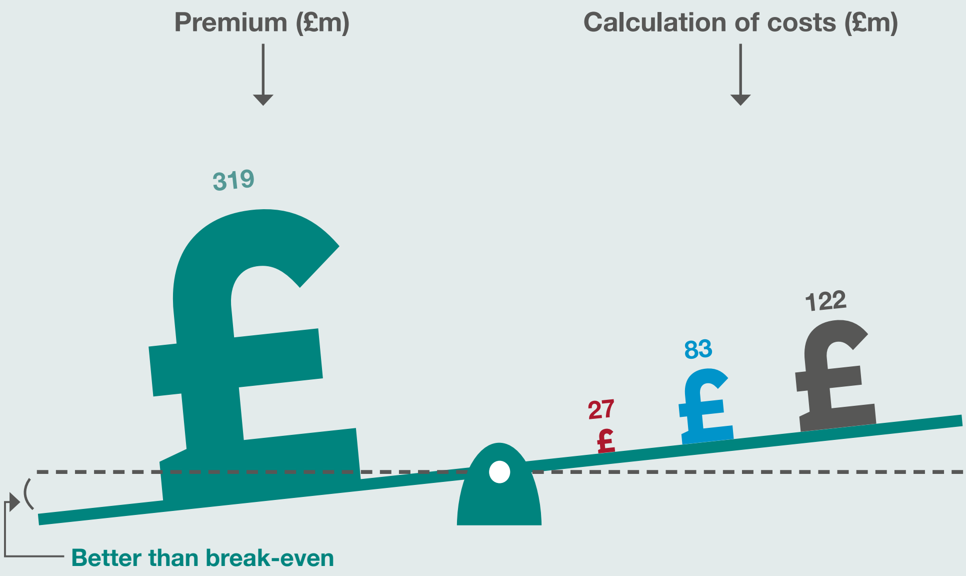
Our aim is to break even over time. To help make sure that we do, every month we calculate the premium we earn and weigh it up against an estimate of all the potential costs and losses for the business supported.

We measure this over different 3-year periods. The diagram below shows the result based on actuals for 2013 to 2016.

The costs have 3 components:

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

2013 to 2016



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

Note The premium amount for 2013-16 applied to our pricing adequacy index differs from the accounted premium reported on page 33. This is because the accounted premium:

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

Supporting exports through the business cycle

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

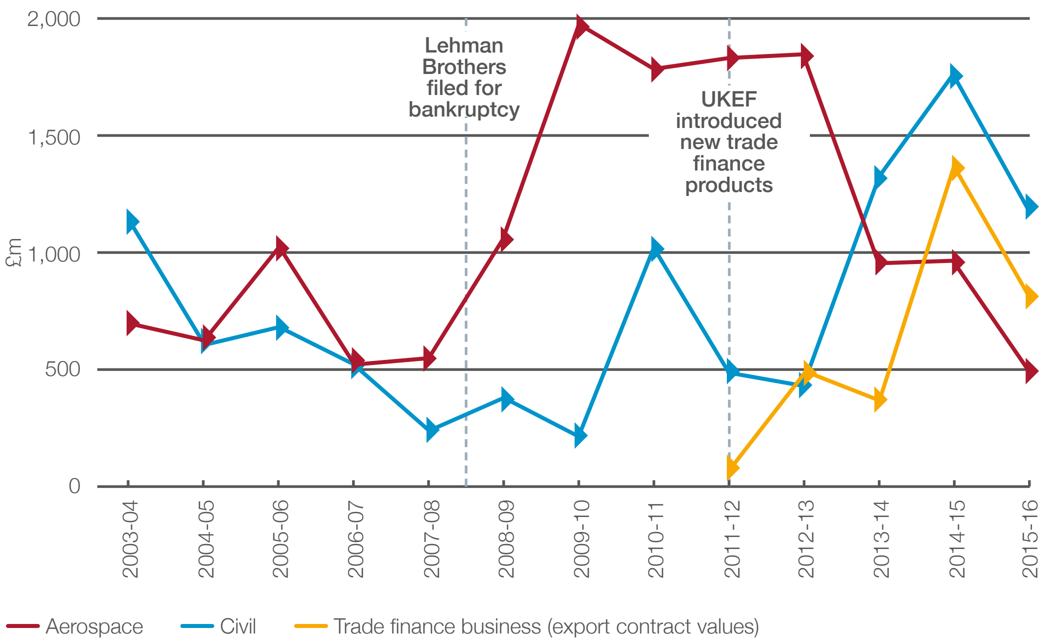
To some extent our role is best appreciated 'through the business cycle' as our business levels (and claims) rise and fall depending on the impact of market disruptions on UK trade.

The financial crisis that started in 2007 demonstrated UKEF's 'counter-cyclical' role.

The graph below illustrates that:

- UKEF support for aircraft exports peaked in 2010 to 2012 as UKEF helped sustain planned deliveries
- civil project business took more time to be reflected in UKEF support due to projects taking longer to come to fruition

UKEF had to rebuild its support for short-term business, as this had been privatised in 1991 – this rebuilding will help us provide an agile and swift response in the event of future market disruption.



Note Aerospace and civil business support are represented above by UKEF's maximum liability at time of support. In contrast, the value of trade finance business is represented by the total export contract value. This has been done to help represent the impact of UKEF's different areas of support on UK business through the cycle. Large defence business has been excluded.

Performance assessment

Assessing our performance should take into account:

- the overall volume of our support (as reported on page 33)
- our ability to provide this support while covering our operating costs and losses
- our potential market share, ie the size of the 'market gap' we need to bridge

Bridging the gap

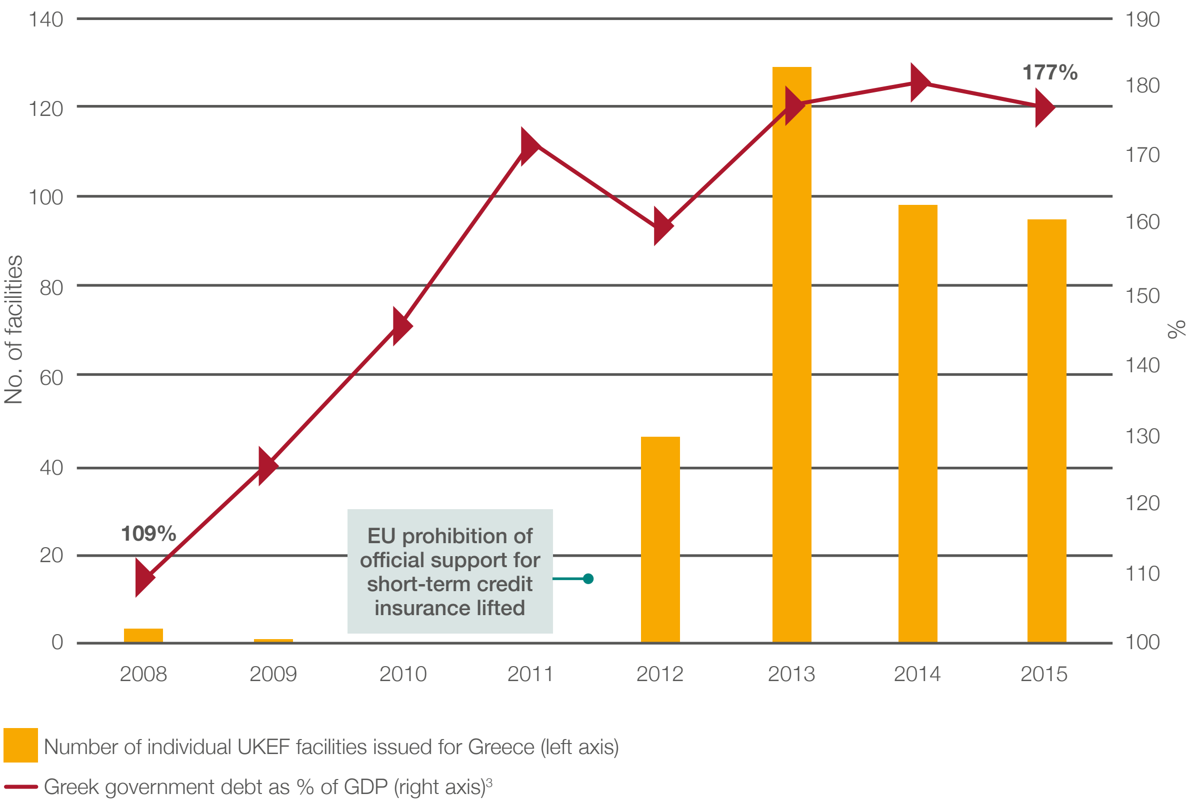
Our potential market share is partially determined by **external factors** over which UKEF has no control:

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

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

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

How UKEF fills market gaps: the Greek example



3 Source: Eurostat

External factors

Overall, external factors in 2015-16 are most likely to have reduced the inherent demand for our support.

The net effect of external factors during the year appeared to be a global fall in demand for all export credit agency support. These factors included a slowdown in global growth, a historically low oil price, generally high levels of bank liquidity, a strongly recovering commercial credit insurance market and a slight increase in bank lending.

Our Chief Economist's full commentary is on page 37.

Awareness

Considerable progress has been made in raising awareness of UKEF, but we have more work to do.

We track awareness levels annually. The most recent survey, carried out in June 2015, showed that awareness levels had risen significantly among companies that had experienced difficulty accessing financial support. This suggests that, when we are needed, many companies are finding us.

However, it showed that half of the companies within our target segment still remained unaware of our support. It also revealed that other intermediaries in government and within banks were not introducing companies to UKEF as we would like.

We continue to work to address this and we expect to see more progress when we repeat the survey of our awareness early in 2016-17. We now have the additional opportunity to raise awareness of our support through the government's Exporting is GREAT campaign, which has secured significant investment over at least 5 years until 2020.

There is a review our work with partners on page 65.

Pricing of risk

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

Our pricing methodology is described in more detail on pages 78 to 80.

Product range

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

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

Our longstanding status as a ministerial government department continues to provide a firm foundation.

Comparing UKEF with other export credit agencies

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

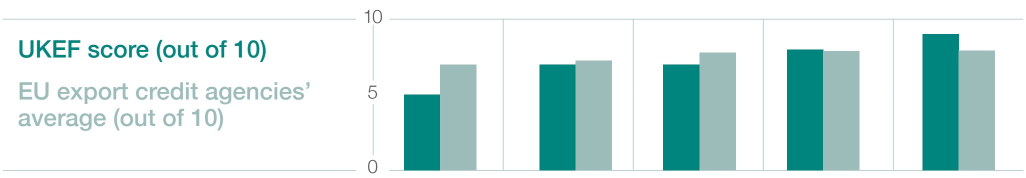
Every year the UKEF Board undertakes a comparison exercise to review our offering against that of other export credit agencies.

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

Our product range has evolved considerably since BExA's first benchmarking report in 2010, when we scored 4 out of 10, compared to 9 out of 10 today. We have now overtaken the average score for EU export credit agencies.

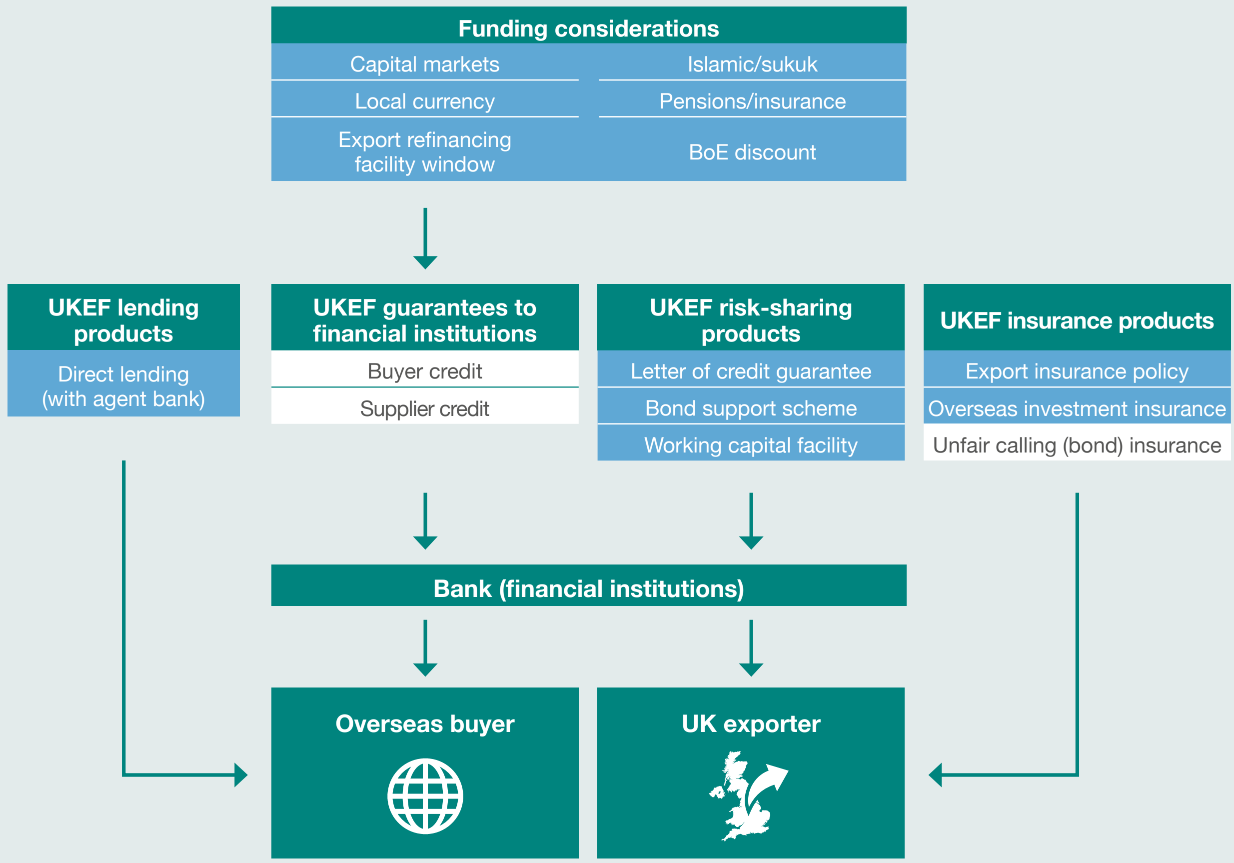
Results of annual benchmarking by the British Exporters' Association (BExA)

Products	2010-11	2011-12	2012-13	2013-14	2014 to present
Short-term insurance	●	✓	✓	✓	✓
Direct lending	●	●	●	✓	✓
Bond support scheme	●	✓	✓	✓	✓
Working capital facility	●	✓	✓	✓	✓
Export credit schemes	✓	✓	✓	✓	✓
Fixed rate financing (CIRR)	✓	●	●	●	✓
Investment insurance	✓	✓	✓	✓	✓
Unfair calling insurance	✓	✓	✓	✓	✓
Letter of credit guarantee	✓	✓	✓	✓	✓
Foreign exchange risk cover	●	●	●	●	●



Our product suite (with developments since 2011 highlighted)

New products or funding considerations introduced since 2011



Other performance factors

Enterprise risk

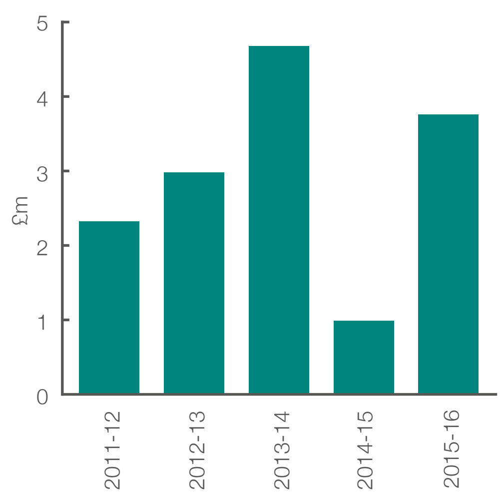
Managing risk is critical to our business. In addition to the management of credit risks, we face a variety of **other financial, operational and strategic risks** from external and internal sources.

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

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

In this context the low volume of new claims in each of the past 5 years, from a portfolio with more than £17.5 billion at risk, demonstrates a strong capability in credit risk decision-making.

Claims arising from new defaults (£m)



Taking the past 5 years, the average new claims as a proportion of the average amount at risk would be

0.015%

or £1 for every £6,864 at risk. We typically seek to recover claims we have paid, so any final loss calculation may not become clear for many years, until recovery action is concluded.

How we manage our **financial risks** is fully detailed on pages 69 to 91.

To manage **operational risk**, we are committed to establishing a continuous improvement culture across the organisation. The aim is to reduce operational losses arising from inadequate or failed internal processes, systems, external events, and contractual risk.

I am pleased to say there are no operational losses or special payments to report in 2015-16.

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

- attract and retain the right people where salary levels may lag behind financial services and other public sector comparators
- develop, digitise and streamline our processes, and to get value for money from technology
- penetrate the market in terms of awareness
- compete with overseas competitors offering concessional lending or support outside OECD disciplines

There is a detailed description of the most significant of the **operational risks** facing our business and mitigating measures in the governance statement on pages 120 to 125.

Operational efficiency and effectiveness

We have embarked on a programme of investment in digital technology and services to improve the efficiency of our case process and customer relationship management, and to prepare for increased uptake of our products and services. This investment is the key element of our business transformation plan approved as part of our settlement under the 2015 Spending Review.

Read more about our operations and spending plans on page 67.

Working with partners

Our partnerships within government have gone from strength to strength. For example we work closely with UKTI, the government department responsible for co-ordinating whole-of-government efforts to support exports and for developing a coherent and joined-up service for UK companies. We provided expertise to UKTI on the development of potential export services, we are a part of the Exporting is GREAT campaign, and we will continue to join forces at every opportunity to help UK businesses trade internationally.

Our commercial partnerships have also developed, as we worked with partners to simplify our application processes, invited lenders to seek support for working capital facilities to companies supplying products or services to exporters and began a pilot of arrangements to reduce export finance application times through ending duplicated credit and other due diligence between lenders and UKEF.

The year ahead

We have 5 priorities for 2016-17:

- enhance our **performance** through a broader and deeper delivery of our mission
- become more **efficient** by continuously improving the way we work
- increase our **competence** by developing our talent and leadership capability
- improve **teamwork** by generously collaborating with partners
- grow our **brand** by building our reputation and stakeholder awareness

Banks and alternative finance providers

We plan to make it simpler for finance providers to share risks with us when providing credit facilities to companies that are involved with exporting, by giving them more control over the application process and widening the application of our support.

In 2016-17 we will:

- **complete a trial of arrangements to delegate more decision-making to finance providers, with the aim of cutting application times in half and accessing many more exporters who can benefit from our support**
- **provide training and toolkits to bank staff to support the use of our products under this new delivery model**

Customers

We plan to work more closely with UK prime contractors (whose large and complex contracts bring significant UK supply-chain benefits) to support competitive finance packages when they seek to win overseas contracts. We want to be helping companies win contracts, not just helping them fulfil contracts already won.

Smaller (SME) customers will benefit from our work with finance providers and brokers to streamline and broaden access to our support.

In 2016-17 we will:

- **trial an online application service that is simpler, clearer and faster than current arrangements**
- **develop a unified business development function that will raise awareness of our support and capabilities across the full spectrum of companies, from supply of exports through to end demand for exports of companies, and include all of UKEF's marketing efforts**

Government

The new Exporting is GREAT campaign demonstrates that a world of opportunity is out there for UK companies. The campaign is at the centre of a new whole-of-government approach to supporting exports. It also brings together commercial partners that share UKEF's interest in empowering more companies to export. We plan to exploit the potential of the Exporting is GREAT campaign and, with UKTI co-ordinating activity across government, we can do more to make sure that our support lands where it is needed.

In 2016-17 we will:

- **again test for increasing awareness of our support**
- **reach more companies via the Exporting is GREAT campaign**
- **continue to collaborate across government to help finance exports**

People

Our support is only as good as the people we employ to deliver it. We plan to make the most of our unique role spanning government and the financial services industry to attract talent and to make sure that our people reach their potential.

In 2016-17 we will:

- **implement changes to the structure of our business group under new leadership that allows for greater flexibility to marshal resource**
- **further increase learning and development opportunities for staff that will add to their ability to support exporters**
- **invest more heavily in developing current and future leadership talent for key roles**

As our capabilities and profile have grown, so has our ambition. We want to be the best export credit agency among our international peers, we want to be unafraid of going beyond our traditional role, and we want to be a high performing partner within UKTI-led programmes across government to support trade and investment.

Above all we want to realise our new mission statement to the fullest extent possible: to ensure no viable UK export fails for want of finance or insurance from the private sector, while operating at no net cost to the taxpayer.

Note on the result of the EU referendum

On 23 June the UK voted to leave the EU. The short-term impact of this on how UKEF continues to operate is unlikely to be material. We do not anticipate that it will require significant changes to our spending or operational plans. We align our export credit support with international agreements that are predominantly decided within the OECD. Those EU regulations that do have implications for how we operate will remain in place while the UK works to establish new relationships with Europe and the rest of the world.

As our Chief Economist makes clear in his report that follows, economic uncertainties always have the potential to affect the demand for our support. It is our responsibility to maintain a broad capability to assist UK exports in all economic weathers. This is what we will continue to do.

Louis Taylor
Chief Executive
30 June 2016

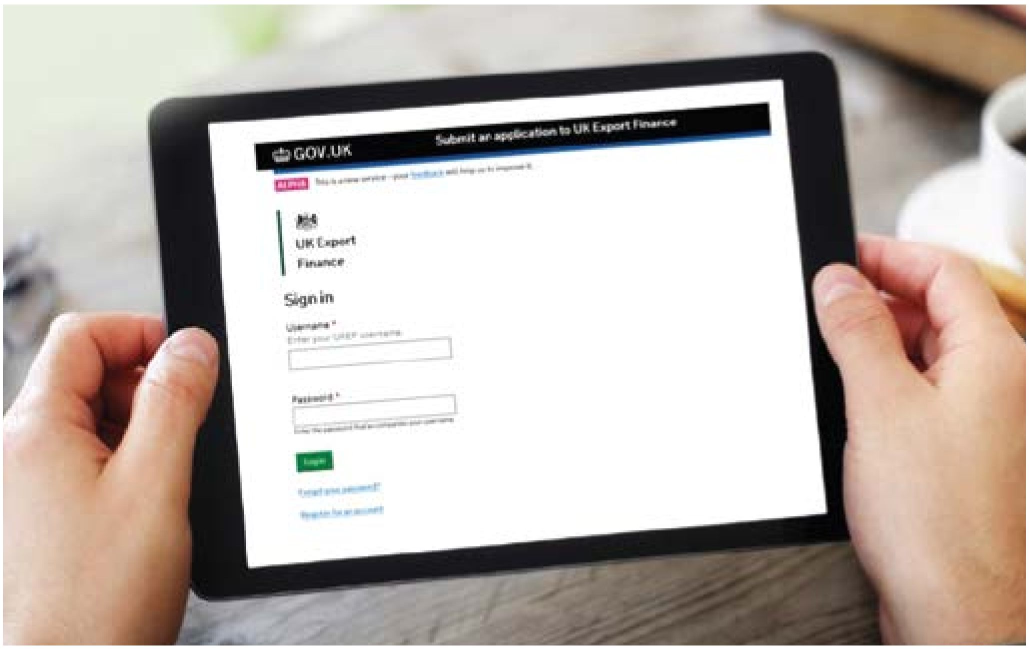


Image UKEF is working with the Government Digital Service and UKTI to streamline and digitise its services

Our growing support for exporters contributes to the government's 2020 Export drive.

Performance overview

Financial overview – 5-year summary					
	2015-16	**2014-15**	**2013-14**	**2012-13**	**2011-12**
	£m	**£m**	**£m**	**£m**	**£m**
Business supported	1,793[4]	2,730	2,272	4,291	2,318
Premium income	73	104	120	133	85
Claims paid	5	6	13	7	6
Net operating income	106	129	50	135	147
Non-financial indicators – 5-year summary					
Total exporters supported, of which:	279	226	130	84	33
direct support under a UKEF product	176	160	130	84	33
private market assists[5]	100	66	not recorded	not recorded	not recorded
direct support and private market assist	3	0	not recorded	not recorded	not recorded
Facilities issued	593	588	619	368	204
Introductions to other sources of support (eg UKTI)	1,778	1,339	not recorded	not recorded	not recorded

4 This figure is issued and effective business net of amounts counter-guaranteed or reinsured by another official export credit agency; it includes £286 million in the form of direct loans and scheduled interest, which is accounted for on a different basis.

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

Financial objectives	
Objective and description	**Results**
Maximum commitment This measure places a cap on the maximum amount of nominal risk exposure (ie the total amount of taxpayers' money that may be put at risk by UKEF).	**Met** The highest recorded maximum exposure in the year was £21.4 billion, against a notional maximum commitment of £56.2 billion (adjusted for foreign exchange movements).
Risk appetite limit This limit places a constraint on UKEF's appetite for risk at the 99.1 percentile of UKEF's estimated 10-year loss distribution.	**Met** UKEF's 99.1 percentile of the 10-year loss distribution did not exceed £1.3 billion, against a notional risk appetite limit of £3.1 billion (adjusted for foreign exchange movements).
Reserve index This index ensures that UKEF has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5% level of confidence.	**Met** The reserve index did not fall below 4.38 in the year, against a target minimum of 1.00.
Pricing adequacy index This index tests whether, over time, UKEF earns sufficient premium income to cover all its risk and operating costs. It is measured over 3 different periods:	
(i) past 2 years and present financial year:	**Met** This index at 31 March 2016 was 1.37, against a target minimum of 1.00.
(ii) previous, present and next year:	**Met** This index did not fall below 1.28, against a monthly target minimum of 1.00.
(iii) present year and next 2 years:	**Met** This index did not fall below 1.28, against a monthly target minimum of 1.00.
Premium to risk ratio This measure ensures that each year UKEF charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to administrative costs.	**Met** This ratio did not fall below 1.93, against a target minimum of 1.35.

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

Pages 71 to 79 set out more detail on these objectives.

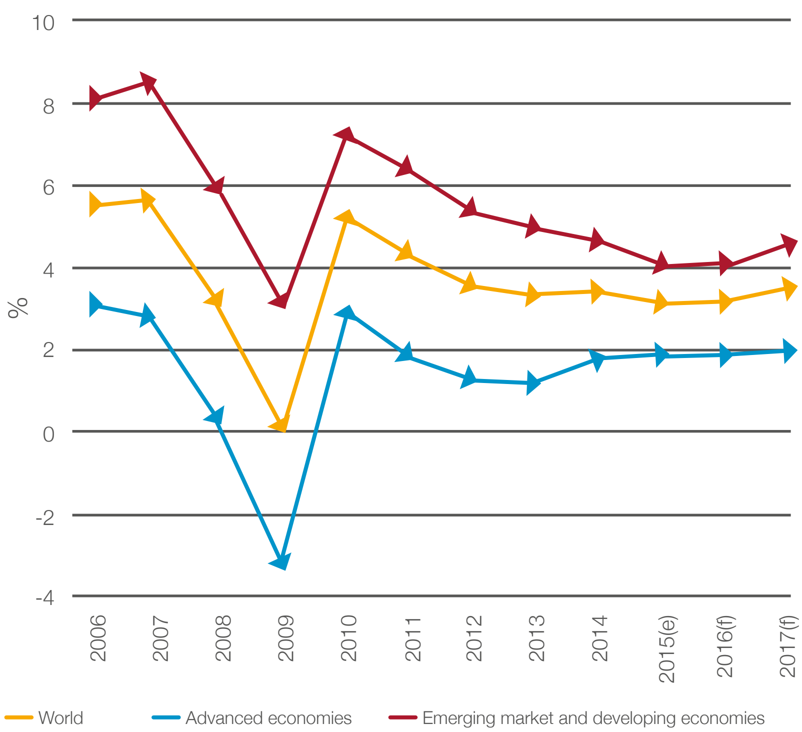
UKEF is based in the HM Treasury building on Horse Guards Road, London.

Chief Economist's report Paul Radford

Slowdown in global activity and improved bank liquidity contributed to a reduction in demand for export credit agency support globally in 2015-16. Demand for UKEF support was no different. A report by Trade & Export Finance (TXF) found that global volumes of all export credit agency deals fell by around a third in 2015 compared with 2014.[6]

World economic growth in 2015 is estimated to have been at around 3.1%, 0.3 percentage points lower than the previous year (3.4%). This fall was driven by slower growth in emerging markets and developing economies (which accounted for approximately 70% of global growth), and lacklustre growth in advanced economies.[7]

Percentage increases in GDP: global



6 *http://www.txf-news.com/News/Article/5453/TXF-Export-Finance-Report-ECA-deal-volumes-drop-by-29* (accessed on 10 March 2016)

7 International Monetary Fund's (IMF) World Economic Outlook (WEO), January 2016

Emerging markets

Growth of economic output in emerging markets fell from 4.6% in 2014 to 4.0% in 2015 with a slowdown in China and South Africa and recessions in Brazil and Russia being the main drivers.

China's economic performance fell from double-digit growth during the 2000s to less than 7% in 2015, as it transitions its economy towards consumption-driven growth with an increased emphasis on services. This has had a knock-on effect on other emerging market economies, especially key trading partners such as Brazil and many African countries, as a result of weaker demand for goods, in particular raw materials and commodities used in manufacturing.

The majority of UKEF support relates to companies exporting to emerging markets. The economic slowdown has had an impact on major projects in some countries, either terminating planned projects or delaying them.

Collapse of commodity prices

The London Metal Exchange (LME) index fell by around 20% year-on-year in 2015 and oil prices decreased by more than 45% from an annual average of US$99 per barrel in 2014 to US$54 per barrel in 2015.[8]

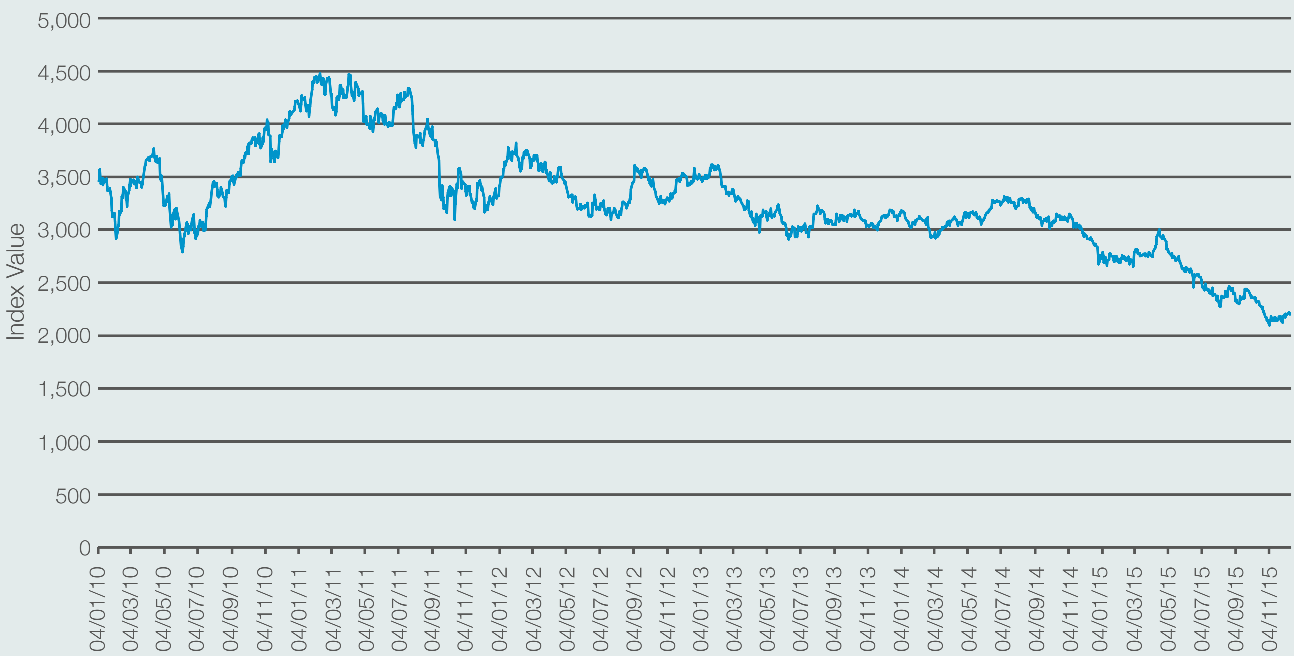
Sluggish demand was not the only reason for the fall in the price of oil. Other factors exerted severe downward pressure on prices, including oversupply of crude as a result of OPEC (Organization of the Petroleum Exporting Countries) members maintaining or growing output, rising US production (in particular shale) and the prospect of Iran re-entering the market.

Sharply lower oil prices have had a negative impact on oil producing countries and many have started to draw on their cash and asset reserves to balance their fiscal budgets. However, the winners have been the importers of oil, such as India.

The decline in commodity prices, in particular oil, has had an impact on investment spending as commodity-producing countries scale back

8 Data sourced from Bloomberg. The LME index in 2014 averaged 3,118 and in 2015 it averaged 2,548. The average price of oil is based on the spot price of Brent oil. The London Metal Exchange LMEX Index is calculated once a day on the basis of the closing prices of the 6 primary metals: copper, aluminum, lead, tin, zinc and nickel. It has a base value of 1,000 starting in 1984.

Metal Exchange Index



infrastructure expenditure. Exporters that specialise in this area tend to rely on export credit finance and, as projects are put on hold due to low prices, demand for support has followed suit.

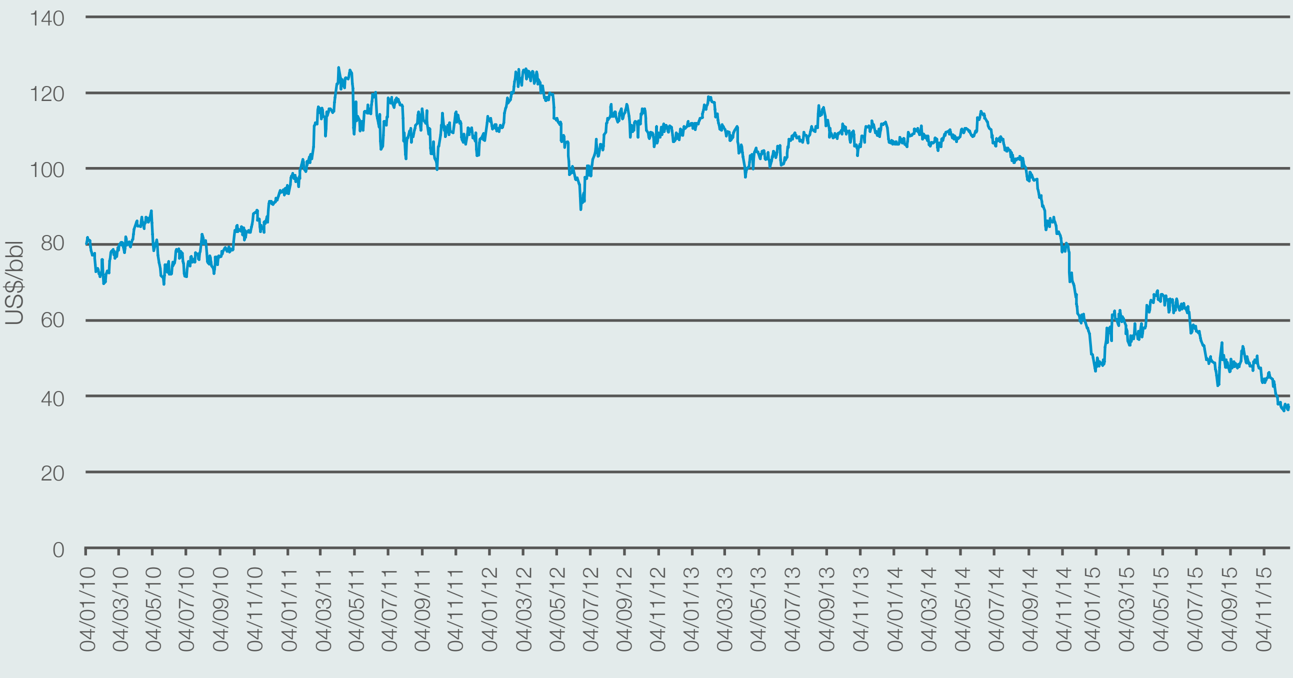
Modest growth in advanced economies

Growth in advanced economies improved marginally from 1.8% in 2014 to 1.9% in 2015. Firmer domestic demand supported economic activity, but net exports remained sluggish, holding back growth. The main exception was the eurozone, which saw net exports rise as a result of the weak euro.

Strong growth in the US saw the Federal Reserve increase the country's key policy interest rate for the first time since 2006. As the market was expecting this event, it did not cause a significant spike in financial volatility. However, it did trigger capital outflows from emerging market economies and the stronger dollar contributed to a fall in US net exports.

The outflow of capital was one of the factors that caused the currencies of many emerging market economies to depreciate, increasing the relative cost of exporting to these regions. There tends to be a time lag between the depreciation of a currency and a fall in demand for external goods. This has the potential to affect demand for export credit agency support.

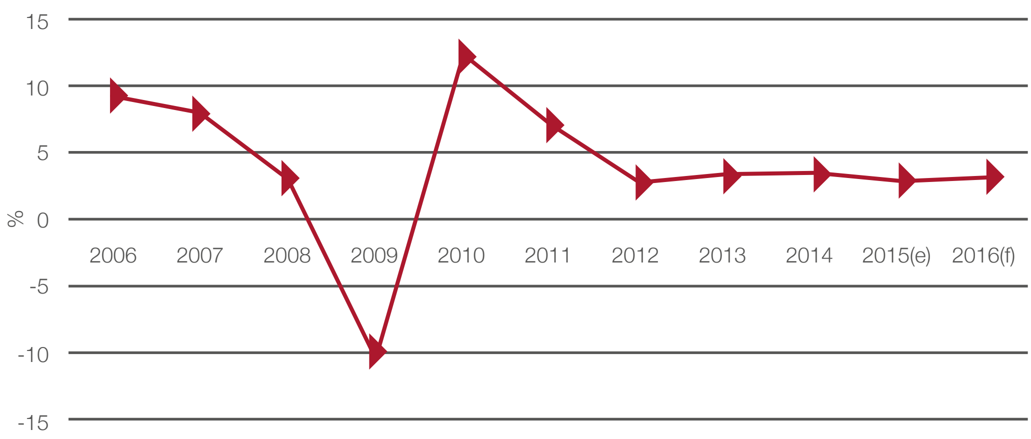
Brent Oil US dollars per barrel



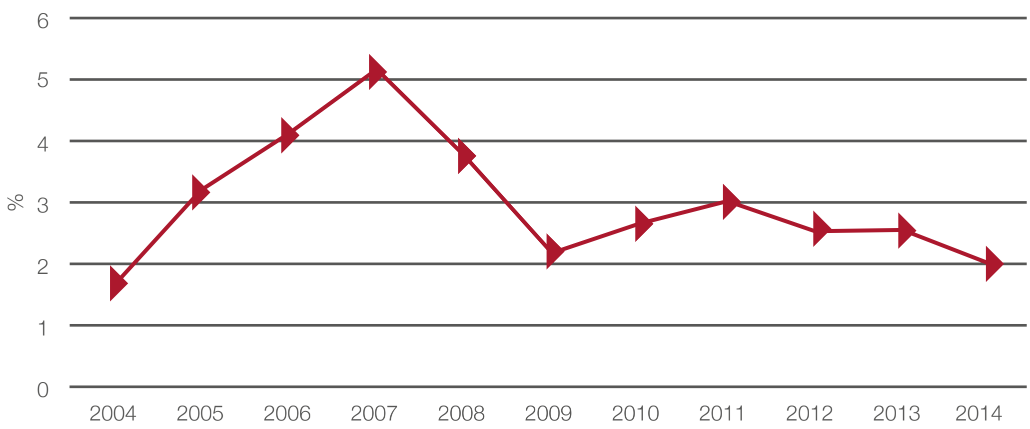
Geopolitical factors

The sanctions against Russia, tensions in the Middle East (such as the war in Yemen and the ongoing threat from Daesh) and security concerns in certain sub-Saharan African countries were some of the main geopolitical risks of 2015. These risks would have had an impact on investor confidence and are likely to have played a part in the slower growth of global trade volumes, which increased by only 2.8% in 2015, 0.7 percentage points lower than in 2014.

World trade: annual growth in volume of goods and services



Foreign direct investment, net inflows (% of global GDP)



An increase in geopolitical risk can result in higher demand for export credit agency support as it is expected to fill the gaps in private sector risk appetite. However, the fall in capital expenditure due to the fall in oil prices is likely to have been a stronger factor behind demand not picking up, despite higher geopolitical tensions.

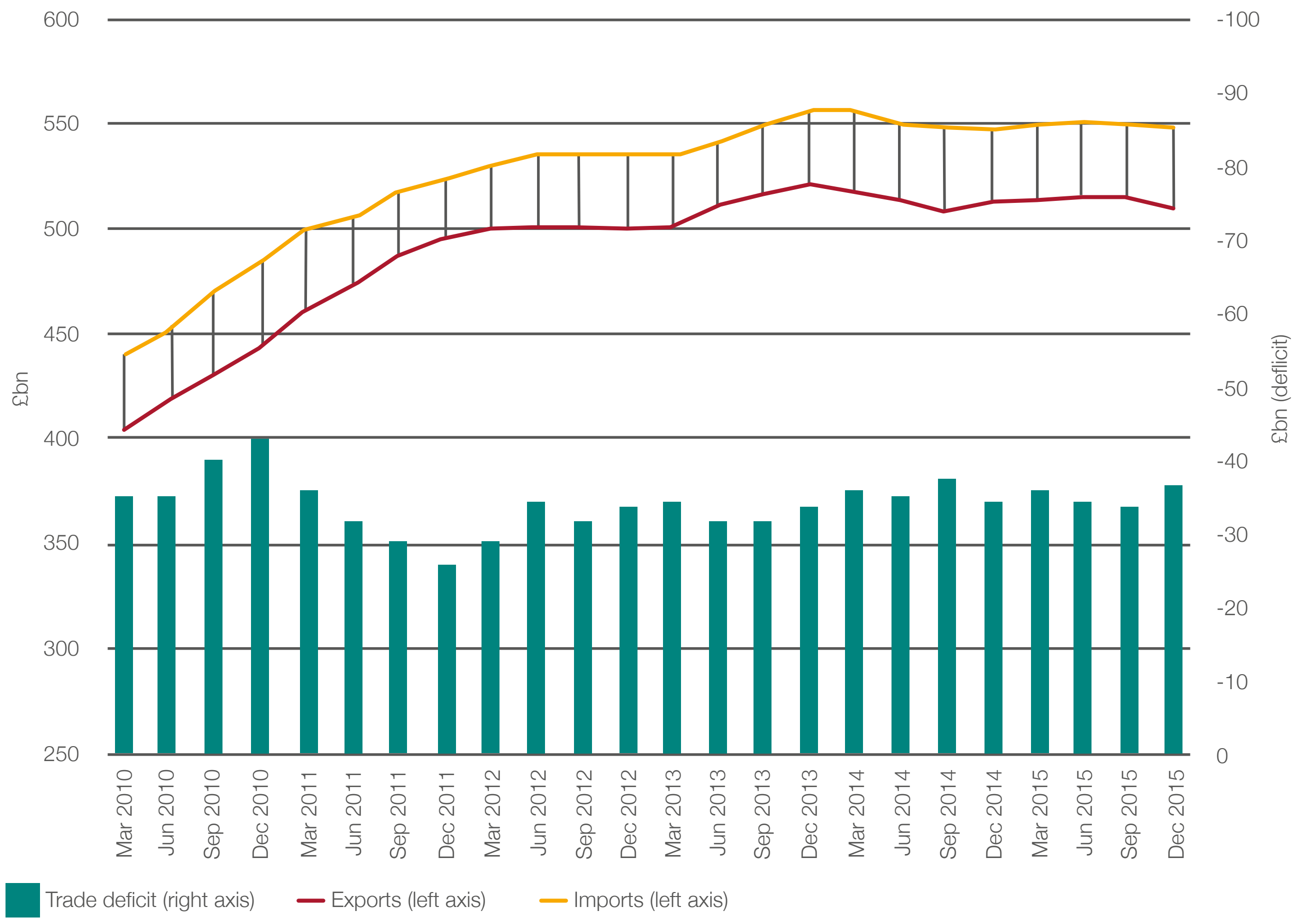
Percentage of Airbus aircraft deliveries with export credit agency support

Export credit agency support was provided for around 6% of the total number of aircraft delivered by Airbus in 2015-16, remaining relatively stable since 2014-15. These low levels of demand for export credit agency support reflect the ready availability of medium- and long-term funding capacity in the commercial bank and debt capital markets. They are also the result of the growth of the aircraft operating leasing market, where competition between the leasing companies has driven down lease rates. The level of demand for export credit agency support is expected to remain low during the next 12 months. However, ongoing volatility in the financial markets and signs of a global economic slowdown may cause restrictions to bank lending, thus reversing this trend. In addition, banks may need to strengthen their balance sheets and adjust to new regulatory requirements including new capital requirements, with the introduction of the Basel III regulations. This could lead to an increase in demand for export credit agency support in coming years.

Domestic factors

The UK exported around £513 billion (£286 billion in goods and £227 billion in services) in 2015, an overall reduction of 0.4% compared with 2014 (around £511 billion). The decline in the exports of goods was much sharper, at around 3%, as a result of lower demand from the European Union (EU), although exports of goods to non-EU countries grew at a modest 2% owing to higher demand from countries such as the US and the United Arab Emirates. However, there were sharp falls in the exports of goods to some of the bigger emerging market economies – for example, goods exports to China decreased by approximately 20% and by a third for both India (33%) and Russia (31%).[9]

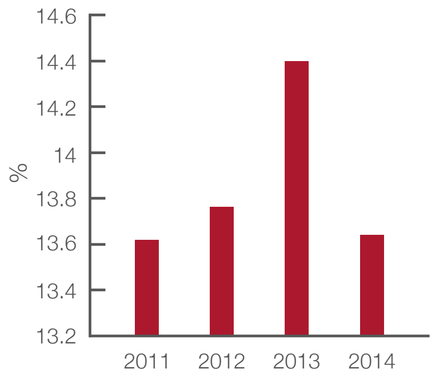
Rolling annual data: UK imports and exports (£bn)



9 Data sourced from the Office for National Statistics (ONS).

The proportion of UK companies exporting has also shown a downward trend. In the 5 sectors that received more than 90% of UKEF support, the proportion of companies exporting fell in 2014.[10] Figures for 2015 are not yet available so it remains to be seen whether this trend will continue.

Proportion of companies exporting within top 5 sectors where UKEF support is most often used



Access to finance

The overall availability of credit for large businesses remained high in 2015, increasing for SMEs,[11] suggesting that companies saw some improvement in access to finance.

However, a 2015 survey by the British Business Bank found that 9% of SMEs cited lack of access to external finance as a barrier to exporting; it also suggested that roughly 1 in 4 SMEs used credit cards to finance their export efforts.[12] This suggests that, in many circumstances, access to finance remains an issue for SMEs.

2016-17 outlook

Global economic activity is projected to pick up slowly, rising from 3.2% in 2016 to 3.5% in 2017. However, downside risks remain from emerging markets being exposed to potential bouts of volatility, to a tightening in financing conditions in global financial markets, to the potential fallout from the Zika virus in South America and to heightened geopolitical risks. Furthermore, major oil exporting countries could see much weaker activity if oil prices remain low for a prolonged period. Therefore, 2016-17 could be another challenging year for UKEF and other export credit agencies. On the other hand, lower oil prices can be seen as an upside risk – it should support global demand and benefit oil-importing economies.

All of this emphasises the need for UKEF to maintain a product suite that can assist exports in all economic weathers.

Paul Radford
Chief Economist
23 June 2016

10 Data sourced from the ONS. The top 5 sectors where UKEF support is most often used are: (1) manufacturing; (2) wholesale and retail trade; (3) professional, scientific and technical activities; (4) construction; and (5) administrative and support service activities.

11 *http://www.bankofengland.co.uk/publications/Documents/creditconditionsreview/2016/ccrq415.pdf* (accessed on 10 March 2016).

12 *http://british-business-bank.co.uk/wp-content/uploads/2016/02/British-Business-Bank-Small-Business-Finance-Markets-Report-2015-16.pdf*. (accessed on 10 March 2016)

UKEF is both a government department and a financial institution, offering loans, guarantees and insurance in support of UK exports.

How we operate

UKEF's statutory purpose is to support exports and overseas investments. We do so principally by providing:

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

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

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

The financial liabilities we assume when supporting exports involve a risk transfer from the private to public sector (ie the UK taxpayer). Direct lending involves upfront public expenditure while other financial liabilities represent contingent public expenditure – that is, taxpayer funding is required in the event of claims being made under contracts of insurance issued to exporters and guarantees provided to banks. Where claims are made, we then instigate recovery action as appropriate on a case-by-case basis or, where there is a sovereign default, through the Paris Club of official creditors to recoup the relevant payments.

UKEF operates under the consent of HM Treasury, which sets financial objectives that it must achieve. These include an exposure cap, a portfolio risk appetite limit and a requirement that premiums meet credit risk and operating costs. To this end, we operate credit risk and pricing policies that inform our ability to underwrite individual export transactions.

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

Principles applied by UKEF

On individual cases, we aim to:

- provide a quality of service that is proactive, flexible and efficient, with a focus on solution and innovation
- take account of factors beyond the purely financial, and of relevant government policies in respect of environmental, social and human rights impacts, debt sustainability, and bribery and corruption

Generally, we aim to:

- publish, for the benefit of applicants, guidance on the processes and factors we take into account in considering applications
- disseminate information about our products and services
- achieve fairer competition by seeking to establish a "level playing field" internationally, through obtaining multilateral agreements in export credit policies and practices
- recover the maximum amount of debt in respect of claims paid, taking account of the government's policy on debt forgiveness
- abide by such codes of practice and guidelines on consultation as may be published by the government from time to time
- employ good management practice to recruit, develop and retain the people needed to achieve our business goals and objectives

Our export solutions

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

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

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

Export solutions

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

Manufacturers made up 57% of the companies we supported in 2015-16.

Our support for exports

Business supported	
Exporters supported:	279
Value of support provided:	£1.8 billion
Destination countries:	69
Smallest case:	£4,489 (Bond support)
Largest single facility:	£167 million (drawdown on a line of credit)
Most popular product:	Bond support (110 companies)
Highest value product:	Buyer credit guarantees (£1,394 million)

Image Lord Price, Minister for Trade and Investment, outside the mobile export ‘hub’, which is touring the UK providing advice and support to UK businesses.

Focus on trade finance and insurance solutions: making exports happen

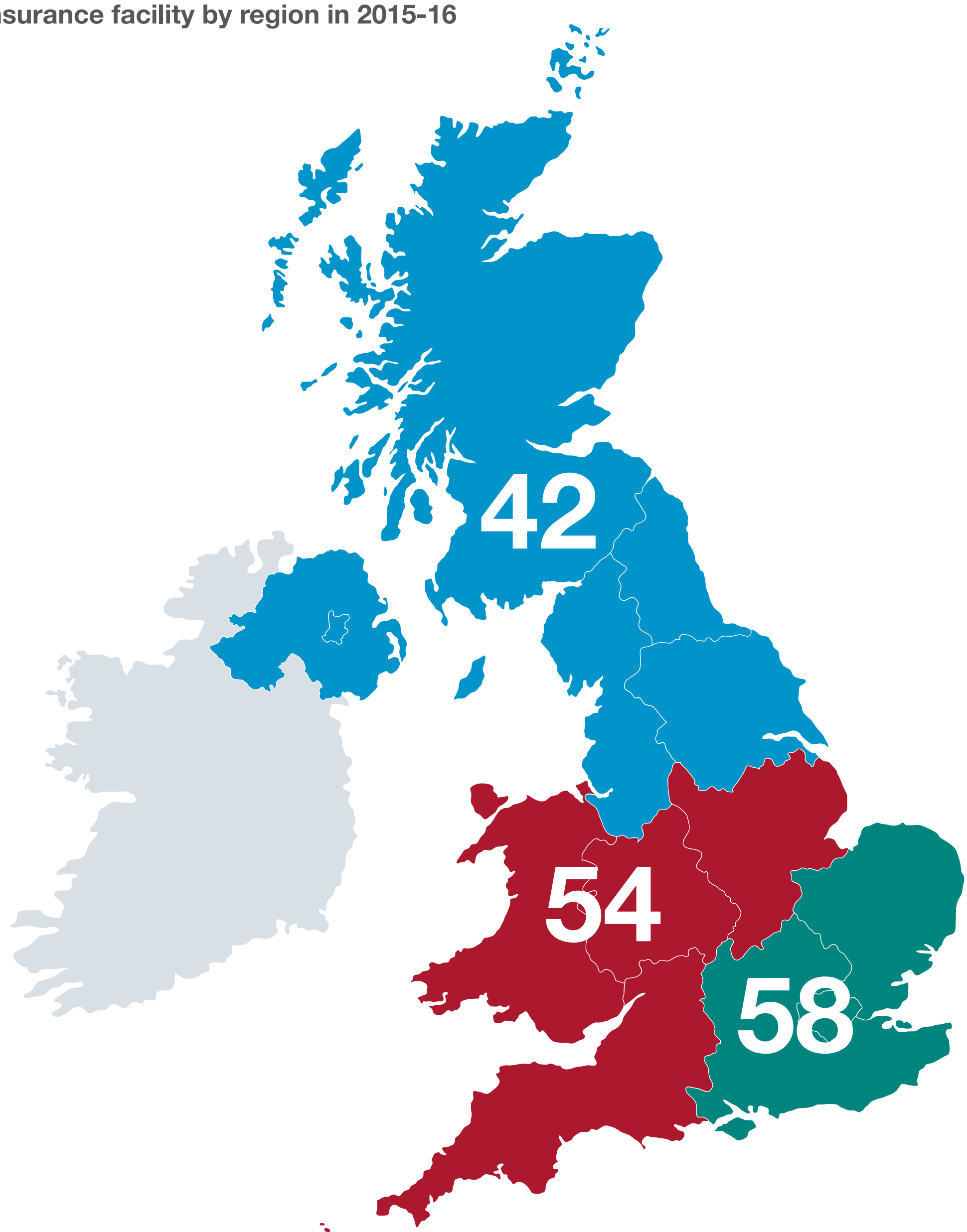
We use our trade finance and insurance support to:

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

In 2015-16 we supported £800 million of export contracts through our trade finance products. Smaller (SME) companies accounted for 77% of this contract value. We also helped 103 companies find the finance or insurance they needed from the private market.

UKEF has now supported more than £3 billion in export contracts since our trade finance solutions for smaller companies were introduced in 2011.

Number of companies benefiting from a trade finance or insurance facility by region in 2015-16



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

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

Support for contract bonds

Blyth Workcats is typical of the success stories we've been pleased to contribute to in the year. It is a specialist designer and builder of catamarans based in Canvey Island, Essex. For more than 20 years it has produced tailor-made boats for a variety of different roles. These include fishing and sightseeing vessels, and work boats for surveying or offshore construction.

When Blyth's buyer in Germany required an advance payment bond that had to be guaranteed by Blyth's UK bank, the bank did not have the risk capacity necessary to guarantee 100% of the bond and provide Blyth with working capital to fill the German order. So UKEF issued a guarantee to the bank for half of the advance payment bond and liberated enough risk capacity to allow the bank to provide the necessary working capital.

> **"UKEF support was paramount for the project... Our bank couldn't cover 100% of the risk for the bond. Thankfully UKEF was able to take on 50% of the risk. We couldn't have gone ahead without it."**

Stuart Davidsen, Production and Design Manager at Blyth Workcats.

Image Model of a 10-metre Blyth Workcats catamaran being built in Canvey Island, Essex, for scientific survey work in the Kiel Canal, Germany.

Protection against non-payment

We were able to help others insure against the risk of non-payment when cover was unavailable from commercial insurers.

London-based ES Global Solutions was asked to provide a £400,000 temporary triathlon track for pre-Olympic testing on the celebrated Copacabana beach in Brazil. With annual sales of around £8 million and 28 employees, the company needed to be confident of full payment as the contract was significant. Having been unable to find insurance from the commercial market, the company found the cover it needed through our export insurance policy.

Export insurance: top 10 markets in 2015-16	
1.	Russia
2.	Greece
3.	United Arab Emirates
4.	Ukraine
5.	Nigeria
6.	Kenya
7.	Belarus
8.	Brazil
9.	China
10.	Turkey

Image ES Global's temporary triathlon track on Copacabana beach.

Customer profile: Glasscoat International

A UK SME selling machines to Germany.

- **Number of employees:** 10
- **Turnover:** £1.4 million
- **Revenue from overseas sales:** 95%
- **Number of overseas markets:** 14

Ian Cripps, whose background is in the electronics industry, founded Glasscoat in 1993 to fill a gap in the market when he realised that UK cosmetics manufacturers had to import coloured glass bottles from Europe.

Glasscoat's first export was in April 1999, when it entered into a contract to supply a glass coating machine to the South Africa-based sister company of a UK client. This first export gave Cripps the confidence to look for other overseas buyers. Later the same year, he supplied a machine to a company in Italy that manufactured bottles for popular rum brand Malibu, and overseas sales have expanded ever since.

With international success came a difficult choice. Last year Glasscoat won 2 contracts, one in Austria and the other in Germany. In both cases, Cripps negotiated upfront payments to fund the purchase of components. However, both buyers requested advance payment guarantees from Glasscoat's bank, in return for which the bank required cash collateral as security. Providing the deposit for guarantees to both clients would have restricted the company's working capital, leaving it unable to fulfil both contracts. Cripps found that he might need to turn down one of the contracts.

On the advice of his bank, and the local chamber of commerce, Cripps approached UKEF for support. Under its bond support scheme, we provided a guarantee to the bank to cover 80% of the bond, thus enabling the bank to release £370,000 in cash to Glasscoat to use as vital working capital. This did not cost the company any more as we take a share of the bank fees and do not charge the exporter to issue the guarantee. Accessing our support was hassle-free, and Cripps said he wouldn't hesitate to ask us for support in future.

"Selling machines to Germany felt like I'd succeeded in selling coal to Newcastle," said Cripps. "And without UKEF's support, we could not have fulfilled both contracts, and we would have had to turn away a customer.

"Working with UKEF meant that we were able to sell a machine in Germany and increase our revenue by £710,000."

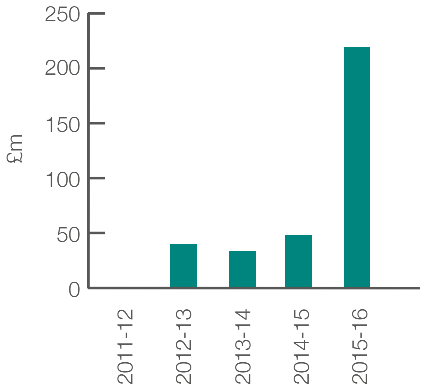
Image One of Glasscoat International's machines at work.

Image Oyster Yachts of Southampton was founded in 1973 and has established itself as an exporter of cruising yachts. We helped it secure an advance payment from a buyer of one of its newest models.

Growth in working capital support

The year 2015-16 saw a significant increase in the value of contracts supported via our export working capital guarantees. We expect this trend to continue as we work with banks to enhance our working capital support in 2016-17.

Export working capital support (contract values - £m)



This scheme benefited companies such as Unit Birwelco. Based in Swansea and providing engineering and project management services in the power and petrochemical industries, Unit Birwelco's exports account for almost 25% of its sales to markets as varied as Russia, Indonesia and Malaysia.

Our involvement has been critical in assisting the successful delivery of the company's design and engineering knowhow and expertise to customers overseas. In 2015-16 we enabled Unit Birwelco's bank to issue a £750,000 performance bond together with a £2 million working capital facility relating to the export of industrial heaters.

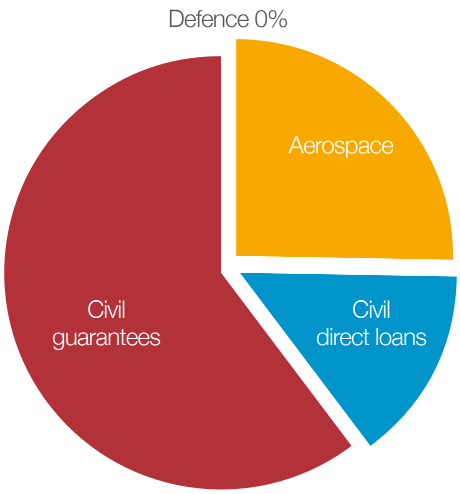
Image A Unit Birwelco fired heater module is prepared for export.

Focus on export credit support: helping the UK compete in the global marketplace

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

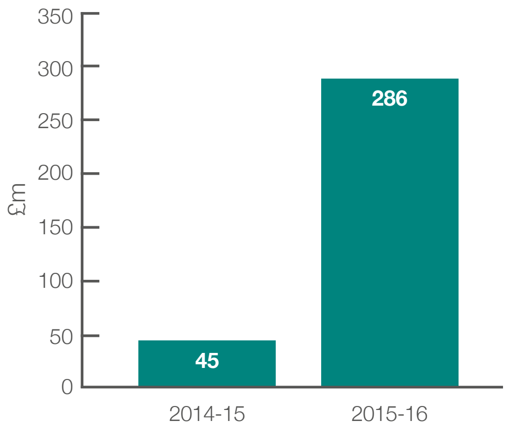
Export credit business supported 2015-16

Sector	UKEF maximum liability, £m
Defence	0
Aerospace	497
Civil - direct loans	286
Civil - guarantees	896



Direct lending

Our £3 billion direct lending facility was announced in the 2014 Budget. In 2015-16 the value of direct loans made to overseas buyers of UK exports grew more than five-fold to £286 million.



The first loan of 2015-16 was a €23 million loan to Kayali Enerji Uretim of Turkey to help finance the provision of a 77MW gas-fired power station to produce electricity for 150,000 homes.

This was the first UKEF loan facility to be entirely funded by direct lending. It supported contracts won by Industrial Turbine Company (UK) to supply a gas turbine and by General Systems Design UK to supply a heat recovery steam generator.

Shortly afterwards, a US$67 million loan was issued to support a contract won by Primetals Technologies, to supply and install essential equipment in the upgrade of a steel mill in Saskatchewan, Canada. Primetals Technologies is a UK company with its headquarters in London and engineering, design and manufacturing capacity at several other locations in the UK including Stockton-on-Tees, Sheffield and Scunthorpe.

Two more direct loans were underwritten during the year to support construction work being undertaken by UK companies in Dubai. The first of these (US$317.9 million) was in respect of a contract awarded to Kier Group to provide infrastructure and residential apartments at Meraas Holding's Blue Waters Island development. The second loan (US$177 million) helped Carillion Construction secure further work to develop the Dubai World Trade Centre with the provision of office buildings and infrastructure. These 2 loans consisted of a mixture of UKEF and commercial bank funding.

Buyer credit loan guarantees

Following the US$1 billion line of credit issued in 2012 to Petrobras of Brazil, a further line of credit of US$500 million was issued during the year.

Approximately £260 million of this was used by Petrobras to purchase UK supplies from Subsea 7 International Contracting and Wellstream International (a GE company).

GE co-operation framework

In September 2015, UKEF and GE signed a cooperation framework. The first product of this was our support for exports from Wellstream, a GE-owned UK company.

Future business to be considered under the new framework, which could support up to 1,000 new jobs in the UK energy sector, includes solar power generation and oil- and gas-related export opportunities in Brazil, Egypt, India and sub-Saharan Africa.

Image Carillion are helping the construction of the Dubai World Trade Centre complex.

> Export finance is a critical tool we use to support our customers. We are fortunate to have the support of UK Export Finance - one of the most flexible ECAs in the world.

Jeff Immelt
GE Chairman and CEO
24 September 2015

Image GE employee at work in Aberdeen.

UKEF also provided counter-guarantees to Atradius of £57 million for the UK element of a floating production, storage and offloading unit to be deployed in the Santos Basin off the coast of Brazil. The project involves the conversion of an existing tanker, the Cidade de Saquarema. More than 40 UK contractors were involved in supplying goods and services to the main contractor, SBM. The contract will be funded by a 20-year charter to process and deliver oil.

UKEF provided counter-guarantees to the export credit agency of the Netherlands for the UK content in 2 pipe-laying vessels – the Jade and the Onyx – constructed by IHC Engineering Business. The total amount of UKEF support provided for these vessels amounted to £110 million.

During the year, Reliance Industries drew £146 million from its UKEF line of credit, which we established to support 7 UK companies supplying goods and services to the Jamnagar oil refinery in India.

We issued a guarantee for an €85 million loan for the financing of an iron plant to be constructed by Midrex UK at an existing facility in south-west Russia.

Support continued for the ongoing contract between Fluor and the Sadara Chemical Company for their petrochemical project in Saudi Arabia. Two contracts, totalling £14.4 million, were covered for this project.

We also provided a counter-guarantee to our Italian counterpart, SACE, for the UK element of a glass container production plant built at Bozuyuk in Turkey.

Image The pipe-laying vessel Sapura Jade.

Asset-backed finance: aerospace

In 2015-16 UKEF issued £497 million of support for the delivery of 32 Aribus aircraft to 12 airlines and leasing operations around the world.

The UK-made proportion of an Airbus aircraft can be up to 38%, depending on the aircraft type and engine. If Rolls-Royce engines are fitted, our support is increased accordingly. Our support benefits the Airbus operations in the UK and indirectly benefits a large number of other companies, including many SMEs in the supply chains of both Airbus and Rolls-Royce.

UKEF support for the export of Airbus aircraft is provided alongside that of the French and German export credit agencies, with each agency supporting a percentage of the financing cost of the aircraft broadly in proportion to the percentage of the aircraft manufactured in each country.

Typically one of the 3 export credit agencies will lead a transaction, with the other 2 providing counter-guarantees.

In March, Airbus disclosed there had been a number of inaccuracies relating to its historical use of overseas agents in its applications to UKEF for support. UKEF referred this information to the Serious Fraud Office and has since advised Airbus it is unable to support the delivery of further Airbus exports pending the outcome of enhanced due diligence in accordance with the requirements of the OECD Recommendation on Bribery and Officially Supported Export Credits.

Airbus: UKEF lead support and counter-guarantees issued in 2015-16

Another year of innovation

Renminbi support: a historic currency boost

Thanks to UKEF, Chinese buyers of UK exports can now access UK government-supported loans in their own currency.

The UK government shares the City of London's ambition to make London the world's leading centre for offshore renminbi (RMB) business outside China. The RMB has in recent years overtaken the euro as the second-biggest trade finance currency after the US dollar.

The first company to benefit from UKEF's support for RMB loans was Airbus, which supports 100,000 jobs in the UK. With UKEF's help, Airbus's Chinese customer, the airline China Southern, was able to access from HSBC a 12-year UKEF-guaranteed loan in RMB, which it used to purchase a new A330 aircraft. This was attractive for the airline as 97% of its revenues are in RMB.

Opening the door

This work has opened the door to future export business being supported by UKEF in RMB. The flexibility on the loan currency will help make it more attractive for Chinese companies from any sector, and companies outside China that generate revenues in RMB, to buy from companies operating in the UK.

Announcing the support for Airbus and China Southern, the UK Chancellor of the Exchequer reflected on the scale of this new opportunity.

Chancellor of the Exchequer, the Rt Hon George Osborne MP, said:

> **"This is a truly historic deal which paves the way for the best British companies to export much more easily to the Chinese market."**

UKEF's financing of an A330 aircraft in Chinese RMB for China Southern Airlines, completed in June 2015, was the first financing by any export credit agency in the Chinese currency. It has been nominated for Air Finance Journal's 2015 Deal of the Year. With the Chinese aircraft market expected to be worth US$600 billion over next 20 years, there is a strong prospect of further deals to be financed in RMB in the future. UKEF is able to support financings in a wide range of currencies. In our view, allowing importers to buy UK goods in their own currency encourages more export deals.

Image Chinese 1 RMB banknote, by Nayu Kim/ Flickr. creativecommons.org/licenses/by/2.0.

Award-winning thought leadership in Islamic financing

Our support for the first-ever export credit agency-backed Islamic sukuk widens the options for buyers of UK exports.

Between April and July 2015, the department supported the delivery of 4 A380 aircraft to Emirates, financed by the first-ever export credit agency-backed Islamic sukuk. This deal was the first transaction to be financed through a pre-funded bond issue, in which the proceeds were raised before the aircraft were delivered. It was also the largest aircraft transaction supported by an export credit agency. The UKEF-guaranteed sukuk has been widely commended for its innovation and has won a number of industry awards, including:

- Trade and Export Finance Deal of the Year at the Bonds & Loans Awards
- Bonds, Loans & Sukuk Awards – Middle East 2015
- Global Transport Finance's Islamic Finance Deal of the Year
- Islamic Finance's Cross Border Deal of the Year
- United Arab Emirates Deal of the Year
- Airline Economics' Middle East Deal of the Year
- The Banker's Middle East Deal of the Year: Securitisation and structured finance.

New refinancing product

UKEF worked with the French and German export credit agencies and Citibank to create a new refinancing product, whereby the original loan used to finance an export is securitised after delivery, partially or in full, in the capital markets. This new product allows debt capital markets investors to invest in export credit agency-guaranteed bank loans without many of the costs and administration required for a debt capital markets bonds issuance. The first transaction, which was used to refinance an A380 aircraft, was completed in October 2015.

This product widens funding sources for export credit transactions as it allows institutional investors without the capacity to make loans on their own behalf, such as pension funds and insurance companies, to invest in aircraft loans. It also allows banks to clear loans from their balance sheets, releasing capital to finance new exports. It will help to maintain the availability of export finance funding for new transactions when the new capital requirements associated with the Basel III regulations take effect, as the institutional investors investing in this product will be unaffected by the new regulations.

New aircraft types

In September and October 2015, UKEF supported the delivery of 2 A350 XWB aircraft with Rolls-Royce engines to AerCap, the world's largest aircraft leasing company. The A350 XWB is Airbus's newest aircraft type, and entered commercial service in January 2015. The aircraft are being operated by Vietnam Airlines, the second airline to add the

> “This success reaffirms UKEF as the thought leader among European export credit agencies and once again shows UKEF's remarkable ability to innovate in the face of changing market needs.”
>
> **Munawar Noorani,** Managing Director, Citi

A350 to its fleet. The A350 is a wide-body aircraft, powered exclusively by fuel-efficient Rolls-Royce engines, and the first Airbus with both fuselage and wing structures made primarily of carbon fibre, making the aircraft lighter and more fuel efficient.

UKEF is also working with its Canadian counterpart, Export Development Canada, to support deliveries of Bombardier's new C Series jet aircraft, which is due to enter service in mid-2016. We expect to provide support for our first aircraft before the end of 2016. Bombardier builds the composite wings for all C Series aircraft in Belfast.

Export finance advisers

Our 23 regional export finance advisers act as local points of contact to introduce exporters and businesses with export potential to finance providers, credit insurers, insurance brokers, trade support bodies and sources of government support.

The export finance advisers' year in numbers:

103
private market assists – when their engagement has had a material contribution to a company receiving support from the private sector, resulting in an export contract going ahead that was unlikely to have proceeded otherwise

376
referrals to UK Trade & Investment, Scottish Enterprise, Business Wales or Invest Northern Ireland

8
UKEF staff gained the Institute of Export's Level 5 Diploma in International Trade. All our Export Finance Advisers are expected to seek this qualification

1,817
meetings with intermediaries (eg banks, brokers, accountants)

2,966
meetings with businesses

1,402
referrals to other third-party sources of support

UKEF works in partnership with a wide range of commercial finance and insurance partners.

Our partners and operations

Partnerships

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

Image George Otieno, CEO of the African Trade Insurance Agency, welcomes UKEF as ATI's newest member in the presence of British High Commissioner to Kenya, Nic Hailey.

- In August 2015 London Forfaiting Company joined our bond support scheme.
- We have worked with the British Bankers' Association to develop our trade finance products to give lenders more control over the application process and to widen the applicable scope of our support.
- In May 2015 we published a navigable guide for brokers on arranging cover for their clients using our export insurance.
- In March 2015 we agreed a partnership arrangement with the Export Guarantee Fund of Iran to work together to identify opportunities for trade in capital goods, equipment and services between the 2 countries.
- In March 2015 we agreed a framework with China Export & Credit Insurance Corporation (Sinosure) for strengthened co-operation, paving the way for increased UK and Chinese exports.
- In March 2015 we become the newest member of the African Trade Insurance Agency, offering UK exporters enhanced access to growing markets in Africa.
- In November 2015 we worked with UKTI to launch the Exporting is GREAT campaign, presenting real-time export opportunities that businesses can apply for online.
- We worked with HM Treasury to agree our spending plans through to 2020.
- We worked with the Government Digital Service to complete the 'alpha' prototype phase on a new application service.

Operations

This was the final year of the 2010 Spending Review period, which saw UKEF complete a number of cost-saving efficiencies, including our relocation to 1 Horse Guards Road, the closure of our site in Cardiff, the renegotiation of a number of IT contracts, and the end of a contract with Lloyds to administer direct funded loans.

In 2015-16 we implemented new electronic case management and customer relationship management systems. We also began development of a workflow system that will provide cost-effective support for an increased uptake of our products and services. A customer application service will be launched as a beta (trial) service in 2016-17.

We began a pilot model for delegating decisions on trade finance products to banks based on defined credit metrics, to improve efficiency and turnaround times and to cope with anticipated increases in volumes. If the pilot is successful, this model will be rolled out to all our partner finance providers.

In reaching agreement for the 2015 Spending Review, we have outlined plans to streamline our activities, with savings being reinvested to improve our business processes. This will cover 3 broad areas:

1. **Organisation and workforce:** to bring together functions and rationalise structures, management layers, and processes.

2. **Technology, data and targeting:** to improve services and drive efficiencies through a digital transformation programme, drawing on the government's Digital by Default service standard.

3. **Service redesign:** focused on working with partners to develop simpler, faster and more scalable service models, built around the needs of the customer.

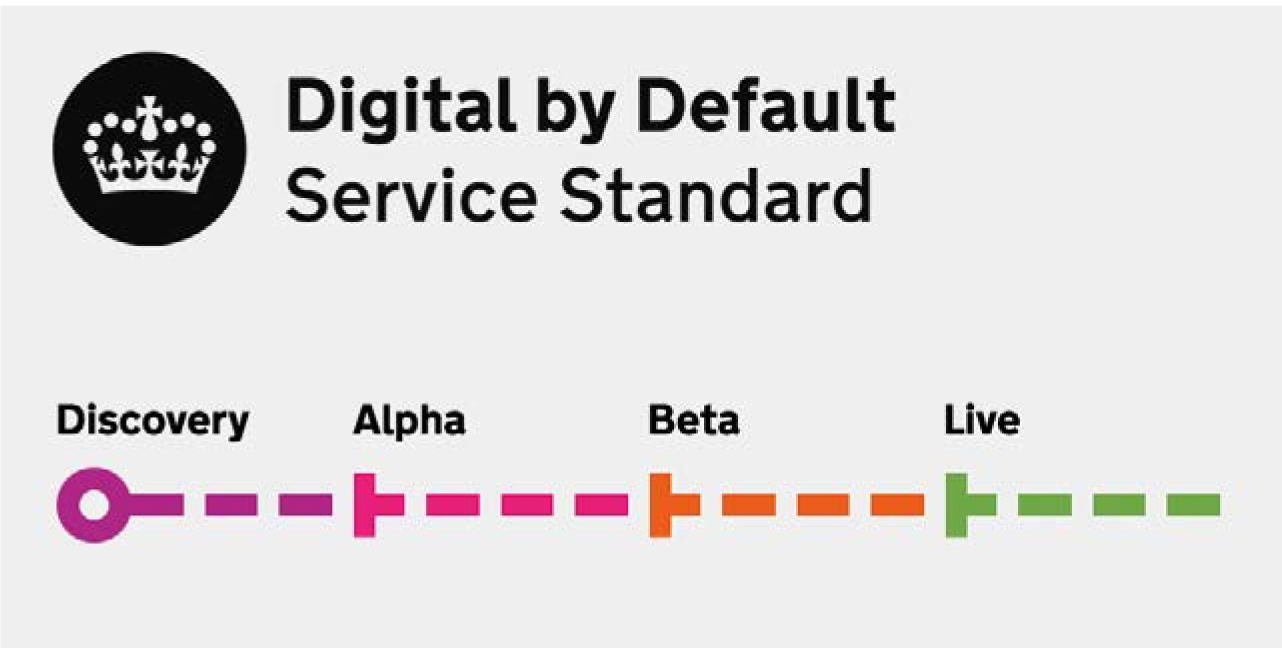


Image UKEF follows the 4 design stages recommended by the Government Digital Service: researching user needs (Discovery); prototype of solutions (Alpha); development in a live environment (Beta); and releasing a fully live service (Live).

Exposure to the civil aerospace sector remains UKEF's largest risk concentration.

Financial risk review

Principal financial risks

Credit risk: the risk of financial loss if an obligor or counterparty against which we have financial exposure fails to meet its contractual obligations. This is our principal financial risk.

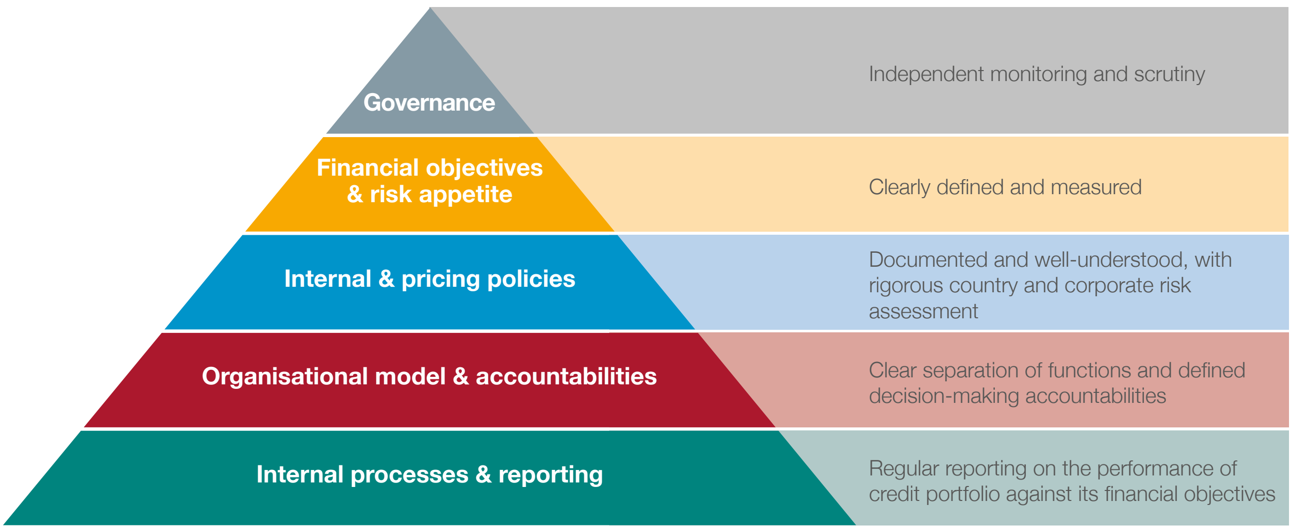
Market risk: the risk of losses arising from movements in market prices. For example, this risk arises with changing foreign exchange rates and, to a much lesser extent, changing interest rates.

Liquidity risk: the risk that we do not have the financial resources to meet our obligations as they fall due, or can secure those resources only at excessive cost. However, UKEF's status as a government department enables us to obtain public funds.

Our principal financial risks are credit risk, market risk and liquidity risk. To manage them we aim to match, or exceed, the best practices in the financial services industry.

Given our role as a government-backed export credit agency, the relative importance of these risks differs from that observed in many private sector financial institutions. Credit risk is the most significant risk for UKEF. Its management is a core competency for the department. Our credit risk management framework reflects this, operating at a variety of levels within the department as set out below.

Similar principles apply to the management of other financial risks to which UKEF is exposed, though the detailed frameworks differ for each category of risk.



Credit risk management

Context

Credit risk is the risk of financial loss if an organisation against which we have financial exposure fails to meet its contractual obligations. In general, this crystallises when we pay claims under guarantees or insurance policies we have issued. Claims are triggered by defaults on payments due to the guaranteed or insured party (usually the exporter or the bank supporting the export contract). They may also arise through our direct lending and legacy interest rate hedges in the event of our borrower or hedge counterparty defaulting.

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

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

Credit risk governance

Parliament sets an overall limit of SDR[13] 67.7 billion on the commitments that UKEF may enter into. UKEF's powers may only be exercised with the consent of HM Treasury. The limits of this consent are agreed with HM Treasury, along with financial objectives and reporting requirements that serve to regulate our assumption of risk.

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

The UKEF Board (led by a non-executive chairman) provides independent advice, scrutiny and challenge to the Chief Executive across a broad range of areas including risk management. The board typically meets 8 times a year. A sub-committee of the board, the Audit and Risk Committee, composed of non-executive directors, separately examines and reviews the adequacy of risk management and controls across the department. Meetings of the Audit and Risk Committee, of which there are typically 5 a year, are attended by an official from the National Audit Office.

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

13 This limit is expressed in special drawing rights (SDR), an international reserve asset created by the IMF.

Within UKEF, the Credit Committee is responsible for the effective approval, management and monitoring of credit risk exposures at the transaction and portfolio level, advising the Chief Executive accordingly. It is also responsible for credit risk policies and for ensuring that credit risks are properly monitored and controlled through UKEF's processes and systems. It is scheduled to meet weekly, if required, but can be convened on an ad hoc basis to consider urgent business. Routine submissions can be handled by written procedure. The members of the Credit Committee are the Chief Executive, the Credit Risk Group Director (chair), the Chief Financial Officer, the Head of Business Group, the General Counsel (or nominee), and divisional heads responsible for country risk assessment, corporate risk assessment and risk pricing/portfolio risk respectively. A quorum requires at least 3 members, including one of the Credit Risk Group Director, the Head of Risk Assessment Division or the Head of Business Group.

Financial objectives and appetite

UKEF's financial objectives are designed to enable it to fulfil its risk-taking mandate while ensuring that this activity:

- is undertaken on a basis that adequately rewards UKEF for the risks it is assuming
- does not expose the taxpayer to the risk of excessive loss

They apply to business supported since 1991, including direct loans.[14]

UKEF's credit risk is limited by 2 financial measures:

a) **maximum commitment:** a cap on the maximum amount of nominal credit risk exposure that the department may incur – the cap is £50 billion (adjusted for foreign exchange movements)

b) **risk appetite limit:** a form of *economic capital limit* (see page 72 for an explanation of *economic capital*, the manner in which UKEF applies the concept for the purposes of this limit, and details on how the limit is applied)

Additional financial objectives linked to the consent of HM Treasury relate to the adequacy of UKEF's notional reserves (the reserve index) and of its risk-based pricing (the pricing adequacy index and the premium to risk ratio). The reserve index essentially measures whether UKEF has accumulated, over time, sufficient revenue to cover possible credit losses at the 77.5 percentile point on UKEF's 10-year loss distribution.[15] The pricing adequacy index and the premium to risk ratio are more fully described under 'Pricing policies' on page 78.

The 2015-16 outturn against all our financial objectives is presented on page 34.

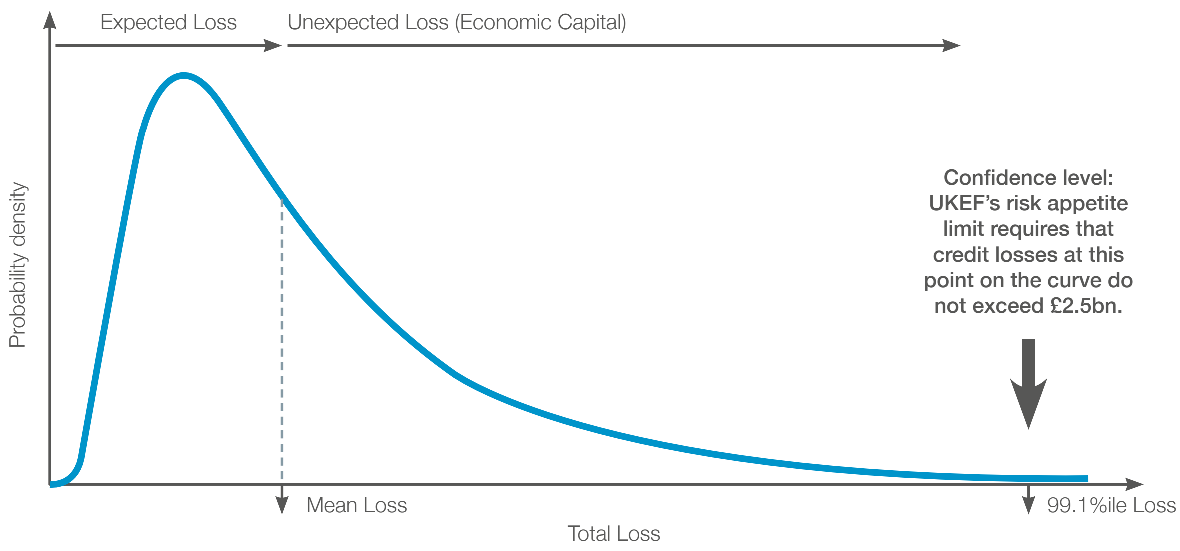
14 Credit exposure incurred prior to April 1991 together with any credit exposure incurred on the instruction of ministers do not form part of these financial objectives. Legacy claims exposure relating to guarantees and insurance issued prior to April 1991 is excluded from this limit. The objective for this exposure is to maximise recoveries and manage assets and liabilities in a way that minimises the net cost to the taxpayer.

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

Economic capital and the risk appetite limit

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

Portfolio loss distribution



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

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

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

The **risk appetite limit** set by HM Treasury means that UKEF must manage its credit risk-taking activities such that total losses, as modelled by our portfolio risk management simulation model, over the coming 10-year time horizon will not (with a 99.1% degree of certainty) exceed **£2.5 billion** (adjusted for foreign exchange movements). In other words, at no time should portfolio expected loss plus provisions against claims already paid plus portfolio unexpected loss exceed £2.5 billion (adjusted for foreign exchange movements):

Portfolio expected loss
\+ Provisions
\+ Portfolio unexpected loss
≤ £2.5 billion

Risk and exposure management policies

Overarching policies

There are 2 main policies applicable to credit risk management within UKEF. These are the credit risk policy and the pricing methodology. Both policies are reviewed at least annually by the Credit Committee. Our credit risk policy sets out the high-level policies and methodologies we use for assessing, measuring, managing and reporting all categories of credit risk to which UKEF is exposed. It also establishes minimum risk standards and ratings-based exposure caps.[16] A series of more detailed risk management policies, frameworks and individual risk methodologies sit below the credit risk policy.

Our pricing methodology sets the methods and parameters used for setting premium rates for all product types consistent with our policy objective of supporting UK exporter competitiveness while ensuring that we meet our financial objectives and protect the taxpayer from loss. International agreements such as the OECD Arrangement on Officially Supported Export Credits (the OECD Arrangement)[17] and the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures also impose obligations in relation to the adequacy of risk-based pricing.

Exposure management framework

Our role in support of UK exports requires us to assume credit risk in a large number of countries. Individual country limits are established through our exposure management framework, which is based on the following key principles:

- the higher the level of credit risk in a country, the lower the country limit
- the larger a country's economy (as measured by its GDP), the higher the country limit
- country limits should be set relative to the notional financial resources available to UKEF and consistent with UKEF meeting its financial objectives

Country limits and cover policy are reviewed regularly by the Credit Committee. The upper boundary for exposure to any individual country is £2.5 billion. In addition, the Credit Committee sets individual case-level controls within each country limit. The department has to assess risks and decide cover policy in around 200 markets, but priority is given to active new business requirements and existing exposures.

Assessment of country risk

We rank each country where we have actual or potential credit exposure, producing a credit rating using the same letter ratings as the credit rating agency Standard & Poor's (S&P), with AAA being the highest rating and D (default) being the lowest. Our country rating assessments use a similar framework to that employed by S&P, complemented, as appropriate, by information obtained from cross-Whitehall forums, local UK diplomatic representatives, quarterly OECD country risk expert meetings, and country visits. Where no external credit rating exists, we typically derive our final letter rating from a World Bank shadow-rating model supplemented by analyst judgement and peer comparisons.

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

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

Assessment of corporate, bank and project finance risk

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

The rapid expansion of our trade finance business has required us to develop a number of bespoke credit assessment methodologies for certain categories of risk. Typically, this type of business is in support of exports by smaller and mid-sized UK companies and involves relatively small individual credit risk exposures. In relation to 2 products (the bond support scheme and the export working capital scheme), UKEF assumes direct credit exposure on the UK exporters. To meet the shorter turnaround times for this type of business, we have developed a streamlined credit assessment methodology tailored for smaller companies. Similarly, we have devised bespoke credit assessment processes to handle the payment risks arising under our export insurance and the credit and political risks covered by our bond insurance.

UKEF's products and related credit risk methodologies

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

UKEF continues to have residual credit exposure to a small number of 'investment grade' banks that act as counterparties in interest rate swaps entered into by the department to hedge interest rate exposure under its legacy fixed-rate export financing scheme, which was closed to new business in 2011 (see page 89). External credit ratings are applied to these counterparties and various ratings-based credit triggers are included in the swap documentation, giving UKEF the right to terminate the trades in the event of a counterparty's credit rating falling below specified thresholds.

Outputs from our credit risk assessments
All credit risks within UKEF are assigned a letter rating from AAA to D and each letter rating has an associated probability of default (PoD). The PoDs are updated at least annually based on the latest S&P default statistics. The second output from UKEF's credit assessments is an estimate of loss given default (LGD), ie how much we might lose in the event of an obligor defaulting on its obligations. This is expressed as a percentage. Corporate LGD assessments are typically made on a case-by-case basis taking into account a variety of factors specific to the transaction in question such as security, priority ranking, and the likelihood of restructuring, sale or liquidation. In the absence of a bespoke calculation, UKEF's standard corporate LGD assumption is 50% (compared with 45% under the Basel Accords' internal ratings-based approach). In the case of sovereign risk, an additional factor is included in our assessment of potential loss: persistence of default, which seeks to assess the duration of a country's default. The persistence of default varies by country, with empirical research suggesting that the length of a country's default is primarily a function of its per capita income, the severity of its indebtedness and whether the default is a liquidity event or an insolvency.

PoDs and LGDs are 2 of the 3 components of expected loss. The third is exposure at default, ie how much credit risk exposure we have at the time of default. Expected loss is a key measure of credit risk at UKEF and is central to our pricing methodologies and our underwriting fund accounting.[18]

The other important measure of credit risk, which we monitor closely as it is integral to our credit risk appetite, is unexpected loss. Unexpected loss is a portfolio-level concept derived from UKEF's credit portfolio loss distribution. As explained in the chart 'Economic capital and the risk appetite limit' on page 72, we define unexpected loss as the difference between the 99.1 percentile value of the loss distribution and the portfolio expected loss. Unexpected loss will typically increase if a credit portfolio has high risk concentrations and/or if the risks themselves are highly correlated. The nature of UKEF's business means that, compared with the more diversified credit portfolios of private sector financial institutions, risk concentrations and correlations are key considerations for the department.

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

18 Expected loss applies both at an individual transaction level and at portfolio level. At a portfolio level, it is simply the sum of the expected losses of all risks in the portfolio and equates to the mean of the portfolio loss distribution.

Risk concentrations and correlations
Given its role, it is almost inevitable that UKEF's credit portfolio will have risk concentrations. Consequently, portfolio modelling (and especially the impact on portfolio unexpected loss) plays an important role in deciding the maximum amount of credit exposure UKEF might assume on a single obligor or on a group of related obligors. In determining the potential impact on portfolio unexpected loss for any given case, our modelling will seek to take into account the likely correlations between all the various risks in the portfolio. Only if the Credit Committee is satisfied (on the basis of extensive portfolio modelling) that a given level of credit exposure will not threaten any of the department's financial objectives will it consider making a positive recommendation to the Chief Executive. Portfolio modelling is only one of a number of measures in place to manage risk concentrations. All individual exposures within a country must fall within the relevant country limit as established under our exposure management framework and no single commitment in excess of £200 million may be given by UKEF without the agreement of HM Treasury.

One practical means of reducing risk concentrations at transaction initiation stage is through reinsurance or counter-guarantees from the market or, more normally, other export credit agencies. UKEF will often seek this when it is acting as lead export credit agency in a transaction where goods/services are sourced both from the UK and from other countries. The most frequent example of this occurs with support for Airbus aircraft. When UKEF is in the lead on an Airbus transaction, it will typically obtain counter-guarantees from its French and German counterparts in proportion to their respective work shares (see page 60 for 2015-16 commentary).

Stress testing and scenario analysis
It is UKEF policy to undertake extensive stress testing of its credit portfolio and we assess the impact of a number of adverse scenarios every 6 months. Stress testing typically involves simulating rating downgrades, increases in LGDs and a series of large individual defaults. The adverse scenarios are designed to reflect possible emerging risks and may vary from one exercise to the next. Scenarios recently considered include a general emerging markets crisis and an extended period of very low oil prices. The results of the stress tests and scenario analysis are reviewed by the Credit Committee. One of the key issues it considers is the impact that each of the stress tests and scenarios has on the value of the 99.1 percentile point on the portfolio loss distribution relative to the risk appetite limit of £2.5 billion. UKEF uses its own portfolio risk management simulation model, with its associated correlation matrices, to undertake all forms of portfolio-level credit risk modelling and to produce portfolio loss distribution curves. The model is also used to simulate the extent and timing of potential gross cash outflows as a result of claims payments or defaults on direct loans. This provides valuable information, for us and for HM Treasury, for cash flow forecast and liquidity management purposes.

Pricing policies

Context

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

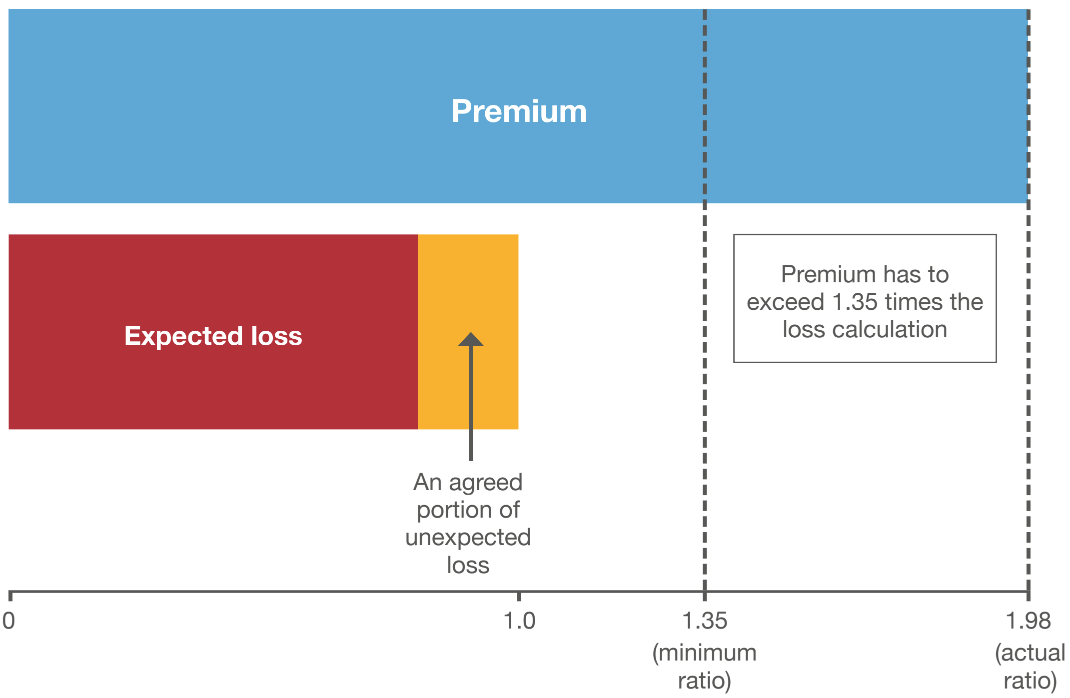
Financial objectives

Consistent with these principles, HM Treasury has set 2 financial objectives for UKEF designed to ensure, as far as possible, that that the premium rates we charge reflect the risk taken on, and are sufficient to enable the department to operate at no net cost to the taxpayer. These financial objectives are the **premium to risk ratio** and the **pricing adequacy index**.

The premium to risk ratio requires us to demonstrate each month that the premium charged on the business in the financial year will be 1.35 times an agreed level of possible losses.

The ratio at 31 March 2016 was 1.98 against the 1.35 minimum:

Premium to risk ratio

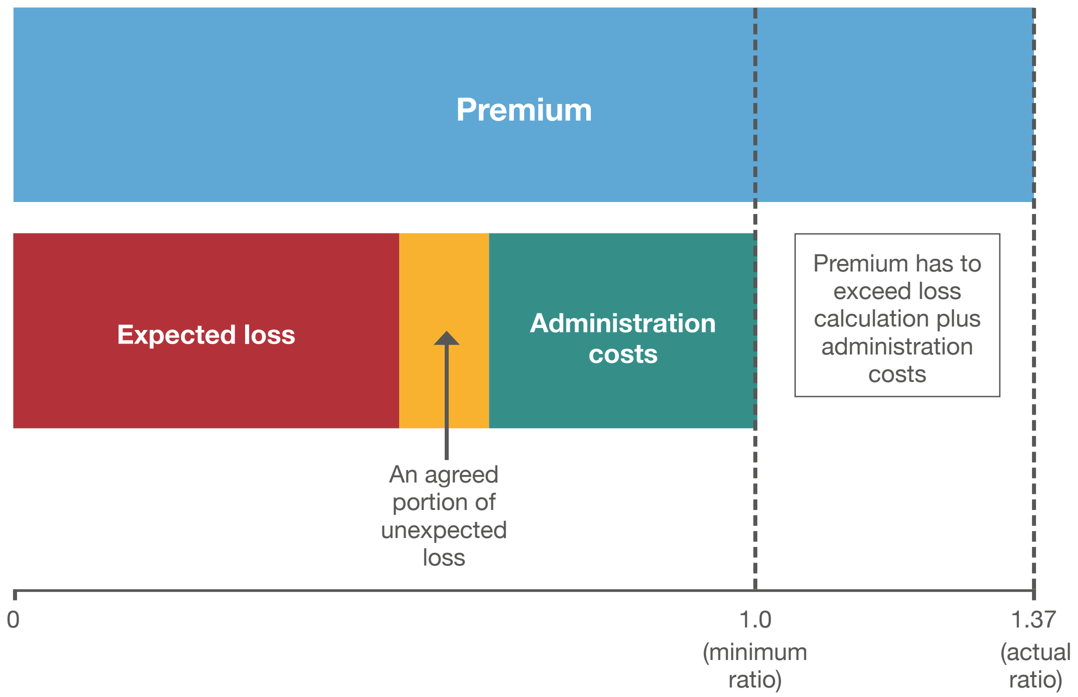


The pricing adequacy index is a 3-year measure applied to 3 accounting periods:

(i) past 2 years and present financial year
(ii) previous, present and next year
(iii) present year and next 2 years

Whereas the premium to risk ratio is purely an annual measure, the pricing adequacy index takes into account issued business, forecast business and administrative costs over these 3 periods. For each period UKEF is required to demonstrate that the actual/forecast premium will more than cover the administration costs and an agreed level of possible losses. The ratio for the past 2 years and present financial year was 1.37 against the minimum of 1.0:

Pricing adequacy index



Forecasts are based on the judgements of our underwriters who draw on available transaction pipeline information, market intelligence, and the estimated likelihood of transactions materialising within the financial year. We perform regular sensitivity analysis to supplement 'central' forecasts and to test the robustness of forecast financial performance against the agreed targets for premium to risk ratio and the pricing adequacy index.

Pricing methodology
Our pricing methodologies and parameters are reviewed annually by the Credit Committee and agreed by HM Treasury. They are used to set risk-based premium rates for all of our products.

It is our policy to support UK exporter competitiveness by setting the lowest premium rates achievable subject to the following:

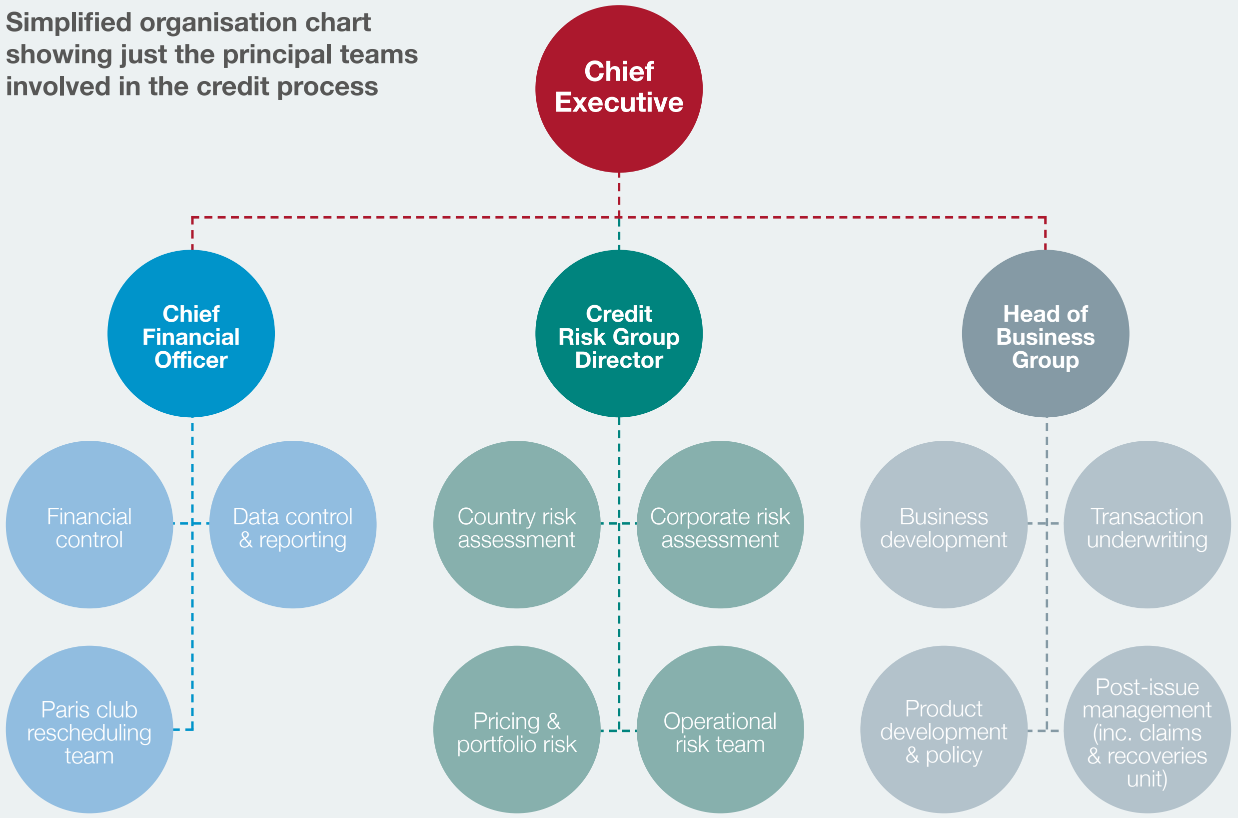
- Premium rates may not be set that undercut the minimum rates set out in the OECD Arrangement.
- No individual premium can be set below the expected loss associated with that transaction.
- Aggregate premiums must be sufficient to meet the target premium to risk ratio and pricing adequacy index financial objectives.
- In OECD market benchmarking countries (rich markets), we seek to ensure that our premium rates do not undercut available market pricing.
- All premium rates must be set in order to ensure compliance with our international obligations generally, including under EU state aid legislation.

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

Organisational model and accountabilities

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

Simplified organisation chart showing just the principal teams involved in the credit process



A framework of delegated credit authorities exists within the Credit Risk Group. The Chief Executive has granted authority to the Credit Risk Group Director to approve various categories of credit risk within pre-determined limits. In turn the Credit Risk Group Director has granted certain credit approval authorities to senior staff within his team. Any credit approvals that exceed the delegated authority of the Credit Risk Group Director must be approved by the Credit Committee.

Credit processes and reporting

All material credit risks are approved by the Credit Committee or by a designated member of the Credit Risk Group acting under an appropriate delegated credit authority. Once approved, credit exposures are subject to ongoing monitoring and review both at a portfolio and individual transaction level.

Portfolio-level monitoring by the Credit Committee includes biannual stress testing and scenario analysis as well as monthly reviews of portfolio movements, with a particular focus on changes to exposure, expected loss and unexpected loss. Monthly management information records the performance of the credit portfolio against our financial objectives. We also monitor monthly exposure within the agreed country and other limits.

At a transactional level, we produce regular rating updates on countries and individual obligors and, where applicable, confirm compliance with financial covenants contained in loan agreements upon receipt of relevant audited accounts. UKEF maintains 'watch lists' of obligors whose credit risk is deteriorating. If the credit deterioration of a non-sovereign borrower is such that the department might expect to pay a claim under a guarantee or insurance policy, management of the case will move to a dedicated claims and recoveries unit.

The Claims and Recoveries Unit submits regular reports to the Credit Committee on all accounts under its responsibility and seeks its approval for recovery actions. Once a claim has been paid, the Claims and Recoveries Unit will make case-by-case provisioning recommendations to the Credit Committee, with a full provisioning exercise being conducted at the end of each financial year.

Sovereign defaults that lead to debt renegotiations through the Paris Club[19] are managed by a team within the Finance Group, specialising in Paris Club reschedulings and working in conjunction with HM Treasury. Paris Club developments are monitored by the Credit Committee, which will approve any provisions to be made against this exposure. Recovery through Paris Club reschedulings can often be a protracted process - a number of active Paris Club reschedulings relate to exposure incurred prior to April 1991.

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

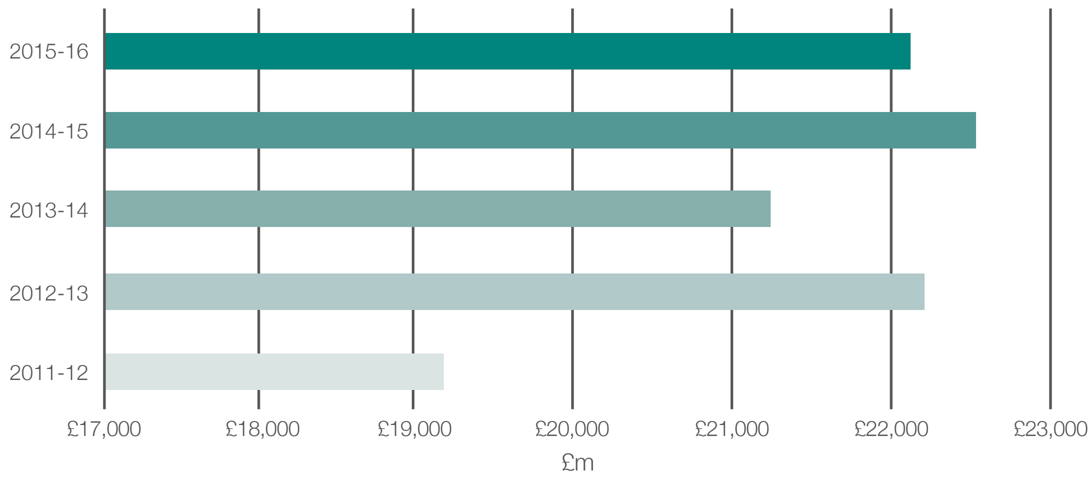
Credit risk performance 2015-16

Context

Consistent with our role as the UK's official export credit agency, our credit portfolio is dominated by long-dated emerging market risk. We have limited ability to influence the geographical or sectoral composition of our portfolio, as we assume credit exposure in in support of UK exporter success at any given time, rather than through a deliberate management choice to build a well-balanced portfolio. Consequently, it is natural for our credit portfolio, like those of other export credit agencies, to have higher risk concentrations than typically seen in private sector financial institutions. Our financial objectives, set by HM Treasury for UKEF, take account of these factors.

During 2015-16 we were able, once again, to comply fully with all the financial objectives applicable to our credit portfolio. Outturn on all our financial objectives is reported on page 34.

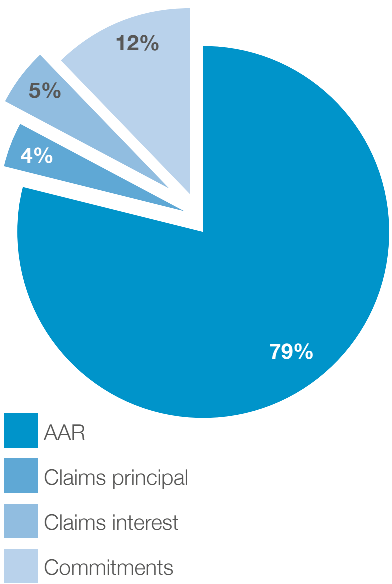
Gross credit risk exposure (£m)



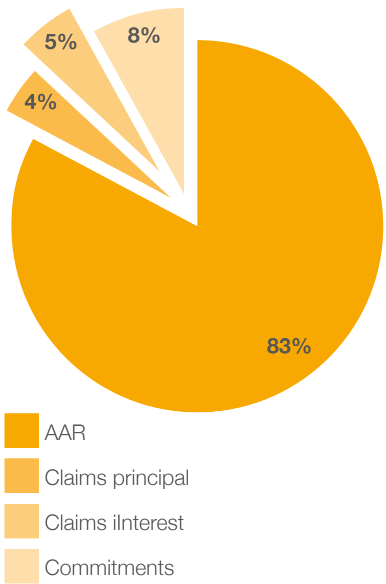
Total credit risk exposure on all business reduced slightly over the past 12 months from £22.5 billion (31 March 2015) to £22.1 billion (31 March 2016) as portfolio run-off, including pre-payments and recoveries, exceeded new business levels.

The charts below show the breakdown of this exposure between amount at risk (AAR)[20], claims (both principal and interest) and commitments[21].

Breakdown of total exposure
31 March 2016

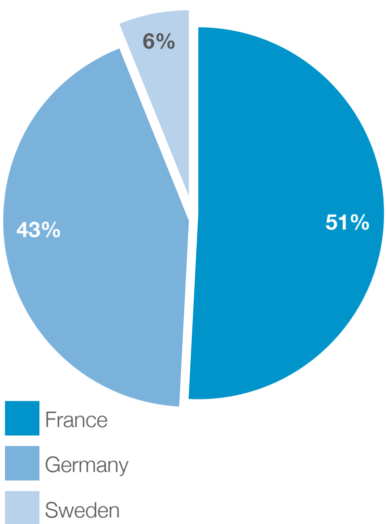


Breakdown of total exposure
31 March 2015

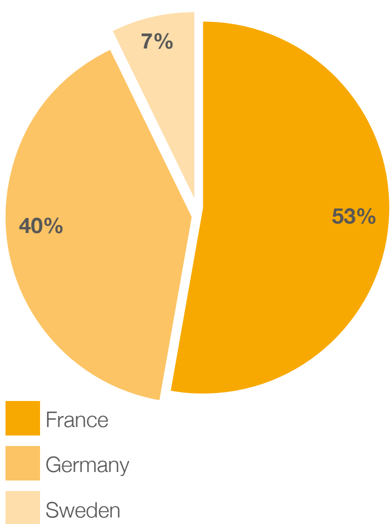


At 31 March 2016, total AAR amounted to £17.5 billion (£18.7 billion for 2015). This figure includes £5.5 billion (£5.3 billion for 2015) of counter-guarantees provided to UKEF by other European export credit agencies principally related to Airbus-supported business.
A breakdown of the export credit agency counter-guarantees is given in the charts below.

Breakdown of export credit agency counter-guarantees
31 March 2016



Breakdown of export credit agency counter-guarantees
31 March 2015



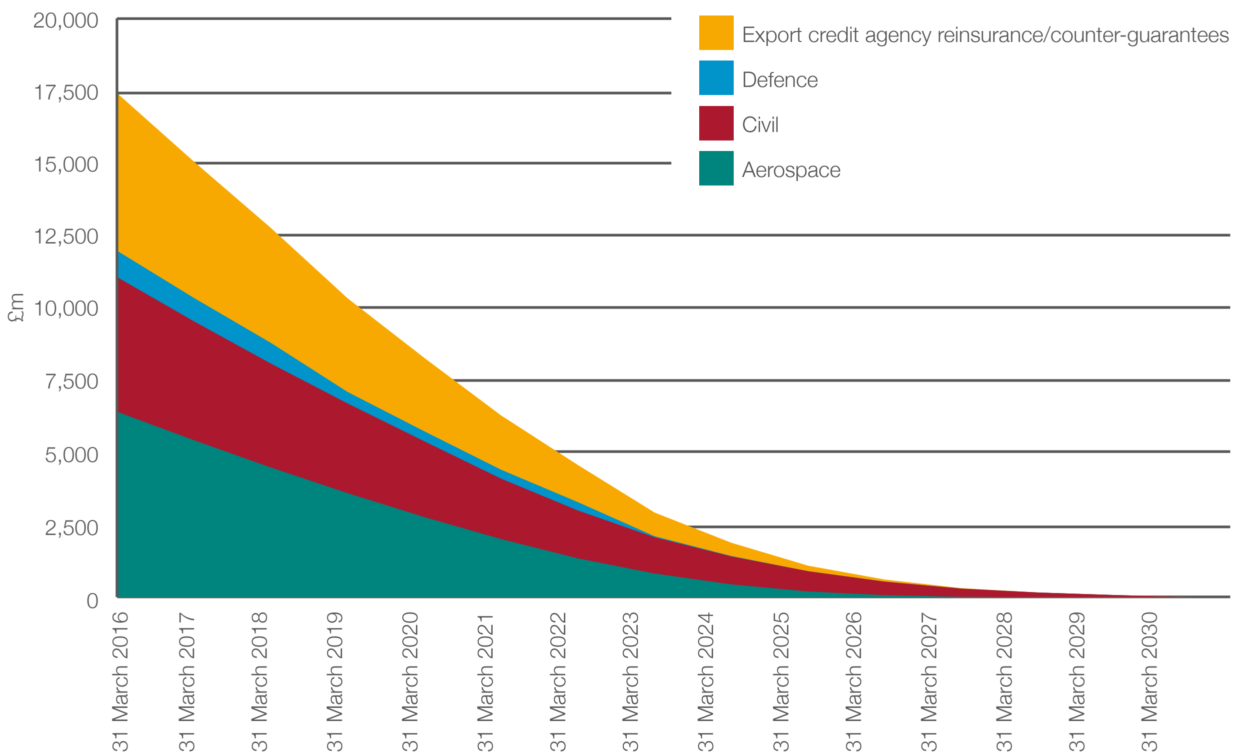
20 AAR is equivalent to the accounting term Contingent Liability. This represents the unexpired portion of the total risks guaranteed by UKEF; thus AAR would normally be less than Maximum Liability by the amount of expired risk, i.e. payment received or the unutilised amount of a loan.

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

Horizon of risk

Despite the recent introduction of trade finance products, the vast majority of our credit exposure extends into the medium and long term. The chart below illustrates how the current portfolio runs off over time in terms of overall AAR. Over the next 12 months, around 14% will run off and after 4 years around 50% of the current portfolio will have expired.

Amount at risk run-off (£m)



Exposure by product

The table below shows a breakdown of the AAR by product sector (excluding export credit agency reinsurance/counter-guarantees). The most notable changes over the past 12 months have related to corporate credit and bond insurance policy exposure. The increase in corporate credit, from 13% to almost 20%, is principally due to new business undertaken in the construction and energy sectors. The decrease in bond insurance exposure is due to the early expiry of a single large policy.

Breakdown of AAR, by product sector (£m) – excluding export credit agency reinsurance/counter-guarantees

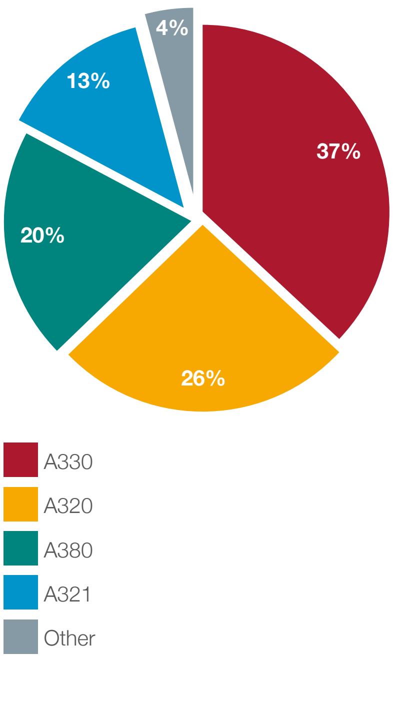
Product sector	31 March 2016		31 March 2015	
Civil aerospace	6,346	52.9%	6,935	51.6%
Sovereign credit	888	7.4%	1,048	7.8%
Corporate credit	2,347	19.6%	1,773	13.2%
Project finance	1,113	9.3%	1,127	8.4%
Bank	195	1.6%	265	2.0%
Export insurance	522	4.3%	531	4.0%
Bond insurance	41	0.3%	1,041	7.7%
Bond support	177	1.6%	655	4.9%
Direct lending	339	2.8%	45	0.3%
Other	26	0.2%	15	0.1%
Total	11,994	100.0%	13,435	100.0%

Risk concentrations

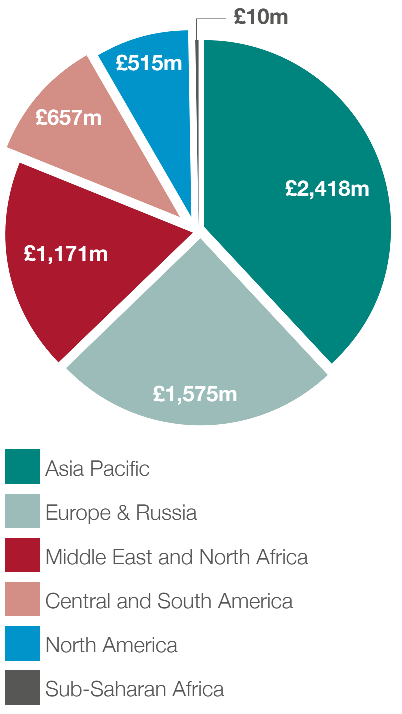
Sectors

Exposure to the civil aerospace sector remains UKEF's largest risk concentration, accounting for 53% of the AAR (net of export credit agency reinsurance/counter-guarantees) as at 31 March 2016 (52% for 2015). However, the aerospace portfolio is well diversified across airlines and aircraft leasing companies, by aircraft type and by geographical region. The charts below show a breakdown of the portfolio, by aircraft type and geography.

Aerospace portfolio by aircraft type



Aerospace portfolio by geography



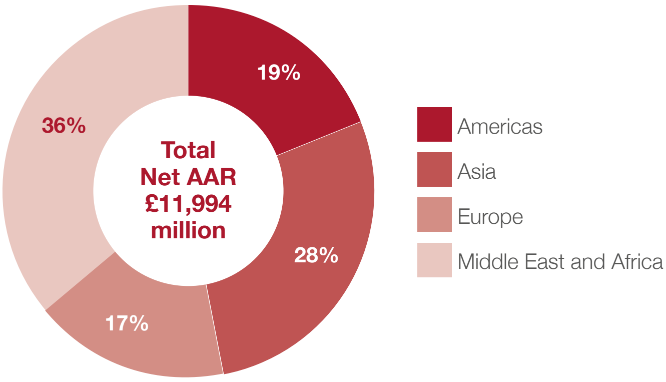
All aerospace exposure is secured on the underlying aircraft.[22] After allowing for the value of this asset security, UKEF's net exposure to the sector was much lower at £306 million (£586 million for 2015).

As at 31 March 2016, UKEF had £1.1 billion (AAR) of exposure to the oil and gas sector, representing 9% of overall AAR (net of export credit agency reinsurance/counter-guarantees). This exposure was mainly to major emerging market oil companies in South America, Eastern Europe and Asia. Other sectoral concentrations were to the chemicals industry, with £1.1 billion AAR spread across the Middle East and Asia and to the commercial real estate sector (£1.5 billion AAR) mainly in the Middle East.

Geography

As at 31 March 2016, the Middle East and Africa region accounted for 36% of portfolio AAR (net of export credit agency reinsurance/counter-guarantees). The majority of this exposure was a result of support for UK exports to Dubai, Saudi Arabia, Oman and Abu Dhabi. Asia accounted for 28% of net AAR, with around 75% of Asian exposure being attributable to civil aerospace business spread across a number of airlines. In the Americas, around 50% of exposure was attributable to the aerospace sector while much of the non-aerospace exposure was centred on Brazil.

Regional breakdown of net AAR - whole portfolio



AAR at 31 March 2016: darker shading indicates higher AAR.

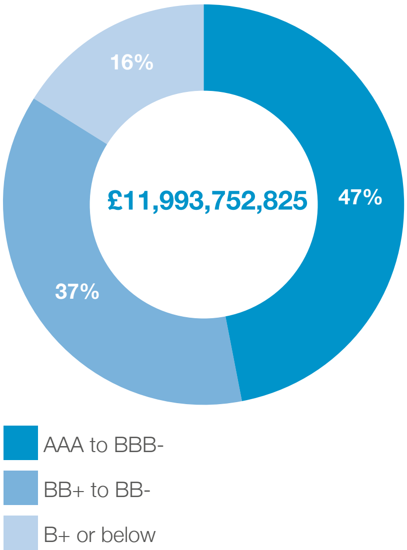
22 This means that UKEF can take possession of aircraft from defaulting airlines. Following the 9/11 terrorist attacks in the US we took possession of, leased and eventually sold 44 aircraft, ensuring losses both to the airline industry and UK taxpayer were minimised during this difficult period.

Credit quality

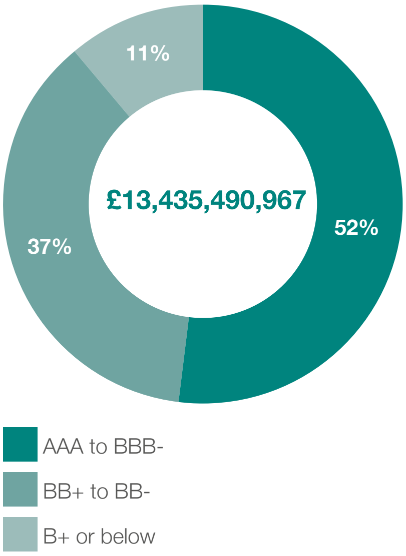
The credit risk in our overall portfolio increased slightly during 2015-16. This is shown by a decrease in the proportion of the portfolio rated as 'investment grade' (ie having a rating of BBB- or better) as well as increases in both expected loss and unexpected loss.

As at 31 March 2016, 47% of AAR (net of export credit agency reinsurance/counter-guarantees) was rated 'investment grade' by UKEF compared with 55% for 2015. The principal reason for this change was the expiry, during the year, of more than £1.5 billion of 'investment grade' exposure associated with a single case.

Net AAR by ratings
31 March 2016



Net AAR by ratings
31 March 2015

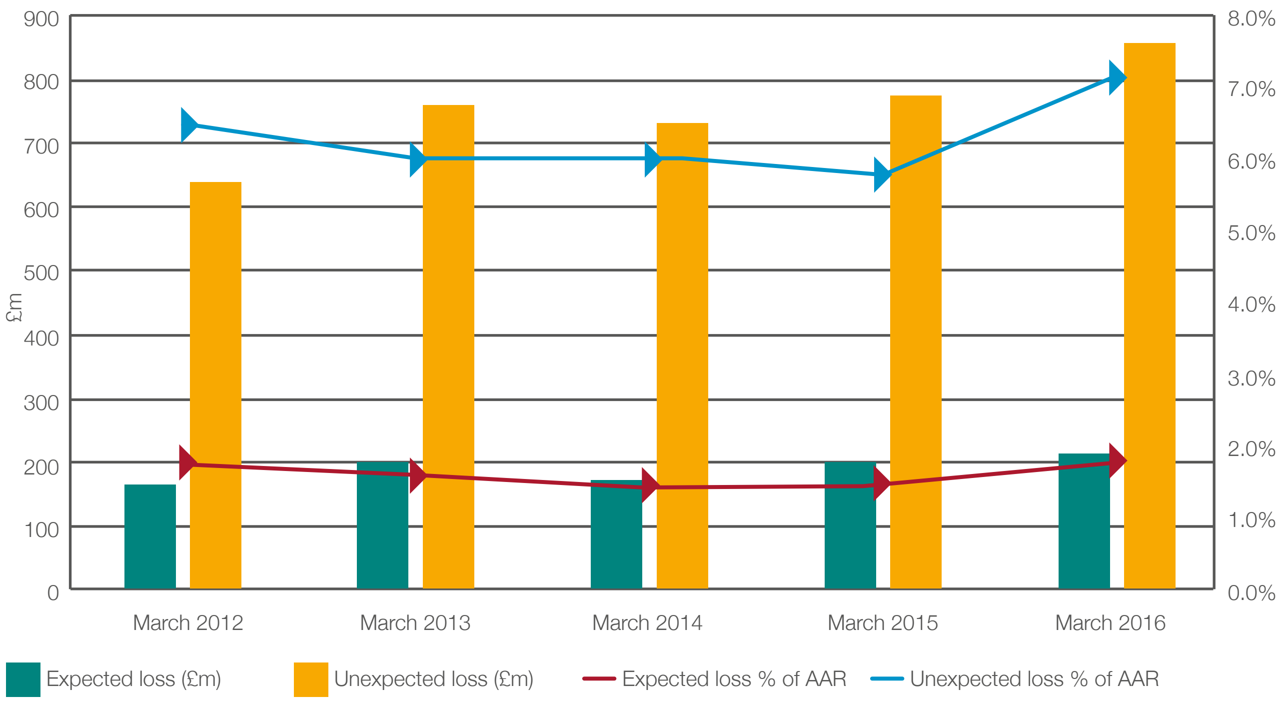


More than 80 individual rating changes were made during the course of the year as part of the ongoing monitoring and management of the portfolio. Downgrades exceeded upgrades by a ratio of approximately 2:1, reflecting some of the stresses which affected a number of emerging markets over the past 12 months.

In line with the ratings changes mentioned above, portfolio expected loss (EL) increased slightly to £211 million from £198 million in 2015. It now represents 1.8% of AAR (net of export credit agency reinsurance/counter-guarantees) compared with 1.5% for 2015.

Unexpected loss (UEL) also increased to £856 million as at 31 March 2016 (£776 million for 2015). It now represents 7.1% of AAR (5.8% for 2015), net of export credit agency reinsurance/counter-guarantees. The chart below shows the trend of both these key risk measures over the past 5 years.

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



Recoverable claims

The slight increase in the credit risk profile of the portfolio referred to above was not, however, reflected in any increase in claims paid during the year. In 2015-16 we paid claims totalling £5.4 million (£6.4 million for 2014-15). Of this amount, £3.8 million represented claims payments made in respect of new defaults. The balance was paid out under guarantees or insurance policies during 2015-16 but was attributable to defaults that had occurred in earlier years. The new claims were in respect of defaults by buyers in Russia, Libya and Turkey.

Overall recoveries (on all business, principal and interest) made during the year amounted to £160 million (£141 million for 2014-15), reducing total recoverable claims (excluding interest on unrecovered claims) to £876 million (£996 million in 2014-15). The majority of the recoveries (£141 million) were made through the Paris Club and related to historical sovereign debt reschedulings. Recoveries from a number of corporate names made up the balance.

Provisions

As at 31 March 2016, total provisions against all gross recoverable claims and interest on unrecovered claims increased marginally to £1.43 billion from £1.42 billion in 2015. The adequacy of provision levels was fully reviewed at the end of the year with existing provisions currently covering 72% of total recoverable claims and interest (68% in 2015).

Risk appetite limit

Given the increases in expected loss, unexpected loss, and provisions for all business issued since 1991, the 99.1 percentile point of the department's portfolio loss distribution inevitably rose during 2015-16. At the year end, it stood at £1.3 billion (£1.2 billion for 2015), still comfortably within the limit of £2.5 billion set by HM Treasury.

Portfolio stress testing

The portfolio of business issued since 1991 is subject to regular stress testing and scenario analysis. The table below shows the portfolio's sensitivity to changes in ratings and recovery rates.

Portfolio stress tests[23]

(£m)	Across the board ratings downgrade	Reduced recovery rates	Ratings downgrade and reduced recovery rates
	2 notches	- 20%	2 notches & -20%
Increase in expected loss	198	67	326
Increase in 99.1 percentile point	374	224	812

None of the movements in the 99.1 percentile point shown above would cause our risk appetite limit to be breached.

Other financial objectives

In addition to complying with our risk appetite limit, we met all other credit-related financial objectives set for us by HM Treasury during 2015-16 as reported on page 34.

Market risk management

Context

Market risk is the risk of losses arising from movements in market prices. For UKEF, this risk arises with changing interest rates and changing foreign exchange rates. UKEF's principal exposure to interest rate movements is through its legacy fixed-rate export finance scheme, which was closed to new business in 2011. Foreign currency risk arises from 2 main areas: transaction risk and translation risk. Transaction risk for UKEF 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 affected by changes in the sterling value of assets denominated in foreign currency and by liabilities from movements in foreign currency exchange rates.

Interest rate risk

Fixed rate export finance scheme

Up to 2011, UKEF operated a fixed rate export finance scheme, under which it supported medium- and long-term fixed-rate lending by commercial banks at internationally agreed 'commercial interest reference rates' (CIRRs) to overseas borrowers. The lending banks funded the loans at floating rates (LIBOR plus a margin). Through 'interest make-up' arrangements, UKEF made up the difference when the lender's floating rate was more than the applicable CIRR. When the floating rate was less than the applicable CIRR, the lender paid UKEF the difference. This system exposed UKEF to interest rate risk. Prior to the closure of the scheme in 2011, UKEF had pursued an active interest rate hedging policy, eliminating, as far as possible, its exposure to interest rate risk via a portfolio of matching interest rate swaps. These interest rate swaps remain in place, reducing in line with the amortising profile of the loans themselves.

HM Treasury no longer applies a quantitative financial objective to this legacy portfolio. Also, given the substantially matched position of the interest make-up arrangements and the interest rate swaps, no new hedging activity has been undertaken since 2011 nor is planned for the future. Accordingly, internal policies in relation to active hedging have been discontinued. Nevertheless, we monitor the financial position of the scheme and its residual interest rate risk closely. The portfolio is valued on a daily basis with its profit and loss performance measured against a series of internal limits. Movements in excess of these limits are immediately reported to the Chief Financial Officer and the Credit Committee for action as appropriate. These arrangements,

23 This stress test is based on the complete UKEF portfolio. The corresponding sensitivity analysis presented on page 192 in note 21 of the accounts is based on a portfolio containing only insurance contracts, as defined by our accounting policies.

together with a variety of other reporting provisions applicable to the scheme, are approved annually by the Credit Committee. Periodic sensitivity analysis is carried out on the portfolio to gauge the financial impact on UKEF of interest rate movements.

Direct lending

In 2014, UKEF introduced a direct lending facility, which provides loans to buyers of UK goods and services at CIRR. UKEF is not charged interest by HM Treasury on the funding provided to it for making these fixed-rate direct loans. Consequently, movements in interest rates during the life of the loans do not affect the financial performance of our direct lending activities. To ensure that interest earned on each CIRR-based direct loan adequately covers the government's borrowing costs, a check is made prior to commitment to confirm that the sterling CIRR applicable to the direct loan is higher than the corresponding National Loans Fund rate. If this is not the case, then interest on the direct loan will be charged at the higher rate. A similar arrangement, involving an interest rate check based on cross-currency swap methodologies, applies where direct loans are denominated in eligible foreign currencies.

Foreign currency risk

Translation risk

A material proportion of our guarantees and insurance policies are written in foreign currencies (mainly the US dollar), thereby exposing us to foreign currency risk and associated volatility in our financial results. The most significant year-on-year fluctuations in financial performance (evidenced by net foreign exchange gains/losses in the statement of CNI) stem from the currency movements applicable to our non-sterling insurance assets (recoverable claims). HM Treasury does not permit UKEF to manage its foreign currency exposures and so no active hedging is undertaken. This is based on a number of HM Treasury considerations, including the fact that our foreign currency assets and liabilities generally have long tenors such that the transaction risks can be a long time into the future, and the timing and size of the amounts needing to be converted are uncertain, which could well make for expensive hedging arrangements. In addition, our balance sheet provides some natural hedging of translation risk, and foreign exchange hedging is not straightforward and would require some specialist skills to operate it, adding to our operating costs.

Currency movements also have an impact on the sterling value of our contingent liabilities (principally guarantees and insurance policies). These movements can cause significant fluctuations in the sterling value of the department's AAR and, consequently, overall credit risk exposure. Since our maximum commitment and risk appetite limit (as financial objectives set by HM Treasury) are adjusted for movements in US dollar/sterling exchange rates, we are afforded a degree of protection from adverse currency movements in meeting these 2 key financial objectives.

Direct lending

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

Market risk performance

Interest rate risk

The legacy fixed rate export finance portfolio continued to amortise during 2015-16, thereby reducing further UKEF's exposure to interest rate risk. Note 21 to the accounts includes details of the remaining maturity profile of the portfolio and the portfolio's sensitivity to movements in interest rates (see page 180).

Foreign currency risk

As UKEF does not hedge its interest rate risk, our financial results will inevitably be affected by changes in the value of sterling relative to those currencies in which we transact business. During 2015-16 UKEF realised a net foreign exchange gain of £13 million (£34 million for 2014-15), principally as a result of changes in the value of its foreign currency denominated recoverable claims. A significant proportion of these claims are denominated in US dollars and, during the year, sterling depreciated by approximately 3% against the US dollar. Note 21 of the accounts includes details of the currency profile of our insurance assets, financial instruments and capital loan commitment (see page 181).

Liquidity risk management

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

The nature of some of UKEF's products means that significant payments could be required within a few days in the event of a default by an insured or guaranteed party. Arrangements to cover this eventuality have been pre-agreed with HM Treasury. As regards UKEF's direct lending activities, the requisite funding is provided by HM Treasury.

Note 21 of the accounts shows the scheduled maturity profile of UKEF's insurance contracts, expressed in terms of total AAR, and the dates at which the periods of risk expire (see page 191).

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

Any cash surplus generated by UKEF is paid back into public funds.

Financial performance

UKEF achieved an operating surplus for the year ended 31 March 2016 of £106 million compared with £129 million for the year to 31 March 2015. The decrease in net operating income for the year was largely as a result of:

- a decrease in the release from the underwriting funds closed in the current year to £36 million in 2015-16 from £52 million in 2014-15[24]
- a lower foreign exchange gain of £13 million for 2015-16 compared with a gain of £34 million in 2014-15

Accounts 1 to 5

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

- Account 1 relates to guarantees and insurance issued for business prior to April 1991 and to insurance issued by UKEF's former Insurance Services Group (the main part of which was privatised on 1 December 1991).
- Account 2 relates to the credit risk arising from guarantees and insurance policies issued for business since April 1991.
- Account 3 relates to guarantees issued since April 1991, on the written instruction of ministers, that UKEF's Accounting Officer advised did not meet normal underwriting criteria.
- Account 4 relates to the provision of support for Fixed Rate Export Finance (FREF) to banks (now closed for new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate swap arrangements.
- Account 5 relates to the provision of direct lending (since 2014).

24 See accounts: Note 19 (pages 176 to 178) for a detailed explanation of the fund basis of accounting, which we apply for our insurance policies and guarantees.

Management Commentary — 5-year summary

	2015-16 £m	2014-15 £m	2013-14 £m	2012-13 £m	2011-12 £m
Overall Value of Guarantees and Insurance Policies:					
Issued and Effective - Net of reinsurance/counter-guarantees	1,507	2,685	2,272	4,291	2,318
Amounts at Risk - Gross of reinsurance/counter-guarantees	17,111	18,672	17,195	18,141	14,280
Statement of Comprehensive Net Income:					
Premium Income Net of reinsurance/counter-guarantees	73	104	120	133	85
Staff, other administration and operating costs	30	31	26	20	20
Net Operating Income – total	106	129	50	135	147
– Account 1	33	41	18	66	53
– Account 2	64	81	19	59	85
– Account 3	-	-	-	-	-
– Account 4	6	7	13	10	9
– Account 5	3	-	-	-	-
Statement of Cash Flows:					
Claims Recoveries – total	**133**	**115**	**108**	**98**	**90**
– Account 1	49	44	38	36	32
– Account 2	84	71	70	62	58
Interest Recoveries in the year – total	**28**	**25**	**27**	**38**	**38**
– Account 1	24	22	23	30	29
– Account 2	4	3	4	8	9
Claims Paid – total	**5**	**6**	**13**	**7**	**6**
– Account 1	-	-	-	-	-
– Account 2	5	6	13	7	6
Net Cash Flow from Operating Activities – total	**199**	**237**	**205**	**274**	**192**
– Account 1	73	65	59	66	56
– Account 2	109	165	138	198	124
– Account 3	-	-	-	-	-
– Account 4	5	6	8	10	12
– Account 5	12	1	-	-	-
Statement of Financial Position:					
Recoverable Claims before provisioning	**876**	**996**	**1,075**	**1,228**	**1,314**
– Account 1	539	583	609	675	716
– Account 2	337	413	466	553	598
Recoverable Claims after provisioning	**429**	**531**	**605**	**711**	**750**
– Account 1	234	264	284	317	321
– Account 2	195	267	321	394	429
Interest on Unrecovered Claims after provisioning	**134**	**143**	**146**	**155**	**151**
– Account 1	133	142	145	153	148
– Account 2	1	1	1	2	3
Underwriting Funds - Net of reinsurance/counter-guarantees	**547**	**553**	**542**	**478**	**396**
– Account 1	**-**	**-**	**-**	**-**	**-**
– Account 2	547	553	542	478	396
– Account 3	-	-	-	-	-
Direct Funding loans	**119**	**82**	**104**	**138**	**178**
– Account 4	51	75	104	138	178
– Account 5	68	7	-	-	-

Account 1

The main activity relating to this account is the administration and collection of the claims paid out against these guarantees and insurances. In accordance with standard accounting practice, UKEF provides prudently against the possible non-recovery of debts. Where the outlook for recovery improves, the level of provision is reduced accordingly, releasing profit to the Statement of Comprehensive Net Income. The key results (rounded to the nearest million) were as follows:

- Operating income was £33 million, an decrease from operating income of £41 million in 2014-15.
- Recoveries of claims paid were £49 million compared with £44 million in 2014-15.
- Recoveries of interest on claims paid were £24 million compared with £22 million in 2014-15.
- The balances for gross claims decreased from £583 million in 2014-15 to £539 million during the year, while those for net claims decreased from £264 million in 2014-15 to £234 million during the same period.
- Interest on net unrecovered claims has decreased from £142 million in 2014-15 to £133 million.
- All non-claims exposure on this account has run off in 2015-16.

Account 2

The key results were as follows:

- The total of guarantees and insurance policies that were issued and effective during the year was £1,507 million compared with £2,685 million at 31 March 2015.
- Net premium income was £73 million compared with £104 million in 2014-15.
- Net operating income was 64 million compared with £81 million in 2014-15. The decrease in net operating income was due to a smaller release from funds closing in 2015-16 of £36 million compared with £52 million in 2014-15; and to a foreign exchange gain of £5 million in 2015-16 compared with a gain of £14 million in 2014-15.
- Claims authorised and paid or payable during the year decreased to £5 million from £6 million in 2014-15.
- Claim recoveries for the year were £84 million compared with £71 million in 2014-15.
- Gross claims balances were £337 million compared with £413 million in 2014-15.
- Net claims balances were £195 million compared with £267 million in 2014-15.

Account 3

No new guarantees were issued or claims made on this account during the year. There was no income for the year, as was the case for 2014-15, and all exposure on this account has run off.

Account 4

The results were as follows:

- The direct funding balance represents the funds originally loaned by HM Treasury to reduce the cost of FREF. The balance continued to reduce during the year to £51 million from £75 million in 2014-15, as regular instalments were made.
- Net operating income was £6 million in 2015-16 compared with £7 million in 2014-15.

Account 5

This account relates to direct lending activity. During the year 5 new loans were originated (one loan originated in 2014-15).

All accounts

Operating expenses improved to £30 million in 2015-16 compared to £31 million in 2014-15. While there was a planned increase in staff costs, this was offset by lower marketing spend and other administration costs.

For the reasons set out above (see Accounts 1 and 2), the major asset of UKEF, being net recoverable claims, decreased from £531 million in 2014-15 to £429 million during the year. Gross claims also reduced from £1.0 billion to £0.9 billion.

Due to the strengthening of the US dollar over the financial year by some 3%, there has been a foreign exchange gain of £13 million compared with a gain of £34 million in 2014-15.

Explanation of variances between estimate and outturn summary

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

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

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

Explanation of variances between estimate and outturn summary

	SOPS Note	2015-16 Estimate £'000	2015-16 Outturn £'000	2015-16 Variance £'000
Budget spending:				
Departmental Expenditure Limit (DEL)	SOPS1(a)	1	-	1
Annually Managed Expenditure (AME)	SOPS1(a)	32,515	(106,341)	138,856
Resource Total & Net Operating Cost / (Income)		**32,516**	**(106,341)**	**138,857**
Non Budget / Resource Total	SOPS1(a)	-	-	-
Net Resource Outturn & Net Operating Cost / (Income)		**32,516**	**(106,341)**	**138,857**
Budget spending:				
Departmental Expenditure Limit (DEL)	SOPS1(b)	300	-	300
Annually Managed Expenditure (AME)	SOPS1(b)	403,290	33,874	369,416
Capital Total Payments / (Receipts)		**403,590**	**33,874**	**369,716**

Significant highlights

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

Resource – Note SOPS1(a):

AME £139 million – This variance is largely due to provision and foreign exchange movements which are difficult to forecast.

Capital – Note SOPS1(b):

AME £369 million – This variance is largely due to the new direct lending facility. It is difficult to forecast drawings and the likely take-up.

As it has become a direct lender, UKEF has adopted the Equator Principles, a global framework to promote sustainable environmental, social and human rights decision-making in financing projects.

This is in addition to its existing longstanding commitments to international standards agreed through the OECD.

Head of Environmental and Social Risk's report Helen Meekings

We examine environmental, social and human rights (ESHR) risks and potential impacts of projects UKEF is asked to support in line with our published ESHR policy.[25] In addition, we collaborate with other export credit agencies in the field of ESHR matters with the aim of establishing a 'level playing field' in respect of ESHR risk management across export credit agencies. We also engage more broadly with international financial institutions through participation in external forums and sharing of experiences.

During 2015-16 we screened transactions that fell within the scope of the Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence[26] (OECD Common Approaches). Where we identified significant risks, these transactions were categorised as A (high risk) or B (medium risk) and we carried out an ESHR due diligence review.

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

ESHR due diligence

In 2015-16 we worked with a wide variety of project developers and exporters to help them understand and manage the ESHR risks associated with their project activities. The following are examples of projects supported in 2015-16 where UKEF contributed to better ESHR risk management.

Liwa plastics project in Oman[27]

We took a leading role within the export credit agency lender group in undertaking ESHR due diligence and developing a multi-party ESHR work plan to meet financing time frames. The project was classified as high ESHR risk, category A. This project will be monitored over the duration of our support with the aim that the project will be constructed and operated in line with the relevant international standards.

Floating, production, storage and offloading (FPSO) vessel in Brazil

We worked in collaboration with other export credit agencies in undertaking ESHR due diligence, before providing a counter guarantee to the export credit agency of the Netherlands. The project was classified as high ESHR risk, category A. The shipyard where the FPSO is being fitted out will be monitored during construction and ongoing monitoring will take place with the aim that the FPSO will be operated in line with the relevant international ESHR standards.

25 *https://www.gov.uk/government/publications/uk-export-finance-environmental-social-and-human-rights-policy.*

26 *http://www.oecd.org/tad/xcred/oecd-recommendations.htm.*

27 Our support for the Liwa plastics project was issued on 7 March but did not become effective until after 31 March, so will be accounted for in the Annual Report and Accounts for 2016-17. However the ESHR due diligence was completed in 2015-16 so has been reported here.

The Blue Waters Island development in the United Arab Emirates

We worked closely with the project developer in understanding the relevant ESHR risks and impacts associated with the project. It was classified as medium ESHR risk, category B, with impacts expected to be localised and mitigation measures readily available. Our support focused on better understanding and managing associated labour risks, particularly migrant labour.

> You can find details on our website at ***www.gov.uk/uk-export-finance*** of the ESHR risk and impact categorisation of civil (non-aerospace) cases for which support was issued during 2015-16 that fell within the scope of the OECD Common Approaches.

ESHR monitoring

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

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

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

The following are examples of our ongoing monitoring commitments met in 2015-16.

Nghi Son refinery and petrochemical project in Vietnam

In collaboration with the other export credit agencies within the lender group, we helped in enabling community resettlement in a manner consistent with the IFC performance standards. This is a high ESHR risk, category A project, currently in its construction phase. Primary risks of particular concern relate to occupational health and safety during construction. The lender group has maintained a dialogue with the project developer. The group has undertaken site monitoring visits, and an IESC undertakes ongoing monitoring. The aim is to encourage positive health, safety and environmental practices on-site and at the project fabrication yards so that ESHR standards are maintained.

Sadara production complex in Saudi Arabia

Together with other export credit agencies, we have provided clarity on the requirements of the IFC Performance Standards to the project management teams. The clarifications have led to changes in a self-monitoring system for worker accommodation sites and enhanced conditions to maintain ongoing alignment with the relevant international ESHR standards.

Brazilian state oil and gas company (Petrobras)

We undertake an annual partnership visit to Petrobras's environmental, health and safety team as part of our monitoring of their line of credit. The visit includes discussion on good international industry practice on environmental and social management systems in the oil and gas sector. The 2015 visit extended to the UK exporters providing services to Petrobras under the UKEF line of credit. We met with their ESHR teams to monitor how they are managing their ESHR risks in line with the international standards and Petrobras's ESHR management systems.

Gas power plant in Turkey

At the request of the project sponsor, we provided technical and tailored guidance to the project sponsor on meeting its environmental surveying requirements to enable the power plant project to align with the necessary requirements of the international ESHR standards.

A summary of cases that fall within the scope of the OECD Common Approaches where we are undertaking ongoing ESHR post-issue monitoring can be found on our website at ***www.gov.uk/uk-export-finance***.

International ESHR co-operation

In supporting UKEF's objective to achieve fairer competition by seeking to establish a 'level playing field' for all OECD exporters, we work alongside other export credit agencies at the OECD Environmental and Social Practitioners' Group of the Export Credit Group (ECG). We are actively involved in setting agenda items, sharing experiences and seeking to achieve consistency of approach to risk management practices of export credit agencies fulfilling the requirements of the OECD Common Approaches. The ECG's Environmental and Social Practitioners' Group provided technical input to the discussions on the need to amend or undertake a review of elements of the OECD Common Approaches.

We hosted the ECG's Environmental and Social Practitioners' Group meeting in London in May 2015. UKEF was influential in setting the agenda and invited representatives from an exporting business, a human rights non-governmental organisation and a development bank to present and participate in the discussions. We have taken a lead on a number of ESHR issues and working groups with a view to obtaining consistency of practice by export credit agencies.

We also participate in a number of multilateral financial institution ESHR practitioner meetings. This included the IFC community of learning where, alongside the IFC, we jointly hosted 2 thematic technical sessions for ESHR professionals from various other development banks, commercial banks and export credit agencies.

Other ESHR matters

UKEF joined the Equator Principles on 31 March 2016. Our ESHR policy was updated to reflect this and is available on our website.[28]

Helen Meekings, MEng, PhD, CEng, MICE
Head of Environmental and Social Risk
23 June 2016

28 *www.gov.uk/government/publications/uk-export-finance-environmental-social-and-human-rights-policy.*

The Export Guarantees Advisory Council reviews UKEF-supported projects which have been classified as high, medium or low impact, to examine UKEF's application of environmental, social and human rights policies.

Export Guarantees Advisory Council annual report

Introduction

The Export Guarantees Advisory Council ('the Council') is a non-departmental public body (NDPB) established under the Export and Investment Guarantees Act 1991. Its role is to advise the Secretary of State for Business, Innovation and Skills on the policies that UKEF applies when doing business, particularly those related to:

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

The Council's advice is provided in the context of the government's export strategy and the role UKEF plays to support exports while applying ethical policies established by international agreements that relate to export credit agencies.

The Council does not have executive powers and therefore is not involved in decision-making relating to UKEF support for particular export transactions. It does, however, carry out retrospective reviews of export transactions UKEF has supported to understand how ethical policies are applied in practice, to give assurance and, where appropriate, advise on how these might be further developed.

Membership

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

Chair

Andrew Wiseman (Partner, Harrison Grant Solicitors)

Members

Gillian Arthur (Head of Philanthropy Services, Sanne Group)

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

Alexandra Elson (Senior Stakeholder Relations Adviser, Shell plc)

Neil Holt (former Director, Ethics and Business Conduct, CH2M HILL Group, Trustee, Transparency International)

John Newgas (Consultant, Sagwen Computer Consultancy)

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

Meetings and attendance

During 2015-16, the Council met on 5 occasions. Separately, it met with the Minister of State for Trade and Investment.

Senior officials from UKEF, including its Chief Executive, attended the Council's meetings. They briefed the Council on current issues and developments and the export transactions supported. It is the practice of the Council to also meet outside parties to discuss issues of interest to help inform the Council's agenda. The Council continued with its regular meetings with stakeholders. This year it met with the British Exporters Association (BExA).

Environmental, social and human rights due diligence

UKEF undertakes environmental, social and human rights (ESHR) due diligence when it is asked to support projects where the *OECD Recommendation on Common Approaches for Officially Supported Export Credits* and Environmental and Social Due Diligence (OECD Common Approaches) applies. This agreement informs the way in which member export credit agencies should address ESHR due diligence. This includes screening and classifying projects according to their potential ESHR risks and carrying out reviews and monitoring accordingly. These processes seek to assure export credit agencies that projects are constructed and operated in line with local laws and relevant international ESHR standards. It is UKEF's practice to benchmark applicable projects against the International Finance Corporation (IFC) Performance Standards. The Council reviews projects for which UKEF support has been sought and which have been classified as high (category A), medium (category B) or low (not categorised) impact, to examine UKEF's application of the OECD Common Approaches. The Council reviews the due diligence carried out for projects after UKEF support has been provided and also in respect of projects where UKEF is monitoring ESHR performance during the construction and operations phases.

These projects employed a significant number of workers for their construction and, therefore, the Council paid particular attention to labour and working conditions and the human rights of workers. The Council examined how UKEF had applied the relevant IFC Performance Standards and International Labour Organization requirements to each project. UKEF demonstrated the due diligence it and other export credit agencies had undertaken to be assured that the project sponsors were committed to applying international standards. Given concerns about the standard of some of the workers' accommodation at one of the projects, the Council was able to see, for example, how UKEF (and other export credit agencies) were able to obtain improvements. UKEF also demonstrated to the Council the ongoing work it is undertaking with project sponsors of a project in Saudi Arabia to remediate a pollution incident in line with local and international standards. In relation to the oil refinery upgrade and petrochemical project in India, UKEF has undertaken site visits and other activity to actively monitor the project in the post issue stage.

The Council also reviewed a new project in Russia that UKEF had supported which was classified as Category B. This project was supported alongside OeKB, the Austrian export credit agency. The Council reviewed UKEF's determination of the classification, the ESHR due diligence undertaken and its collaboration with OeKB.

The Council observed that there was an increasing number of UKEF-supported projects that were now being monitored in the construction and operational phases. UKEF was able to demonstrate its commitment to monitoring such projects throughout the life of UKEF support. UKEF seeks to be assured of ongoing alignment with international standards through self-reporting by project sponsors, reports made by independent environmental consultants and/or through UKEF staff conducting site visits.

The requirements of the OECD Common Approaches in respect of post-issue monitoring of projects are not as prescriptive as the ESHR due diligence process it asks export credit agencies to follow when they consider supporting a project. UKEF reported to the Council other export credit agencies' post-issue monitoring processes. There are a range of approaches, from those who do little, to those like UKEF who routinely carry out monitoring for projects classified category A or B. This is an area of the OECD Common Approaches which could be strengthened so that there is consistency of practice. These changes will help discipline project sponsors to adhere to commitments to construct and operate projects in alignment with international standards.

At the request of the Council, UKEF also undertook research to establish the practices of other export credit agencies in respect of human rights issues, including for export transactions that are not within the scope of the OECD Common Approaches. Again, there is variability in approach, with some export credit agencies undertaking human rights due diligence for all business, while other export credit agencies, including UKEF, apply, but do not go beyond, the OECD Common Approaches.

During the year, the OECD Export Credit Group and the OECD Environmental and Social Practitioners' Group (ESPG) considered revisions in the 2012 OECD Common Approaches in response to a mandate contained therein to undertake a review no later than 3 years after its adoption. UKEF reported to the Council the deliberations of the OECD Export Credit Group/ESPG, which culminated in proposals to make clarifications in respect of human rights and greenhouse gas reporting. A revision to the OECD Common Approaches was published on 6 April 2016.

UKEF hosted a meeting of the ESPG in London in 2015, which provided an opportunity to shape the group's ESHR agenda and establish a programme of work for the future. The Council welcomed UKEF's efforts to help lead the ESPG and influence export credit agency ESHR policy and practice. UKEF is now leading a number of initiatives that flowed from the London meeting. Over time, these initiatives should help raise standards and achieve consistency in how ESHR issues are approached.

During the year, the Council was briefed about the efforts made by the OECD Export Credit Group to restrict export credit agency export credit financing support for coal-fired power stations. This was in response to concerns about their egregious environmental impacts. UKEF, alongside the US export credit agency, US Ex-Im Bank, took a leading role in obtaining an agreement to curtail export credit agency support for coal-fired power stations. This culminated in an agreement being reached to tighten the terms of export credit agency support for such projects. The agreement fed into the climate change talks held in Paris in November 2015. The new terms have been set out in a Sector Understanding attached to the *OECD Arrangement on Officially Supported Export Credits.*

During the year, the Council considered an initiative by UKEF to adopt the Equator Principles. The Equator Principles have been established to guide banks and other financial institutions on ESHR matters when they provide financing for projects and are, to a large degree, similar to the OECD Common Approaches. A number of export credit agencies, all with direct lending capability, have adopted the Equator Principles. UKEF's application was made in the light of UKEF becoming a direct lender, but also to gain access to another source of ESHR advice and support, and to strengthen UKEF's relationship with the IFC, which sets the benchmark ESHR standards. The Council welcomed this development and encouraged UKEF to adopt the Equator Principles, which it did on 31 March 2016.

The OECD Common Approaches require member export credit agencies to publish statements on their policy, practice and approach to ESHR issues. UKEF consulted the Council on the production of a policy and practice statement, which would include the adoption of the Equator Principles. The policy and practice statement was published on UKEF's website on 31 March 2016.

Anti-bribery due diligence

UKEF applies the *OECD Recommendation on Bribery and Officially Supported Export Credits* (OECD Bribery Recommendation), which guides member export credit agencies on addressing anti-bribery due diligence in respect of transactions they are asked to support. UKEF operates anti-bribery policies and practices that align with the OECD Bribery Recommendation. In essence, UKEF carries out due diligence before providing support for exports. This is to ensure, within reason given that UKEF does not have investigatory powers, that projects provided with support are not tainted by bribery. UKEF has recourse rights so that if it transpires that bribery was involved after support has been provided and UKEF suffers losses, such losses can be recovered from the exporter.

The Council reviews the application by UKEF of the OECD Bribery Recommendation. The Council considers an annual report from UKEF on its application of the OECD Bribery Recommendation which includes the number of applications made, those involving the use of agents, the use of special arrangements for the handling of information about the identities of agents (special handling arrangements), etc. The report provides a picture of anti-bribery due diligence carried out over the year by UKEF. From time to time, the Council also examines particular transactions UKEF has supported. For example, the Council reviewed a transaction involving the supply of a floating production storage and offloading unit leased by SBM BV to Brazil's national oil company Petrobras. This was against a background where SBM had been fined for bribery offences and where Petrobras had been at the centre of a bribery investigation in Brazil. The Council was satisfied that UKEF had followed the OECD Bribery Recommendation and its policy on the provision of support for companies convicted of bribery offences, taking account of the reforms made by the parties to strengthen their anti-bribery policies and practices in the wake of the circumstances each had encountered.

As foreshadowed in the Council's annual report last year, the Council was consulted about the government's proposed response to a public consultation on changes to UKEF's anti-bribery practices. The proposed changes included simplification of the anti-bribery and corruption declarations and undertakings, application of anti-bribery and corruption procedures to new products not linked to a specific export contract, and the approach to holding public consultation on future changes to anti-bribery and corruption provisions and procedures. The Council held a special meeting to consider the submissions made by interested parties and advised UKEF accordingly.

The Council was also consulted by UKEF on a proposal to change the way it provides support for export working capital and contract bonds offered via banks. Under the proposed new model, banks would decide on whether a transaction would benefit from our support using criteria set by UKEF. If adopted this would avoid the duplication of due diligence processes that are currently carried out by both banks and UKEF. The Council was consulted on the arrangements that might be put in place for banks conducting anti-bribery due diligence. It concurred with the proposal that UKEF, rather than the banks, should continue to carry out anti-bribery due diligence for transactions where the use of agents are involved, taking into account the greater risks of bribery being passed through third parties. UKEF is trialling the new arrangements to see how they work out in practice before rolling them out more widely.

Sustainable lending

UKEF applies the OECD Principles and Guidelines to Promote Sustainable Lending and the Provision of Official Credits to Low Income Countries (OECD Sustainable Lending Principles). The Principles set out the basis on which export credit agencies should support transactions and projects for poor, highly indebted, countries. The aim is to avoid such countries contracting unsustainable levels of commercial indebtedness. The Council reviews projects UKEF has supported in countries that fall under the OECD Sustainable Lending Principles. During the year UKEF considered export credit financing support for a number of projects in sustainable lending countries, but none reached financial close during the year.

The Council's advice was sought on the government's proposals to establish a concessional export credit facility. The Department for International Development undertook a public consultation to canvass views from interested parties. Taking into account the OECD Sustainable Lending Principles, which have established guidance on mixing aid with commercial export credit lending, the Council welcomed the initiative as a way of assisting exports to poorer countries. Such a programme could have developmental benefits and help make project costs more affordable. The Council considered that such projects could benefit UK exporters in helping to achieve a level playing field against competitors who can access tied aid programmes. Moreover, recipient countries would benefit from the ESHR and anti-bribery standards that UKEF would apply. Notwithstanding government policy on the provision of aid, submissions from industry argued that the funding for the concessional element of the concessional export credit facility should be made available on an untied basis for negotiated contracts, a preferred method of contracting by British companies. This was reiterated by BExA when it met with the Council.

Stakeholder engagement

The Council met with BExA, an organisation which represents the interests of exporters and lobbies the government on their behalf. BExA welcomed the improvements made by UKEF in the provision of new products and services following the onset of the financial and economic crisis in 2008. It considered that UKEF had become more responsive to the needs of exporters through the reintroduction of support for exports conducted on short terms of credit and the introduction of the direct lending facility. BExA particularly welcomed the introduction of export finance advisers across the UK, which meant that exporters could access advice locally from UKEF personnel.

Information requests

The Council reviewed UKEF's handling of information requests made under the Freedom of Information Act and the Environmental Information Regulations during 2015-16. The Council welcomed the improvement in the proportion of requests answered within statutory deadlines.

Cost of operation and further information

The costs of operating the Council during 2015-16 amounted to circa £3,000, largely to reimburse the cost of travel and meeting expenses. The Council's terms of reference, register of members' interests, minutes of meetings and contact details can be found at ***www.gov.uk/government/organisations/export-guarantees-advisory-council***. For further information on the work of the Council please contact the Council Secretary on 020 7271 8018 or email ***enquiries@ukexportfinance.gov.uk***.

Andrew Wiseman
Chairman
23 June 2016

Accountability

The UKEF Board supports the Chief Executive in the management of UKEF through operational oversight and by providing advice, challenge and assurance. The Chief Executive, as Accounting Officer, is personally responsible to Parliament for stewardship of resources.

UKEF Board members

1 Louis Taylor
Chief Executive

Louis joined UKEF in October 2015. His previous roles include Chief Operating Officer, Group Treasury at Standard Chartered Bank; CEO of Standard Chartered in Vietnam, Cambodia and Laos; and Vice Chair of the European Chamber of Commerce in Vietnam.

2 Guy Beringer CBE
Non-executive Chairman

Guy joined UKEF as Chairman in January 2010. He is Chairman of The Legal Education Foundation and City Music Services. He is a director of BCKR, an adjunct professor at the Imperial College Business School and Co-Chair of the Bingham Centre appeal board. Guy qualified as a solicitor with Allen & Overy, where he was senior partner from 2000 to 2008. In October 2006, he was appointed Queen's Counsel for his contributions to pro bono and legal services.

3 Cameron Fox
Chief Financial Officer

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

4 David Havelock
Credit Risk Group Director

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

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

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

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6 Jane Owen
Ex-officio member of UKEF Board as Chief Operating Officer at UKTI

Jane has been Chief Operating Officer at UKTI since 2014. Prior to this she was the UK ambassador to Norway. Previous roles include Director of Trade Promotion for the British Embassy in Tokyo; Deputy Head of Mission at the British Embassy in Hanoi, Vietnam; and the Head of Mediterranean and Asia Section in the EU department of the Foreign and Commonwealth Office.

7 Amin Mawji OBE
Non-executive director and Chair of Audit and Risk Committee

Amin was appointed as a non-executive director of the UKEF Board in 2013. He is Chair of the UKEF Audit and Risk Committee. Amin was a partner at Ernst & Young. He has served as a member of the CBI Manufacturing Council and was previously a member of the Audit and Finance Committee at the Department for International Development and the Audit and Risk Committee at the Department for Environment, Food and Rural Affairs.

8 Sir Eric Peacock
Non-executive director

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

9 Gordon Welsh
Business Group Director (from 31 March 2016)

Gordon was previously UKEF's Head of Aerospace, having undertaken a number of product and business development roles within UKEF. Before joining UKEF he had an extensive career in banking in the UK and the US and spent 3 years with Airbus in its customer sales financing team before taking a year's secondment to work with the UK's Secretary of State for Trade and Investment to set up an export promotion scheme.

10 Lucy Wylde
General Counsel

Lucy joined UKEF in January 2014. She is a member of the Executive Committee. Prior to joining UKEF, Lucy was General Counsel for Commercial Law in the Cabinet Office and before that General Counsel of the Asset Protection Agency, an executive agency of HM Treasury. She joined the Asset Protection Agency after a long career in company/commercial law at Slaughter and May, where she became a partner in 1993.

"It is fundamental to each accounting officer's responsibilities to manage and control the resources used in his or her organisation. The governance statement, a key feature of the organisation's annual report and accounts, manifests how these duties have been carried out in the course of the year." Managing Public Money 2012.

Governance statement

Introduction

As Accounting Officer for UK Export Finance, I am responsible to ministers and Parliament for the management of the department's operations, including the stewardship of financial resources and assets. This governance statement sets out how this responsibility has been discharged for the period 1 April 2015 to 31 March 2016. I became Accounting Officer on 19 October 2015. This governance statement therefore provides my report since that date and takes account of an interim governance statement by my predecessor.

The areas covered below are:

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

Background

UKEF's principal role is to provide support for exports in the form of insurance and guarantees. In doing so, it complements the provision of support from the private market, taking account of wider government export strategy and policies.

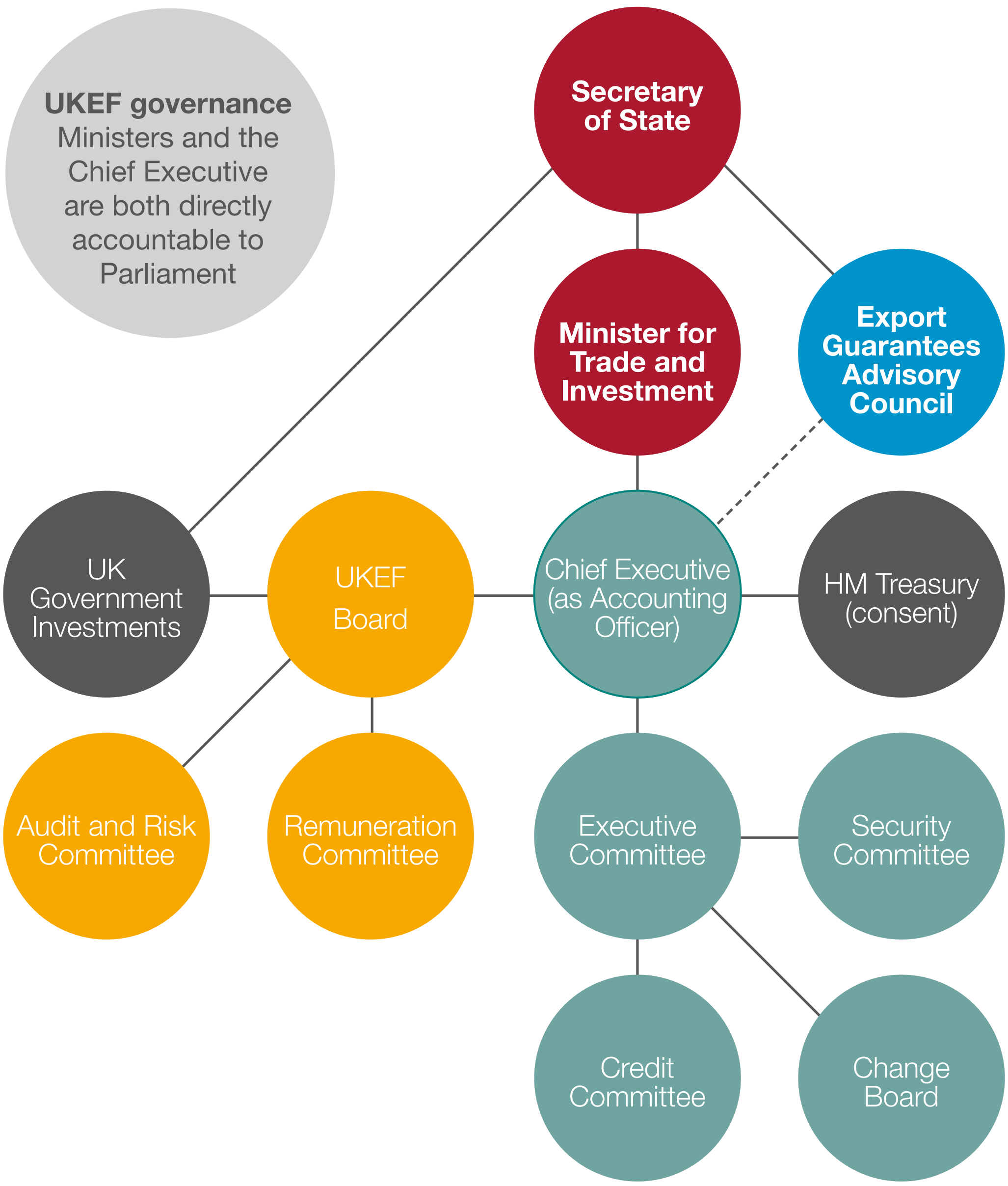
In providing support, UKEF seeks to:

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

Corporate governance framework

Statutory powers

UKEF reports to the Secretary of State for Business, Innovation and Skills. Its statutory powers are derived from the Export and Investment Guarantees Act 1991 (EIGA), as amended. The EIGA provides that the powers may only be exercised with the consent of HM Treasury ('the consent'), which includes a financial framework including financial objectives and reporting requirements.



Ministers

I report to the Secretary of State for Business, Innovation and Skills and the Minister of State for Trade and Investment. Ministers have been provided with regular written and verbal advice and briefings on a range of issues concerning the operations of UKEF.

HM Treasury

HM Treasury issued a revised consent in 2015 that facilitated UKEF making available new products following the changes to its statutory powers included in the Small Business, Enterprise and Employment Act (effective from 26 May 2015). Where the consent does not give authority to the Secretary of State to make any particular arrangement to support an export, UKEF must obtain specific consent from HM Treasury.

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

Shareholder Executive (UK Government Investments (UKGI) from 1 April 2016)

UKGI is responsible for providing independent advice to the Secretary of State in the exercise of his responsibilities for UKEF. A representative is an ex-officio member of UKEF's Board, and UKGI monitors UKEF's ongoing performance in relation to the HM Treasury consent.

Particular areas of advice are:

- corporate governance matters such as the appointment and remuneration of UKEF's Chairman, Non-Executive Directors and Chief Executive
- financial and operating performance and key performance indicators
- risk management functions and processes
- business planning and strategic direction
- alignment of policy objectives with other government departments

Department for Business, Innovation and Skills (BIS)

BIS is responsible for providing advice to ministers on policy objectives for export finance and UKEF in the context of the government's overall approach to trade, investment and growth strategy.

Trade and Investment Board (T&I board) (until January 2016)

The T&I board was chaired by the Minister for Trade and Investment with membership drawn from UKEF and UKTI, non-executive directors, and representatives from BIS, the Foreign and Commonwealth Office and a business organisation. Its remit was to provide strategic support to the Minister of State for Trade and Investment by:

- providing advice on the effectiveness of the government's trade and investment strategy
- aligning and prioritising UKEF's and UKTI's strategic objectives and projects
- reviewing UKEF's and UKTI's business plans to ensure that they are co-ordinated and in line with strategy and priorities

Export Guarantees Advisory Council

The Export Guarantees Advisory Council is a non-departmental public body (NDPB) established under the EIGA. Its role is to advise the Secretary of State for Business, Innovation and Skills on the policies that UKEF applies when doing business, particularly those related to:

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

The council independently publishes a report of its business in the year, which is available on page 103 and also from the council's webpages at ***www.gov.uk/government/organisations/export-guarantees-advisory-council***.

UKEF Board

In discharging my responsibilities, I am advised by the UKEF Board, of which I am a member. The board is led by a non-executive Chairman. Its membership consists of executive directors (the Chief Executive, the Credit Risk Group Director, the Head of Business Group, the General Counsel and the Chief Financial Officer) and non-executive directors including ex-officio representatives from UKTI and UKGI. There is also an observer from HM Treasury. The terms of reference require there to be a majority of non-executive and ex-officio members.

The board's role is to support the Accounting Officer in the management of UKEF through operational oversight and by providing advice, challenge and assurance.

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

The board reviews its effectiveness every year and an internal audit review is undertaken every 3 years. Executive Committee members take responsibility for the quality of data provided to the board from their respective areas of responsibility.

Through the maintenance of a register of interests, potential conflicts of interest involving the non-executive directors are identified and, if necessary, addressed.

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

The board has 2 sub-committees, membership of which comprises non-executive directors and other independent representatives agreed by the UKEF Board.

Audit and Risk Committee

This committee examines and reviews the adequacy of the arrangements for accounting, enterprise risk management and control. I attend the meetings, as does the Chief Financial Officer, the General Counsel, the Head of Internal Audit and Assurance and officials from the National Audit Office. The Chair formally reports the outcome of meetings to the board. In accordance with its terms of reference, in 2015-16 the committee reviewed the:

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

Remuneration Committee

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

Executive Committee

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

- David Havelock, Credit Risk Group Director
- Steve Dodgson, Head of Business Group (Gordon Welsh from 31 March 2016)
- Lucy Wylde, General Counsel
- Cameron Fox, Chief Financial Officer
- Shane Lynch, HR Director (from 31 March 2016)

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

There are 3 sub-committees of the Executive Committee, each of which is chaired by members of the Executive Committee and whose membership is drawn from senior staff in UKEF:

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

Governance in 2015-16

As Accounting Officer, I state that:

- All instructions given to me by ministers were in accordance with the EIGA, the consent and applicable international agreements.
- It was not necessary in the year to seek a written direction from the minister resulting from concerns about financial regularity, propriety or feasibility.
- UKEF met all its financial objectives in the financial year.
- I met ministers, UKGI, HM Treasury and BIS officials as necessary to brief them about issues related to UKEF, so that they could provide informed advice to ministers if and when required.
- Measures are being taken to recruit additional non-executive directors to allow for a majority of non-executive directors and ex-officio members on the board.
- An assessment of the effectiveness of the Board was under way as at 31 March 2016.
- The Executive Committee met most weeks throughout the year,
- The UKEF Board met 8 times in the year, the Audit and Risk Committee met 5 times and the Remuneration Committee met twice.

Executive directors and their roles

The roles of the executive directors are as follows:

- Head of Business Group: responsible for our support for exports and the marketing of this support
- Credit Risk Group Director: responsible for financial risk and related management systems and practices, and the operational risk second line of defence model
- General Counsel: responsible for all legal matters and for managing legal risk
- Chief Financial Officer: responsible for finance and accounting

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

Name of Board member	Role	UKEF Board	Audit and Risk Committee	Remuneration Committee
Guy Beringer	Non-executive Chairman	8/8		2/2
Amin Mawji	Non-executive Board Director and Chair of Audit and Risk Committee	7/8	5/5	2/2
David Harrison[29]	Non-executive member of Audit and Risk Committee		2/2	
Sir Eric Peacock	Non-executive Board Director	7/8	5/5	1/2
Jane Owen	Ex-officio Board member	5/7		
Roger Lowe[30]	Ex-officio Board member	1/2		
Justin Manson	Ex-officio Board member	6/6	3/3	1/1
Louis Taylor (from 19 October 2015)	Executive Director	3/3		
David Godfrey (to 18 October 2015)	Executive Director	5/5		
Steve Dodgson	Executive Director	7/8		
David Havelock	Executive Director	7/8		
Lucy Wylde	Executive Director	8/8		
Cameron Fox	Executive Director	8/8		

29 David Harrison retired from the Audit and Risk Committee after June 2015.

30 Roger Lowe took over as Shareholder Executive representative from May 2015 and was replaced by Justin Manson from July 2015.

Risk management and control

Our financial risk management is described in detail in the financial risk review on pages 69 to 91.

Strategic and operational risk

UKEF's strategic risks are defined as situations or occurrences which could have a material impact on UKEF but over which it has little or no control, such as significant political events.

Operational risks relate to threats that might impair our ability to fulfil our statutory purpose, achieve our financial objectives, adhere to international agreements, implement policies set by ministers, manage public money or apply other regulation related to being a ministerial department.

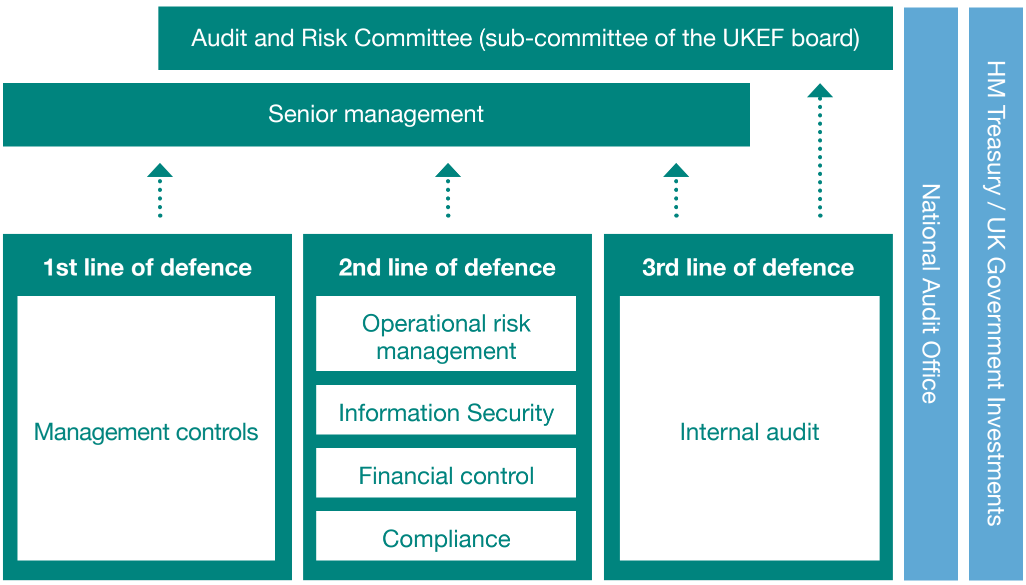
Risks may arise from a variety of internal and external sources and events. For example, changes in risk appetite by the private market may cause an increase in demand for UKEF support for exports, thus creating additional demands on staff. Internally, a failure to follow prescribed processes could lead to avoidable financial losses.

The system of internal control in UKEF is designed to identify, rank and prioritise strategic and operational risks, to evaluate the likelihood of those risks occurring, and to assess their impacts and to manage them accordingly. The system is designed to manage and mitigate risk to a reasonable level, rather than to eliminate all risk. It can therefore provide a reasonable, but not absolute, assurance of effectiveness.

The operational risk team promotes UKEF's '3 lines of defence' framework (see graphic below). It owns the operational risk framework, policy and templates and works closely with divisional heads to reinforce operational risk ownership and accountability. The team engages with individual divisions via nominated contact points, known as 'risk champions', to provide support and maintain awareness.

Strategic and operational risks and mitigating strategies were reviewed during the year by the Executive Committee, the Audit and Risk Committee and the UKEF Board.

The '3 lines of defence' framework



Information risk

Information security risk in the department is reviewed on a regular basis. The Senior Information Risk Officer is the Board-level representative responsible for information risk.

Our security policy and procedures are managed by a security officer. We measure ourselves against government information assurance standards every year.

The last review, in June 2015, found that information security risk was being appropriately managed. Independent sources of assurance are provided to the Security Committee as part of an annual programme of work, including assessment of UKEF suppliers, the results of disaster recovery testing, penetration testing and accreditation of core services.

The programmes of work also include regular communications and briefings to the Board, senior management team and all staff. A security risk register, which includes information security risks, is reviewed as a standing item at each meeting of the Security Committee.

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

Access to sensitive information is restricted on a 'need-to-know' basis, and staff are trained in information security so that they understand the risks associated with handling information both within and outside UKEF.

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

We have not identified any significant data losses, corruption or breaches of information security during the period.

Whistleblowing policy

We have a whistleblowing and raising-a-concern policy in place. No disclosures were made under the policy in 2015-16.

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

Internal audit and assurance

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

The charter establishes IAAD's position within the department; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the Audit and Risk Committee acting on behalf of the UKEF Board.

Public sector internal audit standards issued by HM Treasury in December 2012 offer the following definition of the role of internal audit: "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." This is the model adopted by UKEF.

In 2015-16, IAAD completed 15 audits, of which 3 were given a red opinion and 3 an amber opinion. On the basis of the internal audit work completed, the Head of Internal Audit's opinion was that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Overall, 100 audit actions were implemented in the year. As at 31 March 2016, there were a further 22 open – but not overdue – actions receiving attention.

Audit information

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

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

Compliance

We are committed to following best practice and public sector standards in areas of governance, accountability, transparency and risk management to achieve its objectives. These form an integral part of public sector services in the UK. As part of its business operations, UKEF faces risks of financial loss and risk of damage to its integrity and reputation from any failure to comply with all applicable laws and regulations. To give increased assurance that these risks are being appropriately managed, work has been undertaken during 2015-16 to establish an independent compliance function reporting to the General Counsel.

The compliance function will have comprehensive oversight of the controls in place to ensure compliance with the regulatory framework within which UKEF operates. It will work closely with the department's operational risk and internal audit functions.

Significant risks and mitigating measures

Resources

A significant proportion of roles performed in UKEF are particular to the department and are not found elsewhere in the Civil Service.

The largest staff groupings are credit risk analysts, underwriters, risk pricing, export finance advisers and members of the direct lending team. These teams are supported by back office functions processing deals, and support services such as communications, finance, IT and HR.

Even within the support functions, financial services experience is desirable, for example due to the IT systems used and financial reporting requirements.

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

We engaged with HM Treasury to address the lack of competitiveness of the pay offering for key posts and reached an agreement whereby allowances were added to the salaries of specialist roles within the department. This will not result in additional expenditure overall for the department.

The organisation continues to develop existing staff to meet some of the specialist staffing requirements but it can take several years to equip a generalist with the necessary skills and experience to engage on a level playing field with their counterparts within the banks, brokers, law firms, exporters and overseas buyers with whom they interact on a day-to-day basis.

A number of experienced staff retired during the year, and their absence will mean a loss of skill and knowledge relating to export finance matters that will be difficult to replace in the short term. These posts will be filled in due course, but in the meantime opportunities will be created for our current staff to take greater responsibility, to grow their own skills and to give them an opportunity to form the next wave of senior managers.

Changeover of IT provision
The department's outsourced IT services contract with CGI terminates in summer 2016. The 'EFit' programme was established to plan and implement the replacement arrangements. Cabinet Office guidance is that departments should seek to avoid 'monolithic' contracts, and instead look to commoditise IT services using a number of specialist suppliers. UKEF's new arrangements will conform to this model.

The changes require that all the central IT equipment currently housed in the CGI data centre is removed and alternative arrangements put in place. To minimise the risks associated with these changes, wherever possible the existing business IT applications will not be changed.

The structure of the new arrangements has been approved by the Government Digital Service. The designs for the new virtual data centre have been quality assured by Microsoft, with implementation being undertaken by a leading Microsoft business partner.

The banking system we use to record and monitor most UKEF-issued business, will in future be operated by the application owners on a software-as-a-service (SaaS) basis. The use of the software authors to operate and support this vital business application in the future materially reduces the risks associated with the transfer of this complex system away from CGI.

To mitigate the risk of not having satisfactory arrangements available at the end of the CGI contract, the ability to extend the contract for a short period has been agreed, should the need arise.

Administration of export transactions, including applications for new or novel types of support
In 2011, our business domain was expanded beyond supporting exporters of capital goods and services. New products were introduced to meet new demands, resulting in increased activity levels.

We have increased our investment in marketing and communications to raise awareness of our products and services, particularly targeting smaller exporters and financial intermediaries (banks, brokers, etc). The widening of our statutory powers will enable us to be more responsive to the needs of businesses.

We are developing appropriate operating processes and controls, documentation, business manuals and reporting infrastructure to administer these new products effectively and ensure compliance with relevant legal, regulatory and government policies on an ongoing basis.

Documentation is being finalised and staff are receiving training. Significant investment is being made to achieve this, involving a programme of work to implement the required changes to systems, processes and documentation, including an increased use of digital platforms.

This in itself carries operational risk but, furthermore, because UKEF complements the private sector, and does not compete with it, the availability of bank finance and private sector insurance also influences business levels and is a factor over which UKEF has no direct control.

The risk appetite of the private sector can change materially and within a relatively short timeframe. If it does so, and at the same time demand for new or novel cases exceeds expectations in the short term, then operational processes, infrastructure and staff resources could come under significant pressure, potentially resulting in performance or internal control issues.

Many of our products are delivered in partnership with the banks. Historically there have been challenges in reconciling product-related management information, especially with regard to premium collection between UKEF and the bank. This has led to operational delays, with a consequential delay in the collection of premium income.

We are putting in place a series of operational improvements agreed with the banks to reduce the effect of mismatching premium remittances. Work will continue to embed this change, together with potential modifications to the underlying documentation.

A recent review by a firm of external consultants identified this process weakness, together with a number of other minor, post-issue management issues. A cross-functional project team has been put in place to address these issues and to recommend procedural improvements. Many of these improvements have already been implemented, and the team continues to explore additional process modifications.

Electronic documents, email, information and case management

In April 2015, the department introduced a case management system for case-related documents, emails and information. It has been our records management policy since then that all new case-related electronic documents and emails are stored using this new system. It replaced a multiplicity of document and information repositories that occasionally resulted in the duplication of documents and information on cases across a number of systems. The new system was designed to act as the single location for storing, accessing and retrieving case material. An internal audit found, however, that although the majority of users interviewed operated this new system to some extent and considered it an improvement on previous systems, there was inconsistent use across the organisation as a whole. It also recommended a wider review of how we manage our electronic records to minimise risks to the quality of our long-term document and record storage. A project has been set up to assess current practices, provide a gap analysis against best practice and put in place any remedies required to provide assurance that records created are accurate, unique and retrievable.

Streamlining of UKEF processes

We are introducing a more flexible and efficient process for providing export trade finance to UK SMEs. Subject to meeting specified criteria, UK financial institutions will be able to obtain UKEF's guarantee for contract bonds and working capital loans without the need to seek prior approval from UKEF.

The new process will eliminate duplicative credit and know your customer due diligence to a significant extent, thereby reducing turnaround times for SME clients significantly and increasing the number of exporters assisted.

The new process is designed to be simple, scalable and efficient, and an innovation that will aid the UK's SMEs.

We have just started a 3-month parallel testing phase with Santander to run the new process alongside the existing delivery mechanism. Provided this phase is successful, and subject to agreement with all participating banks on the underlying legal documentation, a live roll-out will begin in 2016-17.

The primary risk of failing to meet these deadlines is reduced process efficiency and slower response times for SMEs, and ultimately an operational model that lacks scalability. This risk is being managed by working in close collaboration with participating banks, all of whom have indicated their willingness to participate in the new approach.

IR35
Failure to comply with government rules on the tax arrangements of off-payroll workers could lead to fines being imposed on UKEF. New contingent labour employees are sourced through the government's Contingent LabourONE procurement framework wherever possible, to ensure that we comply with the necessary contract clause requirements.

Procedures for complying with the revised procurement policy note issued by the Crown Commercial Service on 27 March 2015 have been approved by UKEF's Executive Committee. These include a requirement for all in-scope workers engaged by UKEF who are working outside IR35 to undertake a contract review from HM Revenue and Customs' free contract review service or via the Ministry of Justice specialist tax team.

These new measures ensure that the department meets all its obligations in relation to the tax status of off-payroll assignments.

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

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

Louis Taylor
Chief Executive and Accounting Officer
30 June 2016

We are only as good as the people we employ. In 2016-17 we will:

- implement changes to allows for greater flexibility to marshal resource
- further increase learning and development opportunities for staff that will add to their ability support exporters
- invest more heavily in developing current and future leadership talent for key roles.

Our people

One of our strategic objectives is to make sure that UKEF is a great place to work.

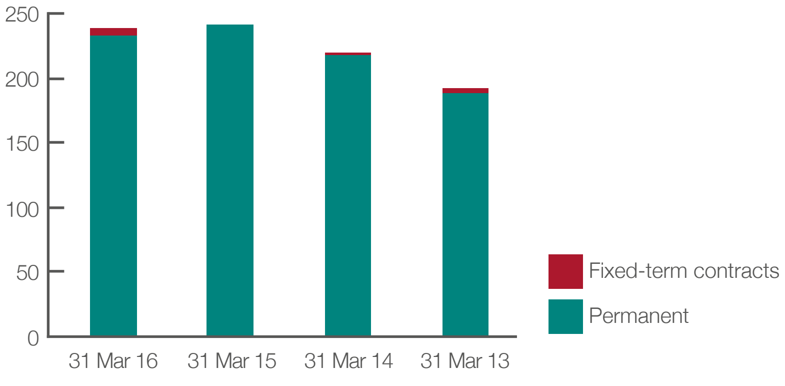
It helps that we are unique. Our people can gain experience of working on award-winning transactions, recognised within the financial services sector for their innovation. At the same time, they gain experience of working in a central government department, perhaps shaping international policy, or briefing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

Size and make-up of our workforce

The following tables describe the size and workforce of UKEF. Our staff numbers remained broadly steady since 2014-15, as we reduced our use of off-payroll staff and moved to an operating model that allows us to allocate staff resource more flexibly to meet changing business demands. Total staff costs for 2015-16 were £16.1 million. The cost of agency staff was £2.5 million.

Further detail on staff costs and other operating costs can be found in Notes 7 and 8 of the Accounts on page 168.

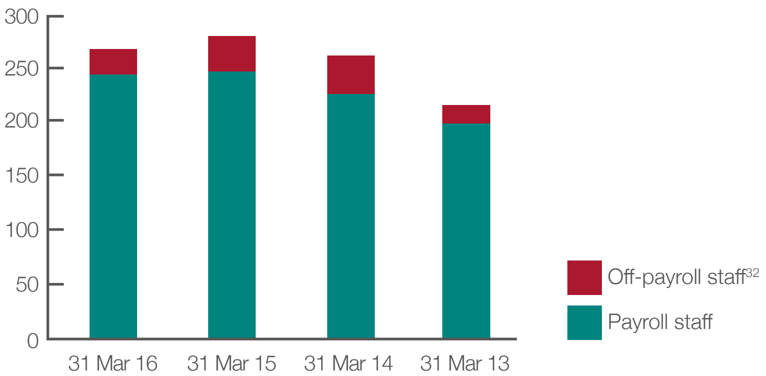
Full-time equivalents



	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Permanent	233.0	241.5	217.9	188.5
Fixed-term contracts[31]	6	0	2	4

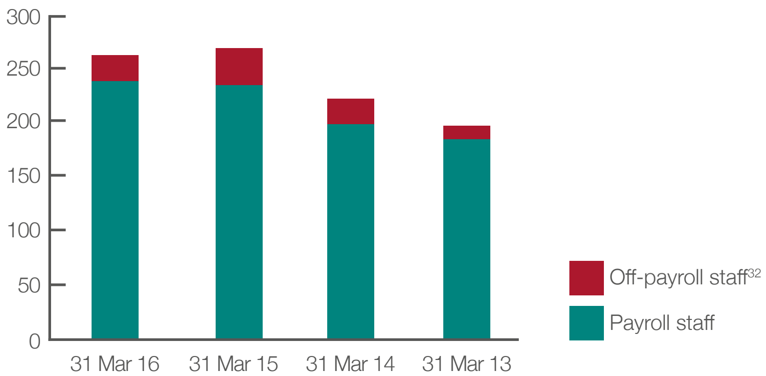
31 Fixed-term appointment of less than 12 months.

Payroll/off-payroll staff – headcount



	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Payroll staff	243	246	225	198
Off-payroll staff[32]	24	33	36	17

Payroll/off-payroll staff — average full time equivalent over the financial year



	2015-16	2014-15	2013-14
Payroll staff	242	238	202
Off-payroll staff[32]	24.2	35	24

Workforce shape: headcount (%)

	31 March 2016		31 March 2015		31 March 2014	
	Number of posts	%	Number of posts	%	Number of posts	%
Administrative Assistants and Officers	19	(7.8)	19	(7.7)	19	(8.4)
Executive Officers	28	(11.5)	27	(11.0)	30	(13.3)
Higher and Senior Executive Officers	116	(47.7)	118	(48.0)	102	(45.3)
Grade 6/7	66	(27.2)	66	(26.8)	60	(26.7)
Senior Civil Servants	14	(5.8)	16	(6.5)	14	(6.2)

32 'Off-payroll staff' encompasses consultants and contingent labour, ie interim managers, specialist contractors and agency staff.

Recruitment

All Civil Service recruitment is carried out in accordance with the relevant employment legislation and the recruitment principles issued by the Civil Service Commission. In 2015-16, UKEF appointed the following members of staff.

	Permanent appointments[33]	Fixed-term appointments	Loans from other government departments	Secondments	Total
Administrative Assistants and Officers	2	4	0	0	6
Executive Officers	5	1	0	0	6
Higher and Senior Executive Officers	14	3	0	2	19
Grade 6/7	6	1	1	0	8
Senior Civil Servants[34]	1	2	0	0	3

2015 staff survey results

The 2015 staff survey measured experience at work across 9 themes. UKEF's overall staff engagement score was 58%, in line with the civil service average, and we scored highly in 6 of the 9 areas. A working group, including 2 executive directors, continues to address outcomes from the survey and agree further actions.

Highlights	
My work	80%
Organisational objectives & purpose	89%
My manager	68%
My team	81%
Inclusion and fair treatment	74%
Resources and workload	74%
Areas for improvement	
Learning and development	49%
Leadership and managing change	41%
Pay and benefits	14%

Alongside the work of staff working groups, we are exploring possible improvements to our benefits package, mindful of public expenditure constraints. Further investment in learning and development, including leadership development, remains a priority.

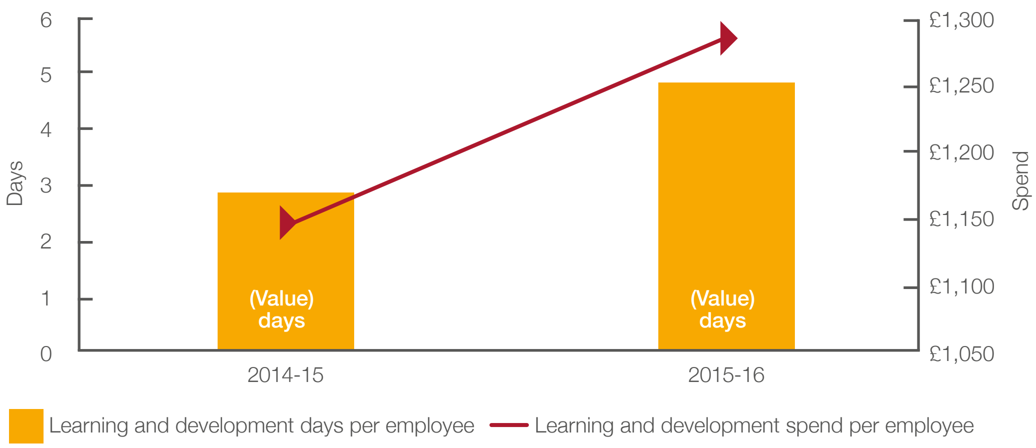
33 This includes permanent transfers from other government departments.

34 the 14 Senior Civil Servants as at 31 March 2016 consisted of 1 SCS3, 2 SCS2 (two vacancies) and 11 SCS1.

Learning and development

During 2015-16 the average number of days spent on learning and development per full-time equivalent was 4.82, with an average spend of £1,286 per full-time equivalent, which included formal training courses as well as other forms of development such as coaching and on-the-job training.

Leadership development is a key priority for us. In 2015-16 the Executive Committee undertook comprehensive assessments provided by Hay Group, and received individual and composite feedback on leadership strengths and areas for development. Two leadership development programme pilots were run, one for Higher Executive Officers and Senior Executive Officer line managers and one for Grade 7 and Grade 6 line managers; the outcomes of these pilots will be evaluated and will feed into ongoing development programmes for all UKEF leaders.



Diversity

We continue to work with the cross-Civil Service Diversity Network Group, sharing best practice. In 2015-16 we undertook a diversity data collection exercise to improve the information held, so that positive action can be taken where appropriate. The information gained from this exercise will be used to inform the Diversity Action Plan, scheduled for publication in summer 2016.

	Women (%)	Black and minority ethnic (%)	Disabled (%)
Administrative Assistants and Officers	12 (68.4)	11 (57.9)	2 (10.5)
Executive Officers	14 (50.0)	19 (67.9)	5(17.9)
Higher and Senior Executive Officers	39 (33.3)	29 (24.8)	4 (3.4)
Grade 6/7	21 (31.8)	10 (15.2)	2 (3.0)
Senior Civil Servants	2 (14.3)	1 (7.1)	0 (0.0)
Total	88 (36.2)	70 (28.7)	13 (5.3)

We put a number of measures in place to support potential and existing employees with disabilities. At the application and interview stage, we use the guaranteed interview scheme, whereby any disabled candidate whose application meets the minimum criteria will be guaranteed an interview. For the employment and retention of staff with disabilities, we adhere to an internal guide on “How to make reasonable adjustments for employees with disabilities”. A range of our HR policies provide additional support for disabled employees, for example under our flexible working policy we can consider increased flexible working if requested by staff with a disability. We also require all staff to complete an e-learning course on equality, diversity and unconscious bias. And we undertake regular monitoring of our workforce against the various protected characteristics.

Health, safety and well-being

UKEF promotes the health, safety and well-being of its employees. UKEF’s sickness absence levels, currently recorded as 7.15 days lost per person in the year, are in line with the Civil Service average, although they have risen from the previous year. The cost of sick absence in UKEF for 2015-16 was £212,000.

A new set of attendance management policies has now been implemented, encouraging a work-focused approach to supporting employees during periods of sickness absence. UKEF has an employee assistance programme and arrangements in place for occupational health referrals to ensure that the department carefully considers any reasonable adjustments that would facilitate a return to work or support employees at work.

UKEF provided employees with the opportunity for free flu jabs and health screenings during the year.

Sickness absence data

	31 March 2016	31 March 2015	31 March 2014
Average working days lost	7.15	6.3	6.1
Percentage of staff with no sickness absence	49.6%	50%	47%

Reward and recognition

In addition to annual performance recognition awards, UKEF operates a policy to recognise those employees who perform exceptionally, with a recognition scheme for employees going the extra mile throughout the year. During 2015-16 we made 97 one-off 'STAR' awards to employees through our recognition scheme.

The end to automatic pay progression was implemented during the year.

Remuneration policy

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

In reaching its recommendations, the review body is to have regard to the following considerations:

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

The review body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the review body can be found at ***www.ome.uk.com***.

Remuneration Committee

The Remuneration Committee is responsible for overseeing the performance management and pay of executive directors of the UKEF Board. The role of the committee is to ensure that Cabinet Office rules and guidance are properly applied in the operation of the Senior Civil Service (SCS) performance management and pay system. The committee's terms of reference are to oversee the operation of the SCS pay system in UKEF. Specifically, the Committee:

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

The Chief Executive attends meetings, other than during discussion of his own performance. A representative from the Chief Executive's Office acts as secretary.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the limited circumstances when appointments can be made on any other basis.

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

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

Independent non-executive members of the UKEF Board are recruited through fair and open competition and are appointed for an initial period of 3 years with an option to extend for a further agreed period. These appointments can be terminated with one month's notice. There is no provision for compensation for early termination.

Salary and pension entitlements for senior management

The salary and pension entitlements of the most senior management (ie board members) of UKEF are set out in the following table. As well as the current members of the UKEF Board, this table also includes former members who left the department during the year or ceased to be a member. The disclosures following, through to page 139, have been subject to audit.

Single total figure of remuneration

	Salary		Bonus payments		Pension benefits[35]		Total	
	£000		£000		£000		£000	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
David Godfrey Chief Executive Apr-Oct	135-140 (245-250 full-year equivalent)	245-250	0	0	0	0	135-140	245-250
Louis Taylor Chief Executive Oct-March	110-115 (250-255 full-year equivalent)	0	0	0	44	0	155-160	0
Steve Dodgson Business Group Director	110-115	110-115	0	0	43	9	150-155	115-120
Cameron Fox Chief Financial Officer	85-90	85-90	10-15	5-10	34	23	130-135	115-120
David Havelock Credit Risk Group Director	130-135	130-135	10-15	10-15	37	36	170-175	180-185
Lucy Wylde General Counsel	160-165	155-160	10-15	0	0	0	175-180	155-160

Note

- 'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the department and thus recorded in these accounts.
- Bonuses are based on performance levels attained and are made as part of the appraisal process. Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which the performance has been assessed. Therefore, the bonuses reported in 2015-16 relate to performance in 2014-15 and the comparative bonuses reported for 2014-15 relate to the performance in 2013-14.
- None of the most senior managers received any benefits-in-kind during the year.

35 The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Pay multiples

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

	2015-16	2014-15
Band of highest-paid director's remuneration[36] (£000)	250-255	245-250
Median total[37] (£)	38,923	40,000
Remuneration ratio[38]	6.5	6.2

The banded remuneration of the highest-paid director in UKEF in the financial year 2015-16 was £250,000-£255,000 (2014-15: £245,000-£250,000). In 2015-16 this was 6.5 times (2014-15: 6.2) the median remuneration of the workforce, which was £38,923 (2014-15: £40,000).

The *Hutton Review of Fair Pay* recommended a maximum remuneration ratio of 20 for public bodies. The average ratio across the FTSE 100 has been calculated to be 150.[39]

In both 2015-16 and the previous year, 0 employees received remuneration in excess of the highest-paid director. Remuneration ranged from £20,020 to £250,000 (2014-15: £19,225-£250,000).

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

The ratio is calculated by taking the midpoint of the total remuneration of the highest-paid executive director divided by the midpoint of the remuneration (median) of the organisation's workforce. This is based on the remuneration of the highest-paid executive director and remuneration of the full-time equivalent staff of other staff at the reporting period end date on an annualised basis. The purpose of this calculation is to allow some comparability over time and across the public and private sector, where similar disclosures are made. However, the comparison should be treated with caution given the different services provided, workforce skills, geographical locations and organisational structures.

There is a small increase in the ratio from last year. This is explained by the increase in salary of the Chief Executive role, and a lower median total compared with last year due to a number of new staff this year taken on at, or near, the bottom of their grade's pay scale.

Pension benefits

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. Civil servants may be in 1 of 5 defined benefit schemes: either a final salary scheme (classic, premium or classic plus); or a whole-career scheme (nuvos, or alpha which was introduced on 1 April 2015). The normal pension age for staff in alpha is equal to the member's state pension age. Since 1 April 2015, newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has 4 sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole-career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and

36 The banded, full-time equivalent, annualised remuneration of the highest-paid director as at 31 March 2016.

37 The median, full-time equivalent total remuneration of the staff, excluding the highest-paid director, as at 31 March 2016.

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

39 David Oakley, 'Average FTSE 100 boss paid 150 times more than the average worker.' Financial Times, 12 June 2015.

13 years and 5 months from their normal pension age on 1 April 2012 will switch to alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits ‘banked’, with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in the PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the 2 schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a ‘money purchase’ stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 3 per cent and 8.05 per cent of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6 per cent and 8.05 per cent for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to 3 years’ initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos and alpha a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member’s earned pension account is credited with 2.3 per cent (nuvos) or 2.32 per cent(alpha) of their pensionable earnings in that scheme year, and the accrued pension is uprated in line with pensions increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

	Accrued pension at pension age as at 31/3/16 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/16	CETV at 31/3/15	Real increase in CETV	Employer contribution to partnership pension account
Officials	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
David Godfrey Chief Executive Apr-Oct	0	0	0	0	0	0
Louis Taylor Chief Executive Oct-March	0-5	2.5-5	29	0	20	0
Steve Dodgson Business Group Director	55-60 plus lump sum of 170-175	0-2.5 plus lump sum of 5-7.5	1,332	1,206	43	0
Cameron Fox Chief Financial Officer	0-5	0-2.5	19 (PCSPS); 18 (alpha)	17	11 (alpha)	0
David Havelock Credit Risk Group Director	20-25	0-2.5	367	343	31	0
Lucy Wylde General Counsel	0	0	0	0	0	0

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8 per cent and 14.75 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary up to 30 September 2015 and 0.5 per cent of pensionable salary from 1 October 2015, to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).

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

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

Cash equivalent transfer values

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

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

Real increase in CETV

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

Staff pension costs

The PCSPS is an unfunded, multi-employer defined benefit scheme, and UKEF is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. The civil superannuation accounts are published by the Cabinet Office on ***www.gov.uk***.

For 2015-16, employers' contributions of £2,238,114 were payable to the PCSPS (2014-15: £1,979,304) at 1 of 4 rates in the range 20.0 per cent to 24.5 per cent of pensionable pay, based on salary bands. The Scheme Actuary usually reviews employer contributions every 4 years, following a full-scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £61,993 (2014-15: £47,407) were paid to one or more of the panel of 3 appointed stakeholder pension providers. Employer contributions are age related and range from 3 per cent to 12.5 per cent of pensionable pay (adjusted to between 8 per cent and 14.75 per cent from October 2015). The employer also matches employees' contributions of up to 3 per cent of pensionable pay. In addition, employer contributions of £2,318 (2014-15: £3,248), 0.8 per cent of pensionable pay (adjusted to 0.5 per cent from October 2015), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill-health retirement of these employees.

At 31 March 2016 there were no contributions due to the partnership pension providers (31 March 2015: also nil).

Compensation for loss of office

Eight members of staff left under voluntary exit terms during 2015-16. They received a compensation payment of between £12,000 and £93,000. No member of staff left under voluntary redundancy or compulsory early retirement terms.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme unless otherwise specified below. The Civil Service Compensation Scheme is a statutory scheme under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme.

Ill-health retirement costs are met by the pension scheme and are not included in the table below. During the year, no individual (2014-15: one individual) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil for 2015-16 (2014-15: £7,151).

	2015-16			2014-15		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	-	-	-	-	1	1
£10,000-£25,000	-	2	2	-	1	1
£25,000-£50,000	-	4	4	-	-	-
£50,000-£100,000	-	2	2	-	-	-
£100,000-£150,000	-	-	-	-	-	-
£150,000-£200,000	-	-	-	-	-	-
Total number of exit packages	-	8	8	-	2	2
Total cost (£000)	-	348	348	-	19	19

Fees paid to non-executive directors

Non-executive directors are paid a fee for their attendance at UKEF Board, Audit and Risk Committee, Remuneration Committee and other ad-hoc meetings, and, from time to time, to perform other duties. They are also paid travel and subsistence expenses.

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

Non-executive director	Fees for 2015-16 £000	Fees for 2014-15 £000
Guy Beringer CBE Chair of UKEF Board	45-50	45-50
David Harrison Member of Audit and Risk Committee; left June 2015	0-5	0-5
Amin Mawji OBE Member of UKEF Board Chair of Audit and Risk Committee	15-20	15-20
Sir Eric Peacock Member of UKEF Board Member of Audit and Risk Committee	10-15	10-15

As civil servants employed by other departments, Jane Owen and Justin Manson do not receive fees for their attendance at UKEF Board meetings.

Off-payroll engagements

Following the review of tax arrangements of public sector appointees published by the Chief Secretary to the Treasury in 2012, departments now publish annual information on their highly paid and/or senior off-payroll engagements. The tables below provide information on those off-payroll engagements paid more than £220 per day during 2015-16.

Off payroll engagements as at 31 March 2016, for more than £220 per day and that last for longer than 6 months

Number of existing engagements at 31 March 2016	13
of which	
less than 1 year	11
between 1 and 2 years	1
between 2 and 3 years	1
between 3 and 4 years	0
4 years or more at the time of reporting	0

Tax assurance for new off-payroll engagements

Number of new engagements, plus those that reached 6 months' duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than 6 months	16[40]
Number of these engagements that include, or included, contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	16
Number for whom assurance has been requested	10[41]
of which	
assurance has been received	8
assurance has not been received	2
have been terminated as a result of assurance not being received	2[42]

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

Number of off-payroll engagements of board members, and/or senior officials, with significant financial responsibility during the year	0
Number of individuals that have been 'deemed' board members and or senior officials with significant financial responsibility during the year	10

Cost of off-payroll engagements

The total cost for 2015-16, including engagements of individuals whose daily cost was less than £220 per day, was £2.5 million (in 2014-15 the cost was £3.4 million).

Expenditure on consultancy

Total expenditure on Consultancy in 2015-16 amounted to £164,574 (2014-15: £165,791).

Louis Taylor
Chief Executive and Accounting Officer
30 June 2016

40 This includes 5 members of staff who stopped working for UKEF during 2015-16 plus the 11 (included in the previous table) who had been in the role for less than a year. The other 2 engagements featured in the previous table – those who had been in post for more than a year – had already provided the necessary assurance before 31 March 2015.

41 Six of the 16 new assignments are recent (less than 6 months as at 31 March 2016). For this reason, they have not been asked to complete an assurance assessment, but they have been made aware of their requirement to do so at the 6-month point. All off-payroll engagements are subject to the risk-based assessment as to whether assurance needs to be sought that the correct amount of tax is being paid.

42 The 2 contracts terminated were those 2 listed immediately above, where assurances were not received.

Parliamentary accountability

Statement of Accounting Officer's responsibilities

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

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

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

HM Treasury has appointed the Chief Executive as the Accounting Officer of UKEF.

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

Statement of Parliamentary Supply

For the year ended 31 March 2016

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

Summary of Resource and Capital Outturn 2015-16

								2015-16	2014-15
			Estimate			Outturn		Voted outturn compared with Estimate: savings/ (excess)	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Departmental Expenditure Limit									
- Resource	SOPS1(a)	1	-	1	-	-	-	1	19,885
- Capital	SOPS1(b)	300	-	300	-	-	-	300	580
Annually Managed Expenditure									
- Resource	SOPS1(a)	32,515	-	32,515	(106,341)	-	(106,341)	138,856	(149,337)
- Capital	SOPS1(b)	403,290	-	403,290	33,874	-	33,874	369,416	(22,509)
Total Budget		**436,106**	**-**	**436,106**	**(72,467)**	**-**	**(72,467)**	**508,573**	**(151,381)**
Total Resource		32,516	-	32,516	(106,341)	-	(106,341)	138,857	(129,452)
Total Capital		403,590	-	403,590	33,874	-	33,874	369,716	(21,929)
Total		**436,106**	**-**	**436,106**	**(72,467)**	**-**	**(72,467)**	**508,573**	**(151,381)**

Net cash requirement 2015-16

		2015-16		2015-16	2014-15
	Note	Estimate	Outturn	Outturn compared with Estimate: savings/ (excess)	Outturn
		£'000	£'000	£'000	£'000
Total	**SOPS2**	**186,172**	**(164,840)**	**351,012**	**(258,784)**

Administration Costs 2015-16

	2015-16	2015-16	2014-15
	Estimate	Outturn	Outturn
	£'000	£'000	£'000
Total	**1**	**-**	**19,885**

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

Explanations of variances between the Estimate and the Outturn are given in the Management Commentary in the Annual Report (Financial performance section) and within SoPS Note 1.

The notes on pages 143 to 144 form part of the Statement of Parliamentary Supply.

SOPS1 Analysis of net outturn by section

SOPS1(a) Resource

									2015-16		2014-15
							Outturn	Estimate	Outturn	Outturn	Outturn
	Administration					Programme	Total	Total	compared with Estimate: savings/ (excess)	compared with Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net	Net	Net			Net
Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)											
A Export Credit Guarantees and Investments	30,779	(30,779)	-	-	-	-	-	1	1	1	19,885
Total	**30,779**	**(30,779)**	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**1**	**19,885**
Voted spending in Annually Managed Expenditure (AME)											
B Export Credits	-	-	-	(390)	(95,934)	(96,324)	(96,324)	32,990	129,314	129,314	(141,655)
C Fixed Rate Export Finance Assistance	-	-	-	4,833	(6,756)	(1,923)	(1,923)	4,645	6,568	6,054	(1,851)
D Refinanced Loans and interest equalisation	-	-	-	-	(4,318)	(4,318)	(4,318)	(4,832)	(514)	-	(5,694)
E Direct Lending	-	-	-	-	(3,776)	(3,776)	(3,776)	(288)	3,488	3,488	(137)
Total	**-**	**-**	**-**	**4,443**	**(110,784)**	**(106,341)**	**(106,341)**	**32,515**	**138,856**	**138,856**	**(149,337)**
Total Resource	**30,779**	**(30,779)**	**-**	**4,443**	**(110,784)**	**(106,341)**	**(106,341)**	**32,516**	**138,857**	**138,857**	**(129,452)**

Explanation of variances between estimate and outturn:

A Voted spending RDEL - For 2015-16 UKEF operated (with HM Treasury approval) a zero net RDEL regime for administration costs whereby a proportion of UKEF's trading income is treated as negative RDEL to fund administration costs. As part of the Spending Review 2015 SR(15) UKEF has a maximum amount of income (agreed per year over the 4 years) which can be used to fully offset expenditure. Also annually (as part of the Supply Estimates process) HM Treasury then approve the maximum amount of UKEF's trading income that can be treated as negative RDEL based on its expected level of activity and affordability. This arrangement is in place as it reflects the fact that UKEF prices premium written to cover (not only risk) but cover administration costs. A net RDEL outturn of zero shows UKEF is covering its administration costs from the premium that was written. Prior to 2015-16 UKEF operated a premium offset arrangement whereby only part of UKEF's administration costs were offset with trading income however this was changed as a full offset is more transparent and better reflects how UKEF operates. The prior year comparatives are on a partial offset basis.

B Export Credits £129 million – the variance largely relates to a change in economic outlook with regard to the recoverability of insurance assets as well as foreign exchange movements.

C Fixed Rate Export Finance Assistance £7 million – this relates to changes in fair value of financial instruments.

SOPS1(b) Capital						
					2015-16	2014-15
			Outturn	Estimate		Outturn
	Gross £'000	Income £'000	Net £'000	Net £'000	Net total compared with Estimate £'000	Net £'000
Voted spending in Departmental Expenditure Limit (DEL)						
A Export Credit Guarantees and Investments	-	-	-	300	300	580
Total	**-**	**-**	**-**	**300**	**300**	**580**
Voted spending in Annually Managed Expenditure (AME)						
D Refinanced loans and interest equalisation	-	(24,322)	(24,322)	(16,710)	7,612	(29,173)
E Direct Lending	58,196	-	58,196	420,000	361,804	6,664
Total	**58,196**	**(24,322)**	**33,874**	**403,290**	**369,416**	**(22,509)**
Total Capital	**58,196**	**(24,322)**	**33,874**	**403,590**	**369,716**	**(21,929)**

Explanation of variances between estimate and outturn:

D Loans and interest equalisation - £8 million this reflects timing differences with regards to settlement.

E Direct Lending - £362 million due to the fact the Direct Lending facility had a lower take-up than provided for in the Estimate.

SOPS2 Reconciliation of Net Resource Outturn to Net Cash Requirement

SOPS2	SOPS Note	2015-16 Estimate £'000	2015-16 Outturn £'000	2015-16 Variance £'000
Resource Outturn	SOPS1(a)	32,516	(106,341)	138,857
Capital Outturn	SOPS1(b)	403,590	33,874	369,716
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation & amortisation of Equipment and Intangible Assets		(733)	(466)	(267)
Net foreign exchange differences & other non cash items		(38,122)	15,934	(54,056)
New provisions and adjustments to previous provisions		(111,643)	6,142	(117,785)
Adjustments to reflect movements in working balances:				
Increase/(Decrease) in receivables		20,000	(127,223)	147,223
(Increase)/Decrease in payables		(119,905)	12,850	(132,755)
Use of provisions		469	390	79
Net cash requirement		**186,172**	**(164,840)**	**351,012**

Certificate and report of the Comptroller and Auditor General

I certify that I have audited the financial statements of the Export Credits Guarantee Department (trading as UK Export Finance) for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2016 and of the Department's net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter – Significant Uncertainty

Without qualifying my opinion, I draw your attention to the disclosures made in Note 1 to the financial statements concerning the considerable uncertainty attached to the final outcome of the underwriting activities. As explained in the section of Note 1 headed "Significant uncertainty arising from the nature of UKEF"s Underwriting Activity (Accounts 1 – 3)", the long-term nature of the risk underwritten means that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts in future years.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
6 July 2016

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

Statutory limits

The Export and Investment Guarantees Act 1991 sets limits on our commitments and requires us to report our commitments against these limits annually. The table shows the statutory limits at 31 March 2016 and 31 March 2015 and the outstanding commitments against them.[43]

	At 31 Mar 2016				At 31 Mar 2015			
	Sterling £m	Foreign currency SDRm	Sterling equivalent SDRm	Total SDRm	Sterling £m	Foreign currency SDRm	Sterling equivalent £m	Sterling total £m
Section 6(1) amounts								
Statutory limit	See note 43			67,700	35,000	30,000	27,923	62,962
Assets (see note below)	-	-	-	-	-	-	-	-
Total commitments	738	19,756	755	20,511	2,334	19,476	18,153	20,487
Section 6(3) amounts								
Statutory limit	-	26,200	-	26,200	15,000	10,000	9,320	24,321
Assets (see note below)	-	-	-	-	-	-	-	-
Total commitments	1	4	1	5	2	7	6	8

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

	At 31 Mar 2016				At 31 Mar 2015			
	Sterling £m	Foreign currency SDRm	Sterling equivalent SDRm	Total SDRm	Sterling £m	Foreign currency SDRm	Sterling equivalent £m	Sterling total £m
Section 6(1) amounts								
Assets	1	6	1	7	2	10	9	11
Section 6(3) amounts								
Assets	51	-	50	50	75	-	-	75

43 On 5 May 2015 our statutory limits were consolidated into a single limit, using special drawing rights (SDR), as part of the measures enacted by the Small Business, Enterprise and Employment Act 2015.

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 £'000	2014-15 £'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 & receiveables 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 equivalent to £1
Currency	**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
Accomodation		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 £'000	31 March 2015 £'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 £'000	31 March 2015 £'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 £'000	**Account 5 £'000**	**Total £'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**
Net recoverable claims as at:			
- 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 £'000	Account 2 £'000	Total £'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**

Cash and cash equivalents comprise:	31 March 2016 £'000	31 March 2015 £'000
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
Ulitisation	(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	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:

Gross of reinsurance	Account 1 £'000	Account 2 £'000	Account 3 £'000	Total £'000
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**

Net of reinsurance	Account 1 £'000	Account 2 £'000	Account 3 £'000	Total £'000
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.

Annexes

Business supported

Export credits: civil business supported

Exporter/investor	Buyer/airline/ operating lessor	Project/goods and services	Product	Maximum liability (£)
Brazil				
IHC Engineering Business Ltd	Sapura Jade GmbH	Pipe-laying vessels	Buyer credit	54,938,392
IHC Engineering Business Ltd	Sapura Onix GmbH	Pipe-laying vessels	Buyer credit	54,841,336
Multiple exporters	Petrobras	Oil and gas exploration	Buyer credit	245,458,280
Multiple exporters	Beta Lula Central SARL	Floating production storage and offloading unit	Buyer credit	56,648,803
Canada				
Primetals Technologies Ltd	Evraz Inc.	Steel mill equipment	Direct lending	53,479,875
Dubai				
Carillion Construction Ltd	Dubai World Trade Centre LLC	Property construction	Buyer credit/direct lending	159,563,810
Kier Infrastructure & Overseas Ltd	Blue Waters Residential LLC	Residential apartments	Buyer credit/direct lending	271,947,980
India				
Multiple exporters	Reliance Industries Ltd	Petrochemical plant	Buyer credit	146,065,733
Russia				
Midrex UK Ltd	JSC Lebedinsky GOK	Iron plant	Buyer credit	82,893,842
St Vincent and the Grenadines				
NSG Exports Ltd	International Airport Development Company Ltd	Ancillary goods for the St Vincent airport	Direct lending	12,548,296
Saudi Arabia				
Fluor Ltd	Sadara Chemical Company	Petrochemical complex	Buyer credit	14,433,945
Turkey				
Multiple exporters	Kayali Enerji Uretim AS	Gas power plant	Direct lending	20,406,012
Details not disclosed for reasons of commercial confidentiality	Details not disclosed for reasons of commercial confidentiality	Glass bottling plant	Buyer credit	9,020,821

Export credits: aerospace business supported

Exporter/investor	Buyer/airline/ operating lessor	Project/goods and services	Product	Maximum liability (£)
Abu Dhabi				
Airbus SAS	Etihad	Airbus aircraft	Buyer credit	41,154,332
China				
Airbus SAS	Air China Ltd	Airbus aircraft	Buyer credit	10,708,570
Airbus SAS	China Southern Airlines	Airbus aircraft	Buyer credit	83,108,086
Hong Kong				
Airbus SAS	China Aircraft Leasing Group Holdings Ltd (CALC)	Airbus aircraft	Buyer credit	13,075,166
Korea, Republic of				
Airbus SAS	Asiana Airlines	Airbus aircraft	Buyer credit	54,371,362
Airbus SAS	Korean Air Lines Co. Ltd	Airbus aircraft	Buyer credit	25,938,476
Netherlands				
Airbus SAS	AerCap Holdings NA	Airbus aircraft	Buyer credit	40,719,288
Spain				
Airbus SAS	Vueling Airlines SA	Airbus aircraft	Buyer credit	9,292,964
Tunisia				
Airbus SAS	Tunisair	Airbus aircraft	Buyer credit	73,220,112
Turkey				
Airbus SAS	Turkish Airlines Inc.	Airbus aircraft	Buyer credit	112,478,052
Vietnam				
Airbus SAS	Vietnam Airlines Corp.	Airbus aircraft	Buyer credit	32,477,550

Trade finance and insurance: business supported by sector

Product type	Number of exporters[44]	SMEs	Number of destination countries[45]	Maximum Liability (£)[46]
Administrative and support service activities				
Bond support	7	5	10	12,636,613
Agriculture, forestry and fishing				
Export insurance	1	1	1	116,094
Construction				
Bond support	4	2	5	12,323,329
Export insurance	3	3	3	588,167
Export working capital	1	0	1	88,000
Education				
Bond support	2	1	1	2,024,088
Information and communication				
Bond support	1	1	3	837,953
Export working capital	1	1	1	40,000
Manufacturing				
Bond support	51	47	34	29,671,715
Export insurance	25	19	11	10,174,867
Export working capital	20	20	23	25,809,025
Mining and quarrying				
Export insurance	1	1	1	42,353
Export working capital	1	1	3	645,099
Other service activities				
Bond support	2	2	2	302,817
Export insurance	1	1	1	100,672
Public administration and defence				
Bond insurance	1	1	1	874,479
Professional, scientific and technical activities				
Bond support	12	12	15	7,637,844
Export insurance	2	2	2	73,436
Export working capital	2	2	2	2,000,000
Transportation and storage				
Bond support	1	1	1	1,321,708
Water supply; sewerage, waste management and remediation activities				
Bond support	2	2	2	990,494
Wholesale and retail trade				
Bond support	5	4	6	2,459,056
Export insurance	11	7	8	2,225,136
Export working capital	4	4	4	1,356,699

For a more detailed list of support provided under our trade finance products in 2015-16, visit our website at ***www.gov.uk/uk-export-finance***.

44 Some exporters used more than one product. The total number of unique exporters was 154.

45 Destination countries may have received goods from multiple sectors and/or may have received goods supported by more than one product type. Therefore these numbers do not tally with the overall count of unique destination countries, which was 67.

46 For our trade finance products, UKEF's maximum liability is often only a fraction of the final export contract value. The total value of the export contracts supported for 2015-16 was £818 million. We believe the export contract values are a better indicator of the impact of our support, while maximum liability is important as representing new exposure to credit risk.

Sustainability of our estate

We have reported annually on sustainable development activities on our estate since 2006, with the aim to operate the estate efficiently and to reduce the environmental impact of operations and their associated costs.

The government's commitments for achieving sustainable operations and procurement (the Greening Government Commitments) aim to significantly reduce its environmental impact by reducing emissions of greenhouse gases, reducing waste, reducing water usage and making procurement more sustainable. The 2015-16 reporting year is the first year of the 5-year performance reporting cycle to 2020. Compared with a 2009-10 baseline, by 2019-20, the government will:

- cut greenhouse gas emissions by 31 per cent from the whole estate and UK business transport[47]
- reduce the number of domestic business flights taken by 30 per cent
- reduce waste sent to landfill to less than 10 per cent of overall waste
- continue to reduce the amount of waste generated and increase the proportion of waste that is recycled
- reduce paper consumption by 50 per cent

Summary of performance

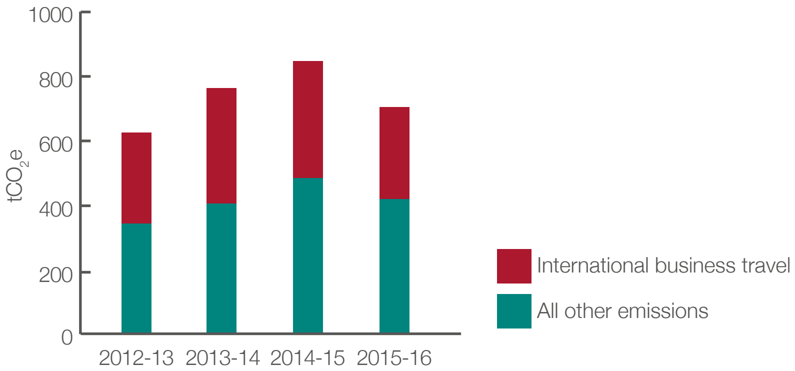
Area		2009-10 baseline	2015-16 performance	% change
Greenhouse gas emissions from UK estate and domestic travel	Tonnes of CO_2 equivalent (tCO_2e)	485.55	416.79	-15%
Estate waste	Amount (tonnes)	78.62	34.33	-57%
Estate waste	Consumption (m^3)	2,762	1,608.55	-42%

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

47 Bespoke targets apply to individual departments from 2016-17 onwards.

Emissions

Emissions - 4-year summary



		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (tCO_2e)	Total gross emissions (including international travel)	651.90	654.23	528.13	622.10	761.53	844.72	637.76
	Total gross emissions – in scope	485.55	422.70	343.98	341.21	402.91	481.06	367.49
	Scope 1 (direct)[48]	52.59	42.37	35.78	40.04	41.26	38.65	23.28
	Scope 2 (indirect)[48]	397.15	345.95	274.39	268.35	316.27	331.89	296.99
	Scope 3 (indirect):							
	– transmission and distribution losses[49]	31.45	27.86	23.45	21.20	23.36	25.04	N/A
	– domestic business travel[50]	4.36	6.52	10.36	11.62	22.02	85.48	76
	– international travel[50]	166.35	231.53	184.15	280.89	358.62	363.66	286
Related energy consumption (kWh)	Electricity: renewable	820,476	712,844	606,986	583,349	613,202	580,279	463,237
	Gas	285,080	229,027	194,892	216,211	224,209	212,888	48,876
	Whitehall district heating system	0	0	0	0	162,237	171,480	120,306
Financial indicators	Expenditure on energy (£)[51]	135,067	79,318	65,360	78,862	113,711	102,645	N/A
	CRC licence expenditure (2010 onwards) (£)	0	950	1,290	1,290	3,452	2,562	2,848
	Expenditure on GCOF II (£)	0	2,439	1,139	0	0	0	0
	Expenditure on official business travel (£)[52]	157,994	232,647	212,477	358,805	457,809	519,326	560,533

48 In previous years, scopes 1 and 2 had been combined during reporting. For 2015-16 and all previous years, including the baseline period, these are now reported separately. This is to reflect the restated carbon footprint for all years to account for material changes to the conversion factors provided by the Department for Environment, Food and Rural Affairs for reporting purposes.

49 Transmission and distribution electrical losses have also been split out and reported separately as scope 3 emissions. Data had previously been unavailable.

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

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

52 Business travel cost figures exclude travel not purchased through our travel contract.

Definition of terms

Scope 1 – direct greenhouse gas emissions, eg fugitive emissions from air conditioning units, gas consumption

Scope 2 – indirect energy emissions, eg electricity consumed supplied by another party, heat supplied through the Whitehall district heating system

Scope 3 – other indirect emissions, eg emissions relating to official business travel directly paid for (ie not business travel re-charged by contractors) and transition and distribution losses. Government minimum reporting requirements do not include international air or rail travel, but these have been included in UKEF's greenhouse gas figures.

Performance commentary (including measures)

New targets set for government departments are to reduce greenhouse gas emissions from their estate and UK business-related transport by 31 per cent by the end of the 5-year reporting period at 2020 against a 2009-10 baseline.

Estate

Our closure of an archive site in Lambourne Crescent, Cardiff in September 2015 has seen a reduction in greenhouse gas emissions. It has also seen a reduction in waste generated by 57 per cent and a reduction in water consumption by 42 per cent.

Domestic travel

The government's strategy for trade and investment has placed increased emphasis on the role of exports, in which we play a key role. One of our approaches to help achieve the ambitious targets set by government has been to appoint 24 regional export finance advisers (EFAs) to work closely with UK exporters, banks and local trade bodies to raise awareness of UKEF. This has led to a significant increase in domestic air and rail travel.

Due to the introduction of the regional EFAs, we are not likely to reach the target of a 30 per cent reduction in domestic flights. Flights have increased, albeit from a very low baseline.

Baseline (2009-10)	2015-16	% change
27	77	185% increase

Overseas travel

Another objective of the government's strategy is to raise awareness of our products and services overseas, which involves a significant degree of international air travel.

Controllable impacts commentary

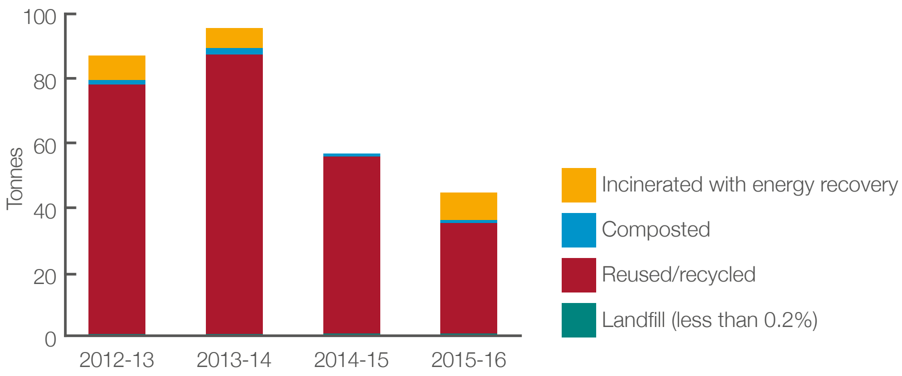
We are a minor occupier in 1 Horse Guards Road, occupying 8.07 per cent of the total net internal area. The building is managed as a private finance initiative, and a number of strategies have been introduced over the years to reduce emissions.

Overview of influenced impacts

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

Waste

Waste disposal - 4-year summary



			2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
			78.62	70.55	82.49	86.25	94.73	56.00	34.33
Non-financial indicators (tonnes)	Total waste		78.62	70.55	82.49	86.25	94.73	56.00	34.33
	Hazardous waste	Total	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Non-hazardous waste	Landfill	0.1	0.1	0.1	0.1	0.1	0.2	0
		recycled	65.23	60.41	73.33	77.15	86.56[53]	54.87	12.24
		Composted	1.06	1.08	1.01	1.40	1.94	0.93	0.81
		Incinerated with energy recovery	12.23	8.96	8.05	7.6	6.22[53]	0	8.59
Financial indicators	Total disposal cost (£)[54]		22,130	19,790	21,928	21,620	47,527	Not known	Not known

Performance commentary (including measures)
We have seen a reduction in waste generated by 57 per cent against the 2009-10 baseline, primarily due to the closure of our Cardiff site and our relocation to 1 Horse Guards Road, which has a reduced footprint and better recycling facilities.

Controllable impacts commentary
Recycling points are located strategically on the office floor. All IT waste is either recycled or reused through our contract with the Disposal Services Agency.

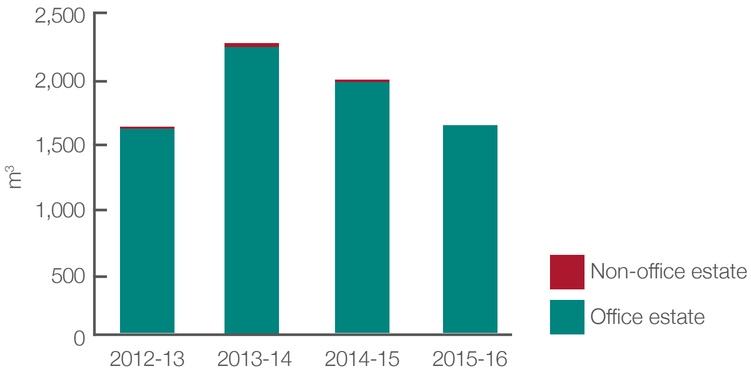
Overview of influenced impacts
We have implemented a new electronic case management system and have closed our archive and repository, which should see a reduction in paper consumption.

53 The 2013-14 figure has been revised due to clarification from HM Treasury that waste is not sent for energy recovery but is fully recycled. As a result, 7.45 tonnes of waste has been reclassified as recycled for this period.

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

Water consumption

Water consumption - 4-year summary



			2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (tonnes)	Water consumption (office estate)	Supplied	2,488	1,901	1,654	1,582	2,218	1,943	1,608.55
		Abstract	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Water consumption (non-office estate)	Supplied	273.98	231.63	201.12	18.43	31.60	23.89	N/A
		Abstract	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Financial indicators	Water supply costs (office estate) (£)[55]		2,848	5,155	3,041	3,228	4,195	4,770	3,949
	Water supply costs (non-office estate) (£)[55]		824	697	710	156	197	184	N/A

Performance commentary (including measures)
The Greening Government Commitments target is to reduce water consumption from a 2009-10 baseline, measured against best practice benchmarks:

- ≥6 m^3 water consumption per full-time equivalent (FTE): poor practice
- 4m^3 to 6m^3 per FTE: good practice
- ≤4m^3 per FTE: best practice

We do not meet the good practice benchmark; our consumption is >6m^3 per FTE. However, over the reporting period, we have reduced water consumption by 36 per cent against the baseline. This is primarily due to the closure of the Cardiff site.

Controllable impacts commentary
Our water consumption is not measured separately from that of other tenants at 1 Horse Guards Road, and we report water consumption as a proportion of the consumption in the whole building.

Overview of influenced impacts
We will liaise with the building landlord to consider options to improve water consumption.

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

Sustainable procurement

We use existing framework agreements that have been centrally procured through Crown Commercial Services. Additionally, our key facilities management suppliers have sustainable objectives and environmental policies in place committing to sustainable development.

Biodiversity and natural environment

Our London office has no access to or control over external land. Therefore we do not have a biodiversity plan.

Climate change adaptation

Given our small size, we do not have an adaptation plan.

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