UK Export Finance

UK Export Finance Annual Report and Accounts 2017-18

UK Export
Finance

Export Credits Guarantee Department (UK Export Finance) Annual Report and Accounts 2017-18

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of the Export and Investment Guarantees Act 1991.

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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, working as an integral part of the strategy and operations of the Department for International Trade.

UKEF is the operating name of the Export Credits Guarantee Department (the department).

Our mission

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

We help UK companies:

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

How we do it

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

Our work means that:

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

We seek to complement, not compete with, the private sector and work with around 90 private credit insurers and lenders. We help to make exports happen which might otherwise not, helping UK exporters and their supply chains grow their business overseas. In this way, we provide security of support through economic cycles and market disruptions.

Ministers' foreword

We are pleased to present the UK Export Finance (UKEF) Annual Report and Accounts for 2017–18.

This is a hugely exciting time for UK trade. Our priority in government, at home and abroad, is to identify international opportunities for UK businesses, and to make sure that we are doing all we can to support them as they look to realise these opportunities. UKEF is at the heart of our strategy to achieve this.

HM Government's ambition for the UK's export credit agency is set out in UKEF's Business Plan for 2017–20. This was the first year of the plan, and has in many ways been a landmark one for the department.

Underlining the scale of our ambition, we have increased — in many cases doubled — our market limit for some 100 countries over the year, and expanded the range of pre-approved local currencies in which we can provide support to a world-leading 62.

This year, we saw the first transaction under this expanded offering, supporting in Mexican pesos the export of 90 iconic red double-decker buses, manufactured by Alexander Dennis, for Mexico City's Paseo de la Reforma route. And this is not the only pioneering contract we have financed. Critical power projects in Iraq, aircraft to South Korea, and entertainment venues in the UAE are just a few of the global opportunities British companies are realising with our help.

As a result of a series of major enhancements to UKEF's products, smaller exporters, as well as their suppliers, can now access UKEF guarantees directly from their banks, while UK investors looking to establish operations abroad can benefit from a refreshed overseas investment insurance product. And UKEF has continued to build its digital capability, with a range of new internal and customer–facing tools.

Following the creation of the Department for International Trade in 2016, UKEF is now fully aligned with its strategy and operations, allowing us to provide more co–ordinated support to exporters.

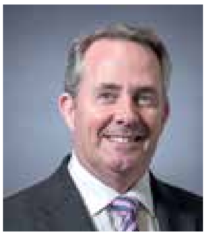
Looking forward, UKEF will play a central part in the government's Export Strategy, to be published this year. We will continue to put UKEF at the centre of a single UK offer for international projects, and will build on UKEF's successful programme of supplier fairs to ensure UK companies win this business. This pioneering approach is already bringing hundreds of millions of pounds of incremental revenue to UK suppliers, and has the ability to do even more.

It is a notable coincidence that, as the UK takes up its independent position on the world stage in 2019, UKEF, the world's first export credit agency, will mark its 100th anniversary. As we celebrate these historic moments, we look forward to continuing to ensure that UKEF is at the heart of trade promotion, building on this proud heritage to help realise the government's vision of a Global Britain.

Rt Hon. Dr Liam Fox MP
Secretary of State for International Trade
and President of the Board of Trade

Baroness Fairhead
Minister of State for Trade and Export Promotion

12 June 2018



Rt Hon.
Dr Liam Fox MP
Secretary of State for International Trade and President of the Board of Trade

Baroness Fairhead
Minister of State for Trade and Export Promotion

Chair's report

This report covers my first full year as Chair of the Board of UK Export Finance (UKEF), having joined mid-way through 2016-17. It is a great privilege to be leading UKEF at a time when the opportunity for world-class UK goods and services exports, and therefore the need for world-class trade support to match, has never been greater. As Chair, my role is to lead the Board in providing guidance on strategy, on safeguarding our reputation and supporting the Chief Executive and his team.

Noël Harwerth
Chair

I would like to thank my fellow non-executive Board members for their diligence and commitment this year. We are very fortunate to have such a wealth of expertise on the UKEF Board, with senior executive and non-executive experience across the public and private sectors. And I would like to thank Louis Taylor and all UKEF's staff for their continued hard work this year – this report really is a testament to their success.

In particular, I would like to take the opportunity to thank Eric Peacock CMG, our long-serving non-executive who finished his term in December 2017. On behalf of the Board, I thank him for the dedication, energy and wise counsel he has brought to his role over the years he served. I am very happy to welcome Shalini Khemka to the Board as Eric's successor.

This was the first year of our Business Plan for 2017-20, and I was thrilled that UKEF was awarded the title of 'Best export credit agency' for 2017 by leading trade journals, Global Trade Review and Euromoney's Trade Finance. These accolades recognise a year of innovation and excellence from UKEF, which has seen us establish our 'leading with finance' approach – bringing major international businesses to the UK and connecting these with the UK supply chain through our supplier fairs – as well as improving access to trade finance support for smaller companies through our partnership with banks and trade associations. To make our vision for 2020 a reality, we have also strengthened our senior leadership team and invested in our systems and processes to improve our operations.

We will not stop here. We have an ambitious and exciting programme for 2018-19. Working with colleagues across the Department for International Trade, we will continue to improve our offering to our customers, and strive to fulfil our mission to ensure that no viable UK export fails for lack of finance or insurance.

Noël Harwerth
Chair
12 June 2018

Performance

Chief Executive's report

Louis Taylor
Chief Executive Officer

The government's vision for a Global Britain requires us to be an export credit agency with global reach and ambitions; our Business Plan for 2017-20, published in July after the 2017 General Election, sets out our strategy to achieve this.

We started the year by announcing support for landmark projects in UAE and Mexico. We ended the year having increased the number of local currencies we can support to 62, from the Panamanian balboa to the Polish zloty.

In between we welcomed new customers for our aerospace business, supporting the UK supply chains for Boeing, GE Aviation, Rolls Royce, Airbus and Bombardier. We grew our partnership with high street banks by introducing streamlined new processes for smaller transactions. We continued to support historically high numbers of companies, including the first ever use of a UKEF product to support companies in export supply chains.

We continued in our commitment to helping the Government of Iraq with post-conflict infrastructure development, supporting the construction and upgrade of several gas-fired power plants with turbines from the UK that will help to alleviate severe energy shortages across the country. We continued to support UK-led construction projects in Dubai, and in Uganda our support will see a Uganda/UK consortium construct the country's second international airport at Kabaale.

Although in headline terms our business issued is lower than last year's at £2.5 billion, our commitments[1] - which reflect activity in the year - are high, at £3 billion, and our pipeline for the year ahead has never been stronger. The number of individual facilities issued remains steady, and in addition to the 191 companies (slightly down from last year) we supported directly or helped to find finance from the private sector, we have connected nearly 400 companies with export opportunities. The number of UK companies we are actively engaged with has also increased, following the Chancellor of the Exchequer's announcement in the Autumn Budget of a specific allocation from the GREAT campaign funding to enhance marketing of UKEF services.

As the UK negotiates its departure from the European Union, we are putting in place measures to support UK exporters through Brexit and beyond, as well as helping them to make the most of new trading relationships. Following the Autumn Statement in 2016, we have this year significantly increased our capacity for over 100 markets, as well as implementing our increased risk appetite limit. Other measures are available should a further increase in capacity be needed. Leaving the EU will not affect the credit-worthiness of our overseas customers, nor the liquidity of the private market, so will not have a fundamental impact on the way we manage our business.

Behind the scenes we continued to invest in our people, systems and processes to become a more scalable organisation, able to support higher volumes of business as required by market conditions and demand and leveraging our position as part of a "One-Department for International Trade" offering to UK business. We have also supported the development of HM Government's Export Strategy, due to be published soon, which will have UKEF at its heart.

We welcomed Shalini Khemka to the UKEF Board, and John Morrison and Roseline Wanjiru to the Export Guarantees Advisory Council. The full composition of our Board is shown on page 74 and membership of the Council is on page 70. The year also saw the retirement of David Havelock CBE; I would like to thank David for his nearly 13 years leading our Credit Risk Group. His expert and judicious approach is evidenced by a period of historically low unrecovered losses, as reported within this report and annual reports past.

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

UKEF's role in the government's Export Strategy

Since supporting our first export in 1919, we have provided finance to trading partners on a simple condition: that they buy proportionately from the UK. Today UKEF remains a valuable source of export finance for international buyers developing infrastructure or making other large investments. This is why we have nearly £30 billion of finance available to support international procurement from the UK, to add to the £23 billion we have already committed.

But while the UK enjoys a reputation for quality and reliability, we realise international buyers don't always understand the depth and breadth of the potential UK supply chain. We also know many of the smaller companies in which they are interested can struggle for visibility in new markets.

The Export Strategy, due to be published later in the year, will set out the Department for International Trade's offer of trade support globally and across the UK, of which UKEF is at the heart. Together, we send a unified and powerful message to overseas buyers: we can help you access high-quality UK companies alongside an attractive finance package that allows you to buy British, pay local, in your own currency and on competitive terms.

Working with regional and event teams across the Department for International Trade and with private sector partners allows us to make this commitment. Whenever we make a finance offer to a buyer, we can offer a comprehensive menu of potential UK suppliers at the same time, not only large lead contractors but companies of all sizes, including hard-to-find specialist suppliers of niche products or services.

To date this commitment has already resulted in five supplier fair events, attended by over 600 UK companies, that are expected to add nearly £2 billion in UK contracts. As the delivery of the Export Strategy gathers pace, we expect the benefits to grow significantly.

Measuring our success

The volume of business that UKEF supports year-on-year is a measure of private sector liquidity and risk appetite, as much as of our activity and success. We complement, rather than compete with, the financial and insurance support provided from the private sector. If support is available from a commercial bank or insurer, we do not seek to displace this. In many cases, we will work with companies and financial service providers to find a solution from the commercial sector (which we report as a 'private market assist').

Our interventions:

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

Our support is provided on the following terms (see pages 48 to 51 for more detail):

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

We have reviewed our performance against the key deliverables set out in our 2017-20 business plan. These support our strategic aims:

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

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

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

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

Our achievements in 2017-18 against our Business Plan for 2017-20

Agile and adaptable

Digitised workflow capability to process requests for support more quickly and efficiently	**Implemented;** ongoing development
A "Team UK" approach: an expression of interest for each relevant High Value Campaign (HVC), so consortia of UK exporters can bid alongside a concrete offer of financing	**Partially implemented**
An enhanced approach to risk management following the doubling of risk appetite and market limits	**Implemented;** our risk management is detailed on pages 40 to 59

Competitive offering

Widened eligibility for our trade finance products	**Implemented;** ongoing development (see page 31)
A refreshed Overseas Investment Insurance product	**Implemented**
A wholesale product review to test UKEF's proposition against evolving customer needs	**Initiated and ongoing**

Customer service and awareness

New partnership with banks to improve access to selected trade finance products	**Implemented;** ongoing development
Digital service allowing banks and exporters to apply for short-term products online	**Implemented;** ongoing development
20 finance specialists based in key overseas markets	**Initiated and ongoing**
Exploitation of new digital capability to increase the volume and relevance of marketing activity	**Ongoing;** UKEF is now a core GREAT campaign partner

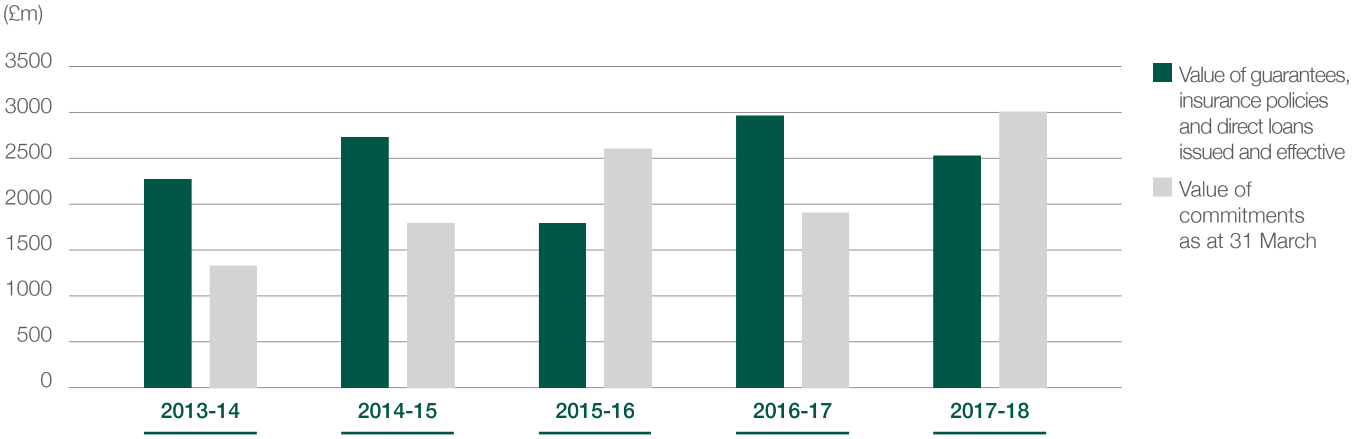
Great place to work

A more flexible approach to deployment of staff resources to match shifting patterns of demand and support effective staff development	**Ongoing;** our people management is detailed on pages 89 to 101

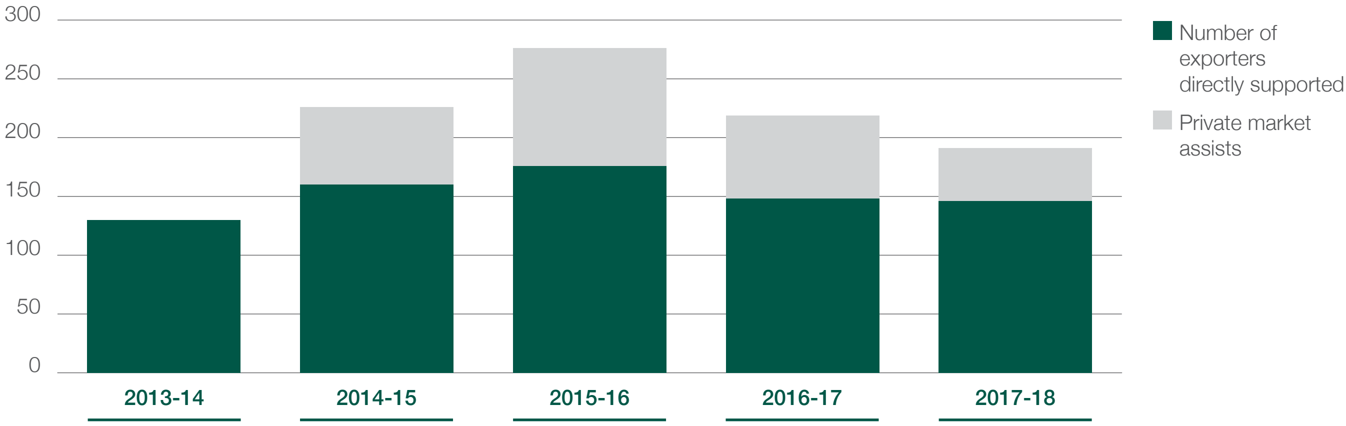
Businesses supported

We directly supported 191 companies in 2017-18. The maximum liability on all new business was £2.5 billion[2]. Our shorter-term trade finance products supported £466 million of export contracts won by UK businesses.

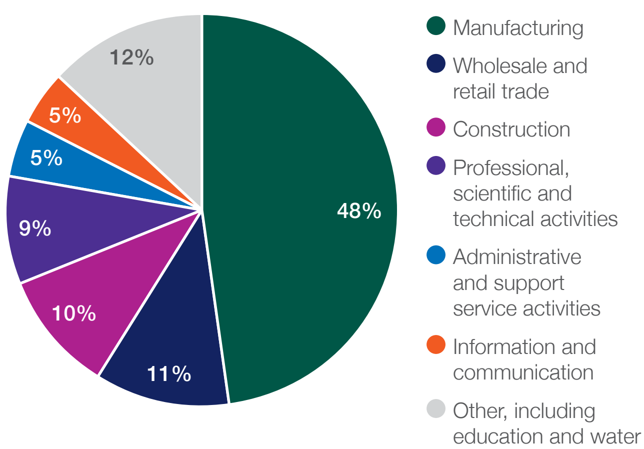
Value of business issued and committed



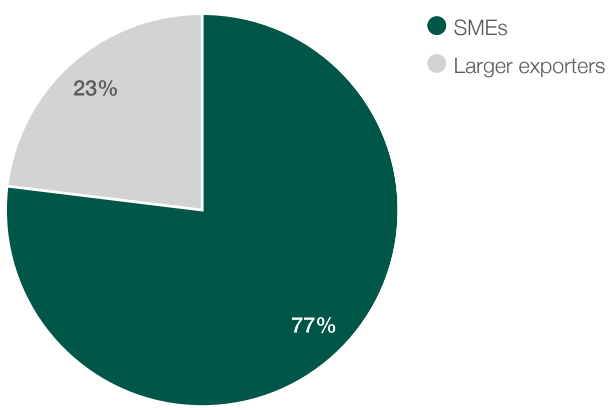
Number of UK companies directly supported



Sectors

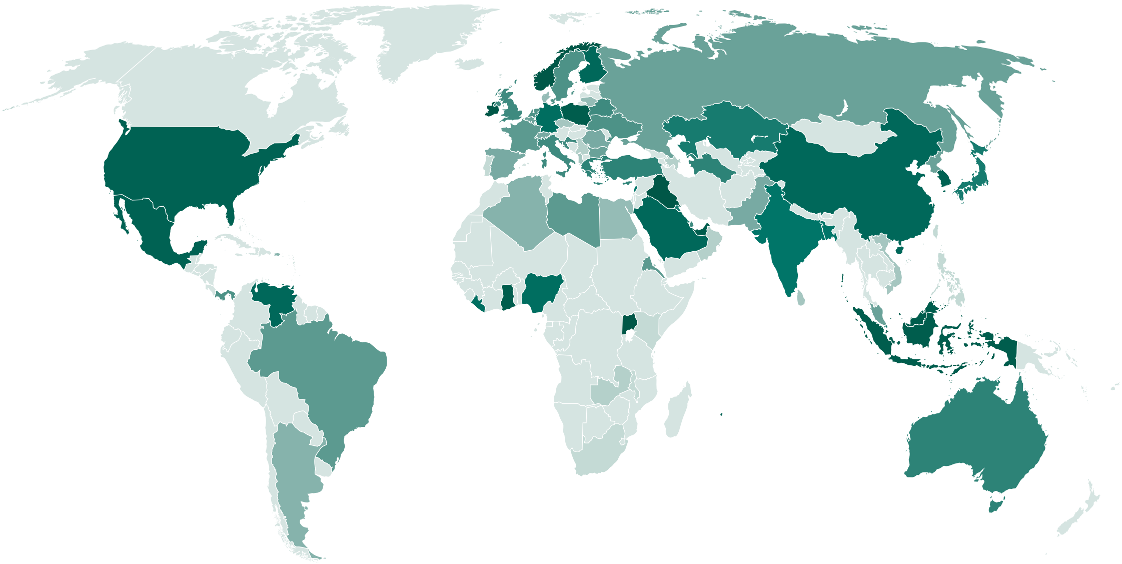


Company size



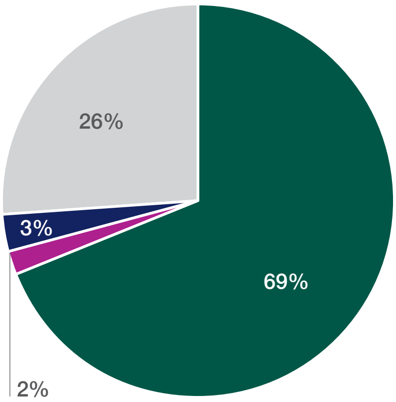
2 This figure shows issued and effective business. It does not include amounts counter-guaranteed or reinsured by another official export credit agency where UKEF was acting as lead ECA on a jointly supported transaction. It does include business supported where the private reinsurance market was subsequently used to offset risk for active portfolio management purposes. It includes £666 million in the form of direct loans and scheduled interest, which is accounted for on a different basis.

Destination for exports supported in 2017-18

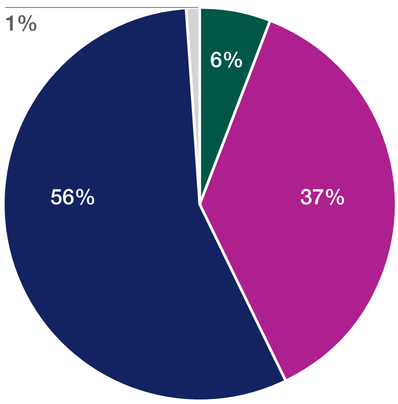


Darker shading indicates higher value of UKEF support

Product use by our maximum liability



Product use by number of facilities



- Buyer credit guarantee
- Insurance
- Bond or export working capital support
- Direct loan to buyer

"UK Export Finance is a part of the Department for International Trade of which I am extremely proud. There are few other countries where businesses are offered such a generous and accessible financial support for their exporting activities."
- The Rt Hon Liam Fox MP
Secretary of State for International Trade and President of the Board of Trade

"Our new bank partnership is designed with UKEF's smaller customers in mind. We've also made this available to companies that are not themselves exporting, but supplying to exporters, because we recognise the huge contributions of the UK domestic supply chain."
- Baroness Fairhead CBE
Minister of State for Trade and Export Promotion

Highlights in 2017-18

We were named **best export credit agency** for 2017 by Global Trade Review and Euromoney's Trade Finance

We became a Civil Service high performing department based on our staff engagement survey score, which was in the **top 20%** across government and agencies

We increased by up to **100%** our maximum cover limit for more than 100 individual markets – including **India, Malaysia, Mexico, South Africa** and the **United Arab Emirates**

We increased the number of pre-approved local currencies in which UKEF can offer support from **40 to 62**

We introduced a partnership with **5 high street banks** to allow them to provide UKEF support to SMEs without a separate application

We completed our **first ever facility** for a company that is not itself exporting, but is **supplying to an exporter**

We saw a further increase in our direct lending business, introduced in 2014, with **£666 million** of loans made to overseas buyers of UK exports, representing **51%** of total lending to date

We connected nearly **400 UK companies** with **7 multinational contractors** for specific infrastructure projects as they sought UK suppliers due to UKEF's financial involvement

MXN

We completed our **first** ever buyer credit guarantee for a loan in **Mexican pesos**

We supported the delivery of **Bombardier C Series aircraft** to Korean Airlines: the first C Series sale to an Asian airline, and the first UKEF-backed finance for Bombardier, supporting investment and jobs in Northern Ireland

We made our **largest ever** direct loan to an African government, supporting the construction of Kabaale Airport in Uganda

We supported more than **£466 million** of new UK export contracts with our trade finance and insurance products, meaning we have now helped make more than **£4.1 billion** of UK exports happen since these products were introduced in 2011

Finances

UKEF achieved a net operating income of £5 million for the year ended 31 March 2018 compared with £149 million for the year to 31 March 2017. The decrease was largely the result of a foreign exchange (FX) loss of £65 million for 2017-18 compared with a gain of £57 million in 2016-17. As UKEF is not authorised by HM Treasury to hedge foreign currency exposure, a more meaningful bottom line is an FX-adjusted net operating income figure. On an FX-adjusted basis the net operating income for 2017-18 was £70 million compared with £92 million for the year to 31 March 2017. The remainder of the decrease relates to claims credit, i.e. changes in provision rates on unrecovered claims.

We met all our financial objectives, which are set for us by HM Treasury. Page 23 sets out our results against our financial objectives and pages 60 to 64 provide a comprehensive report of our financial performance.

Supporting exports through the business cycle

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

In this regard our role is best assessed 'through the business cycle', as our business levels and claims rise and fall depending on the impact of market disruptions on UK trade. For example, claims payments and recoveries reported in a single year actually reflect business written over a longer stretch of time. Claims paid this year relate to business issued over a 15-year period, between 2001 and 2016. The 6 new claims that arose this year stem from business issued since 2012. Overall, this year, our performance in managing financial risk remains strong. But it is our management of risk through business cycles that is most important. See page 40 for a more detailed commentary on how we have managed financial risk.

Performance assessment

Assessing our performance should take into account:

- the overall volume of our support (as reported on page 22)
- our ability to provide this support while covering our operating costs and losses
- the potential demand for our services, as required to complement but not compete with the private sector

Bridging the gap

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

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

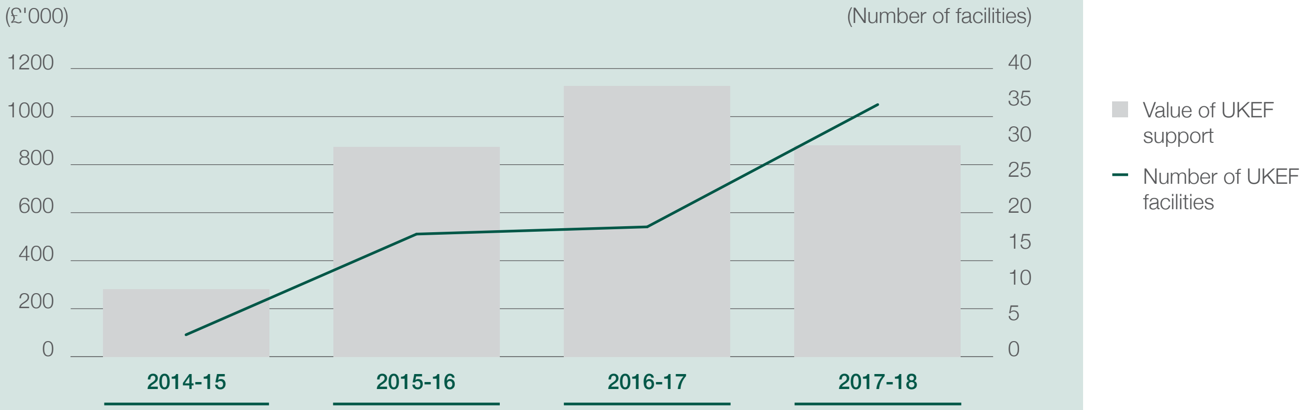
It is also partially determined by factors over which UKEF has a degree of control:

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

How UKEF fills market gaps: exports to Ukraine

With the instability in Ukraine since 2014, commercial trade credit insurance for exports to Ukraine became harder to access. In response UKEF has assumed more risk on buyers in Ukraine (in doing so supporting UK exports to these markets). This has helped maintain UK-Ukrainian trade, particularly for exports of fish from Scotland.

Increasing UKEF support for exports across Ukraine



Awareness

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

We have designed, tested and launched a targeted marketing campaign to widen take-up of UKEF support. We will build on this in the next financial year, following the 2017 Budget announcement of a dedicated UKEF campaign under the wider GREAT strategy.

The campaign targets companies most likely to benefit from UKEF's support and features UKEF customers sharing the transformative impact UKEF support has had on their export business.

Internationally, we have so far appointed 6 finance specialists based in key overseas markets (Brazil, Ghana, Indonesia, Turkey and two posts in UAE). They will each lead engagement with local buyers, project sponsors and associated stakeholder networks to develop UK export growth in these markets and surrounding regions with the offer of UKEF-supported finance.

We continue to:

- engage banks by offering training to their frontline staff on how they can work with UKEF to better support their clients
- work with colleagues across the Department for International Trade to embed our finance offer within the broader offer of trade and investment support
- offer training to staff across the Department for International Trade in the UK and overseas on UKEF's financing options
- work with trade associations and membership organisations to amplify our offer

There is a review of our work with partners on pages 38 to 39.

Pricing of risk

We support UK exporter competitiveness through the lowest premium rates permissible, subject to meeting our financial objectives and aligning with our international obligations, most notably the minimum rates set out by the OECD. Our pricing methodology is described in more detail on pages 48 to 51.

How we protect the taxpayer

We price risk to enable us to operate at no net cost to the taxpayer over time.

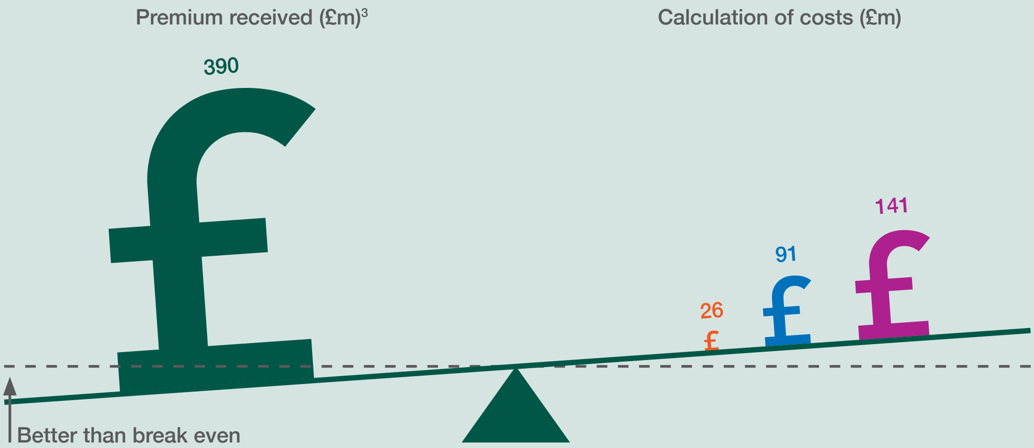
Our aim is to break even over business cycles. To help make sure that we do, every month we calculate the premium we earn and weigh it up against an estimate of all the potential costs and losses for the business supported.

We measure this over different 3-year periods. The diagram below shows the result based on actuals for 2015-16 to 2017-18. 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

2015 to 2018

This measure, called a pricing adequacy index, provides assurance that our pricing is sufficient



to meet all potential costs for the business supported. The position this year has not moved significantly from 2016-17, but moved slightly away from break even.

Product range

UKEF's broad product range, strong guarantee, flexible foreign content rules and innovative approach are all advantages for UK exporters. Feedback from trade bodies such as the British Exporters' Association (BExA), and trade press such as Global Trade Review and TXF: Trade & Export Finance recognises these strengths. The strength of our guarantee in financial markets continues to be assured by our longstanding status as a ministerial government department with access to the Consolidated Fund.

3 The premium amount for 2015-18 applied to our pricing adequacy index differs from the accounted premium reported on page 112. 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)

We continue to explore potential product developments where there is unmet but viable demand, including for smaller exporters that, due to their size, are often unable to access the trade finance support of their bank. The Chancellor of the Exchequer announced in the 2017 Autumn Budget a new supply chain finance product to be introduced in coming months, in addition to the new bank partnership model for distribution and widened eligibility for trade finance.

Comparing UKEF with other export credit agencies

We assess the strength of our support primarily through listening to our customers and comparing our capabilities against other leading export credit agencies from around the world. Every year we undertake a comparison exercise to review our offering against those of other export credit agencies. We also benefit from external scrutiny provided by the export credit agency benchmarking report produced each year by BExA. 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 for the last 4 years.

Other performance factors

Risk management

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

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

- a higher risk profile than commercial lenders or insurers
- a strong emerging market risk component
- long risk horizons
- occasional risk concentrations (sectoral and/or geographic)

In this context, the low volume of new claims in each of the past 5 years, from a portfolio of around £20 billion at risk, demonstrates a strong capability in managing credit risk.

Taking the last 5 years, the average claims paid as a proportion of the average amount at risk would be 0.037% or:

£1 for every £2,681 at risk.

We typically seek to recover claims we have paid, so any final loss calculation may not become clear for many years, until recovery action is concluded. A detailed explanation of how we manage our financial risks is on pages 40 to 59.

We are also committed to managing operational risk, which involves the possibility of error, oversight or control failure leading to financial loss (other than as a result of properly managed exposure to credit risk), or a failure to properly discharge our obligations.

To manage these risks, we are committed to maintaining a culture of awareness and openness, enabling risks to be recognised, evaluated and mitigated.

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

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

There is a detailed description of the most significant operational risks facing our business and mitigating measures in the governance statement on pages 76 to 85.

Operational efficiency and effectiveness

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

The 2015 Spending Review committed us to cost savings of 15% by 2020, but these can be reinvested to support measures to transform the business and drive efficiency. These transformative measures are:

- Technology change, to improve the reliability, scalability and capability of our IT systems, including the exploitation of Management Information (MI) and a move towards a 'digital-by-default' approach, and to reduce operational risk
- Service redesign, including improvements to product access for customers and processing by UKEF
- Organisation and workforce change, including introducing a new operating model for UKEF's Business Group to achieve more efficient use of our talent across sectors and products right through the cycle, and the introduction of an enhanced business development function

Progress on implementing these changes is reported on page 39.

The year ahead

As we enter 2018-19, the second year of our three-year business planning cycle, our focus is simple: on our customers, both new and established.

Growing our business

As a core GREAT campaign partner, and following the establishment of an enhanced business development, marketing and communications function, we will develop our relationships with our customers in the UK and around the world to drive business volumes and value.

In 2018-19, we will:

- Launch a UK and international marketing campaign under the GREAT umbrella to connect with new customers and increase understanding of UKEF support
- Develop and roll out more widely our supplier fair programme to maximise the benefits of UKEF support for the UK supply chain

Enhancing our products

Building on the enhancements delivered this year to our trade finance and Overseas Investment Insurance products, our Business Plan commits us to a continuing evolution of our products in line with market intelligence and industry best practice.

In 2018-19, we will:

- Complete a comprehensive review of all of our products, working with a wide range of stakeholders, to identify improvements to help us use them more effectively and flexibly
- Continue to identify new product opportunities to take full advantage of UKEF's statutory powers in support of UK exports while protecting taxpayers' interests
- Introduce new and revised products to deliver what our customers need

Improving our digital services

Developing digital services to meet our customers' and staff's needs is a core priority for UKEF, improving our operational effectiveness and transforming our users' experience.

In 2018-19, we will:

- Continue to develop our digital services including our web presence and tools to improve user experience and support business development
- Further improve UKEF's data, systems and processes to support robust, transparent and efficient decision making and reporting

A great place to work

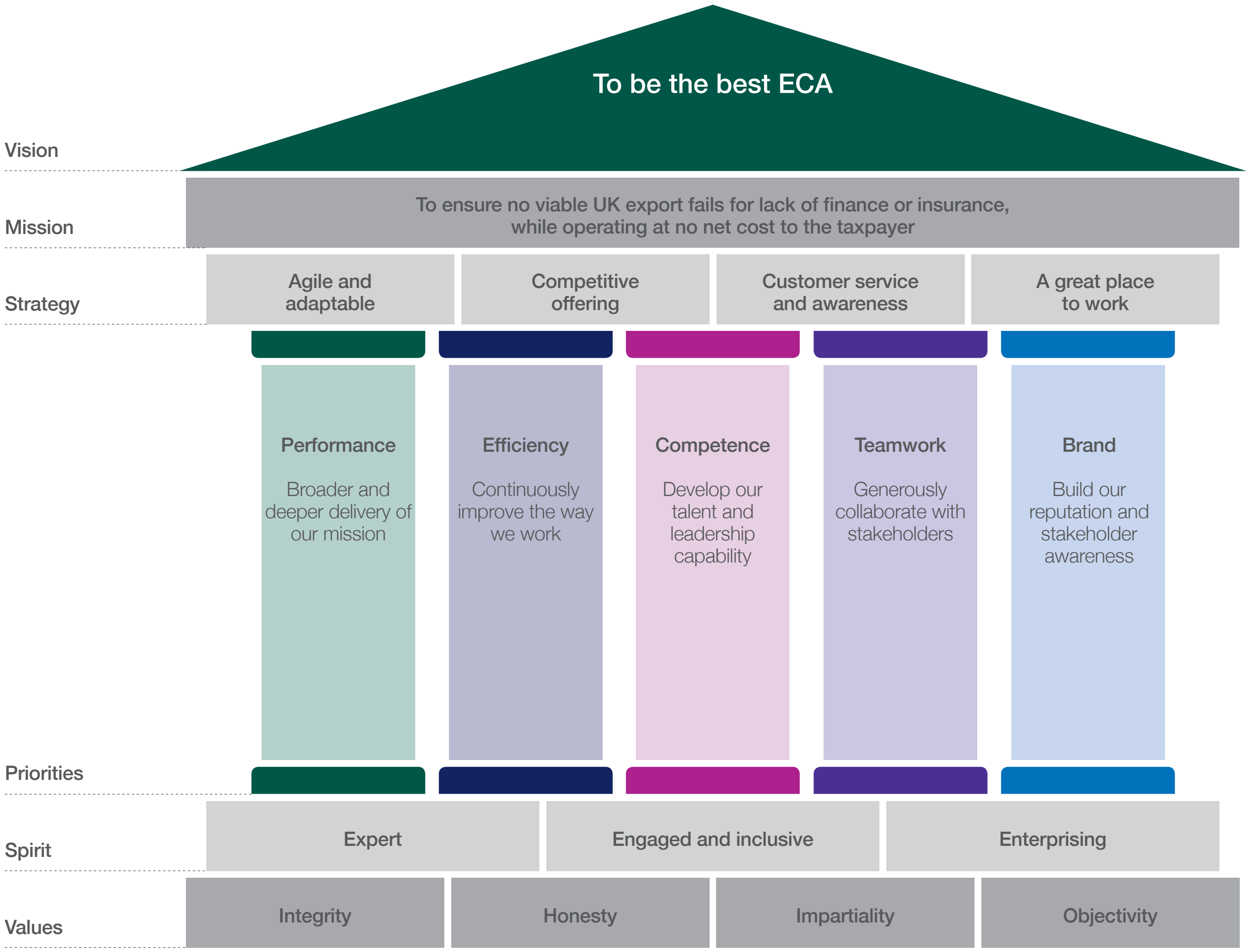
Our ambition is to have the most engaged workforce in the Civil Service, continuing to improve our employee engagement, build a diverse workforce and help our staff develop their careers.

In 2018-19, we will:

- Build on recent successes to diversify our workforce including meeting the targets set out in the Women in Finance Charter
- Embed the operating model we put in place following our transformation programme, supporting staff with a unique and comprehensive learning and development offer

UKEF message house

UKEF's message house sets out the vision, mission, strategy and priorities of our Business Plan, as well as the spirit and values with which we will achieve these:



I am content that this, and the performance reports that follow, are a fair and balanced account of our performance in the year.

Louis Taylor
Chief Executive and Accounting Officer
12 June 2018

Performance overview

Financial overview – 5 year summary

	2017-18 £m	2016-17 £m	2015-16 £m	2014-15 £m	2013-14 £m
Business supported	2,530	2,966	1,793	2,730	2,272
Premium income	103	102	73	104	120
Claims paid	2	8	5	6	13
Net operating income	5[4]	149	106	129	50

Non-financial indicators – 5 year summary

	2017-18	2016-17	2015-16	2014-15	2013-14
Total exporters supported, of which:	191	221	279	226	130
direct support under a UKEF product	145	148	176	160	130
private market assist	45	71	100	66	not recorded
direct support and private market assist	1	2	3	0	not recorded
Facilities issued	580	483	593	588	619
Introductions to other sources of support	1,328	2,267	1,778	1,339	not recorded

4 The fall in net operating income was largely due to foreign exchange losses in 2017-18. See page 60 for further detail.

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 £23.5 billion, against a notional maximum commitment at the time of £61.6 billion (when adjusted for foreign exchange movements).
Risk appetite limit This limit places a constraint on UKEF's appetite for risk at the 99.1 percentile of UKEF's estimated 10-year loss distribution.	**Met** UKEF's 99.1 percentile of the 10-year loss distribution did not exceed £1.4 billion against a maximum permissible level of £5 billion.
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 4.28 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 year.	**Met** This index at 31 March 2018 was 1.51, against a target minimum of 1.00.
(ii) previous, present and next year.	**Met** This index did not fall below 1.49, against a monthly target minimum of 1.00.
(iii) present year and next 2 years.	**Met** This index did not fall below 1.47, against a monthly target minimum of 1.00.
Premium to risk ratio This measure ensures that each year UKEF charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to administrative costs.	**Met** This ratio did not fall below 2.33, against a target minimum of 1.35.

Pages 40 to 59 set out more detail on these objectives.

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

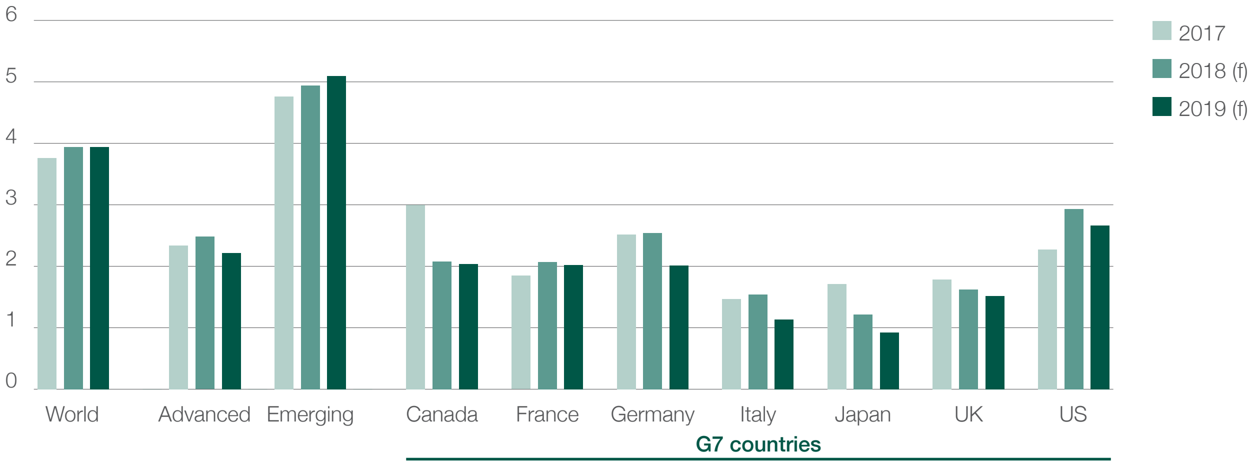
Economic snapshot

Global growth – a synchronised upswing with a note of caution

Global economic activity has remained robust, with both advanced and emerging markets continuing to perform well. Global trade and investment have picked up, commodity prices are recovering, business confidence has generally improved, financing conditions remain relatively attractive in the face of subdued inflation and unemployment rates have fallen. In January, the IMF upgraded its forecasts for world economic growth for the period up to 2019, describing the current situation as the 'broadest synchronised global growth upsurge since 2010.'

Global economic activity

GDP growth (% change year-on-year)



Source: IMF World Economic Outlook (WEO) – April 2018

The US, already near full employment, is expected to exceed its potential growth rate fuelled by tax cuts and other fiscal measures. Many of the euro area economies, especially Germany, Italy, and the Netherlands, have seen strong momentum in domestic demand.

However, this positive picture should not disguise continued challenges for advanced economies, notably weak productivity, ageing populations and the risk of governments adopting protectionist policies.

Emerging and developing markets – well-grounded growth

Output growth in emerging markets is expected to reach nearly 4.9% in 2018 compared with 4.8% in 2017. Commodity exporters have fared particularly well as metals and oil prices have averaged over 20% higher in 2017 compared to 2016.

Asia contributes around half of global growth, with Asian emerging markets continuing to register strong growth at around 6.5%. The modest slowdown in China (6.9% in 2017 to 6.6% forecast for 2018) is linked in part to its rebalancing policy of transitioning from investment to services and private consumption as well as slowing credit expansion. Asia's economic prospects could be significantly impacted by US tariffs as many of the goods concerned involve supply chains that stretch across the region, particularly Vietnam, Malaysia and the Philippines. As export-led economies, a potential escalation of trade tensions represents the most significant near-term risk for the region. With a relatively closed economy India's growth (6.7% in 2017 to 7.4% forecast for 2018) is more insulated.

In Latin America and the Caribbean, the recovery in growth (from 1.3% in 2017 to 2.0% forecast for 2018 and 2.8% for 2019) primarily reflects an improved outlook for Mexico (benefiting from stronger US demand) and recovery in Brazil. Despite improving commodity prices, Venezuela continues to struggle on the back of falling oil production.

Growth in the Middle East and North Africa is also expected to pick up in 2018 (3.2%) and 2019 (3.6%), from 2.2% in 2017, as higher oil prices spur a recovery in domestic demand, including in the region's dominant economy, Saudi Arabia. Geopolitical and regional tensions remain risk factors that could interrupt the oil-led recovery.

Sub-Saharan Africa growth (from 2.8% in 2017 to 3.4% forecast for 2018 and 3.7% for 2019) reflects Nigeria's recovery from recession and South Africa's expected upturn in the wake of a return of confidence and investment following the smooth transfer of presidential power.

Overall, this is an encouraging outlook for the world economy, particularly for emerging markets – UKEF's primary focus – and indicates a positive outlook for the Department's business.

It remains important to maintain vigilance; the IMF warns that 'the overarching risk [to economic growth] is complacency.' While growth looks generally well grounded, leverage remains extremely high. According to the IMF, total global public and private debt has reached an all-time high of $164 trillion – up 40% on its 2007 level. At the same time concerns over potential asset bubbles – the S&P 500 has risen over 150% since 2009 – the prospect of higher interest rates and tighter financing conditions, allied to limited fiscal space to counter a downturn or economic shocks, also need to be borne in mind looking forward.

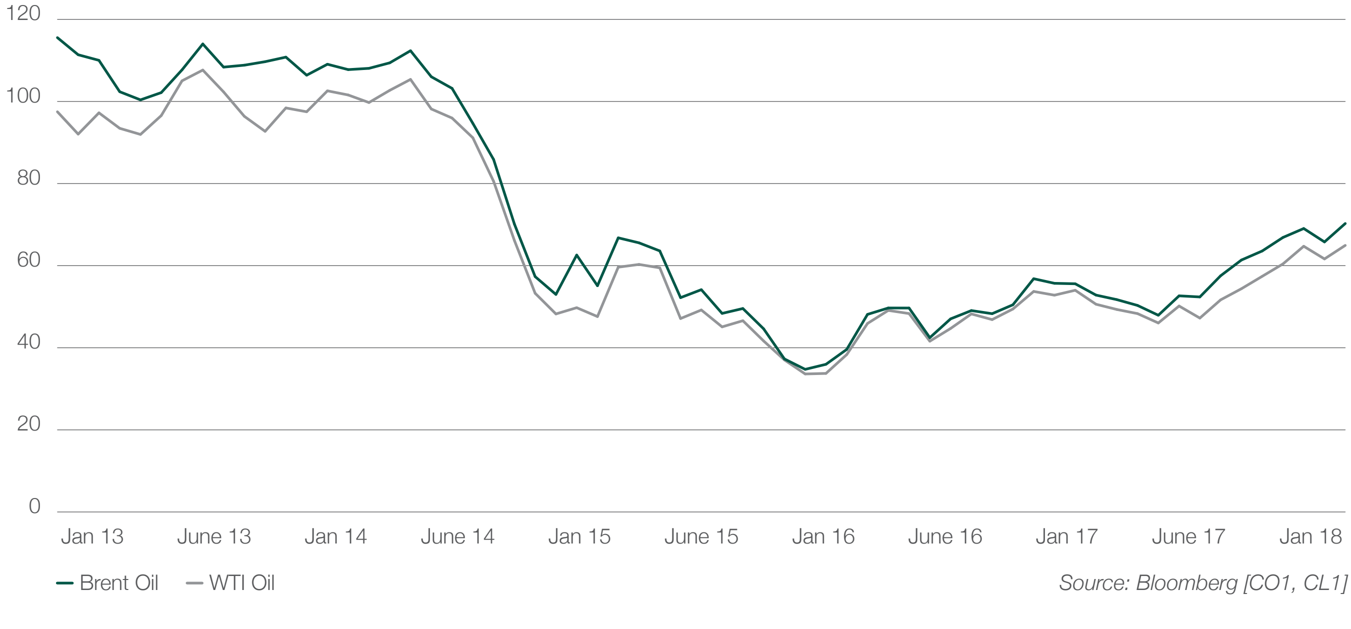
Commodity prices – oil price upturn

The agreement between members of the Organization of the Petroleum Exporting Countries (OPEC) and key non-cartel oil producers to constrain production, implemented in January 2017 and further extended to the end of 2018, has seen oil prices rebound. In addition, the US' withdrawal from the Joint Comprehensive Plan of Action with Iran added further pressure to prices, which increased to around US$80 a barrel in May 2018. OPEC and non-OPEC production cuts and demand growth are leading to the long-awaited rebalancing of the market. However, OPEC faces a tricky exit from cuts next year at a time of resurgent US shale production, which looks likely to make the US the largest oil producer in the world by 2020.

While market fundamentals will continue to drive oil prices, geopolitical factors raise the risk of instability and supply disruptions. Indeed, the political risk premium in oil prices will feature more prominently as lower OECD oil inventories will be less able to alleviate supply shocks.

Oil prices

(US$/bbl)

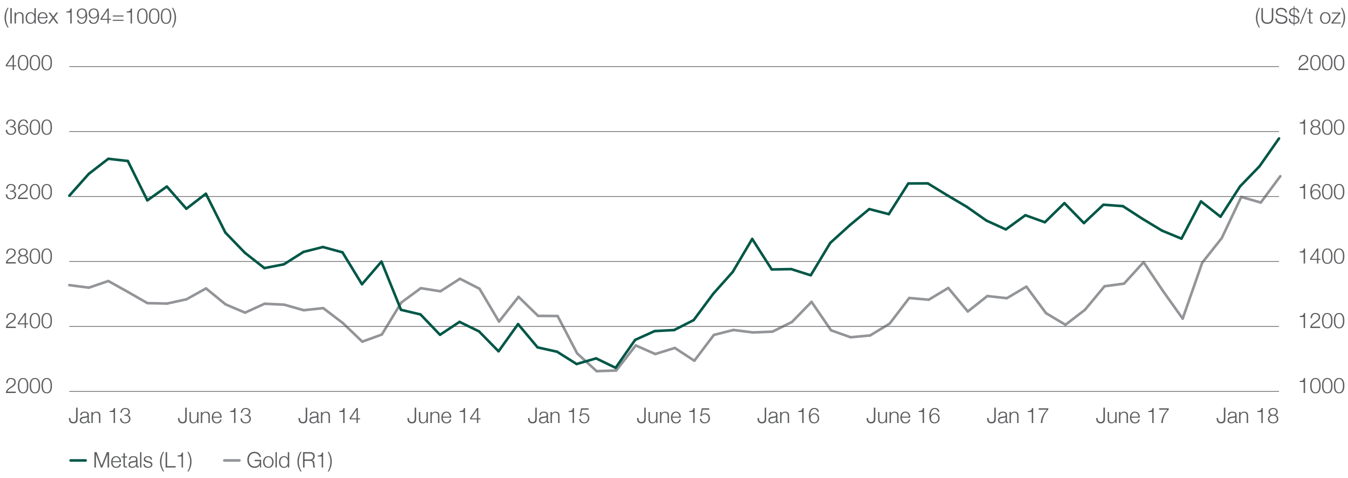


Source: Bloomberg [CO1, CL1]

Metal prices, as measured by the London Metal Exchange Index (LMEX), rose through 2017 in tandem with the global upswing, coupled with demand from the proposed $1 trillion infrastructure spending programme in the US. The LMEX dropped following the announcement of tariffs, which have the potential to dent global demand. On the other hand, the expectation of increased infrastructure investment in the US alongside the global economic uptick could help to boost prices further.

Gold prices have recorded significant gains; as a safe-haven asset, prices tend to move in line with volatility expectations, and reflect geopolitical tensions and financial market uncertainty.

Metals

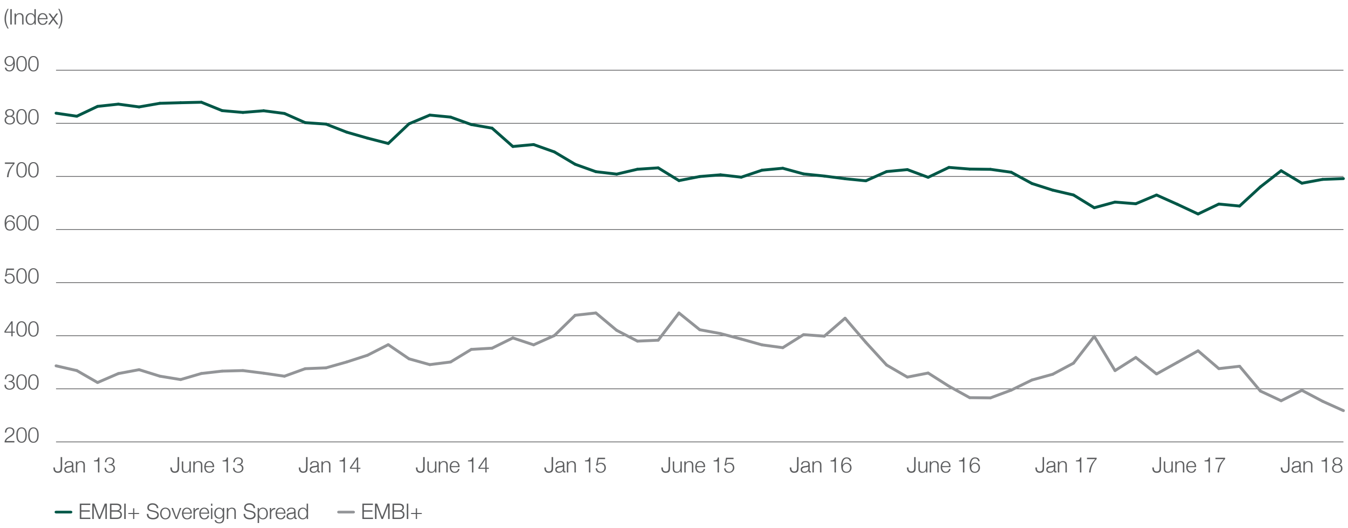


Financial markets conditions

Global financial markets continue to perform well, bolstered by expanding economic activity in an environment of low inflation and still-accommodative monetary policy from key central banks which is perpetuating the search for yield. Almost all assets are posting strong gains, with equity markets recently hitting record highs, and corporate bond yields still at relatively low levels. However, with the US Federal Reserve in tightening mode and the European Central Bank (ECB) possibly looking to end its asset purchase programme in the near term, liquidity is becoming constrained with consequential impact on pricing.

Highlighting the improving outlook for emerging markets, the J.P. Morgan Emerging Market Bond Index Plus (EMBI+) (which measures the performance of international government bonds issued by emerging market countries) continued rising through 2017. However, more recently, the spread has started to increase due to economic uncertainty in some emerging markets, such as Argentina and Turkey.

Emerging Market Bond Index Plus (EMBI+)

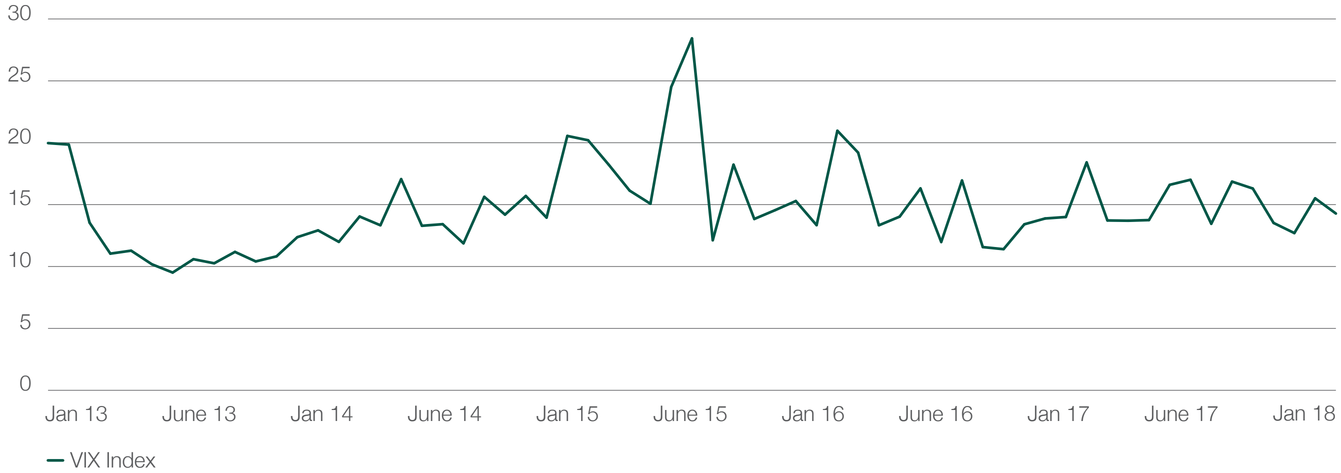


US moves to normalise monetary policy have raised concerns over a potential reversal of capital flows from emerging markets if policy interest rates move up sharply and substantially. However, clear and timely communication from the central banks of advanced economies have so far helped to minimise uncertainty.

The Chicago Board Options Exchange Volatility Index (VIX), a popular measure of the stock market's perception of future volatility, remained on a downward trend in 2017, although it has since risen due to concerns about protectionist policies. The absolute value as well as the trajectory of the index can be used as one gauge of investors' risk expectations.

Chicago Board Options Exchange Volatility Index (VIX)

(Index)



UK economy

The UK economy grew by 1.8% in 2017, slightly higher than the 1.7% estimated in the IMF's January 2018 World Economic Outlook (WEO). Although the IMF anticipates moderate weakening in 2018 (1.6%) and 2019 (1.5%), unemployment remains low (below 4.5%) and the pound generally appreciated over 2017. The depreciation of the dollar has been a major factor in this.

UKEF stands ready to support the UK corporate sector, particularly smaller companies, through trade finance products such as working capital and bond support. These products can help exporters to exploit fully the opportunities available to them, especially where uncertainty is limiting credit availability.

Outlook for 2018-19

The outlook for the global economy remains broadly positive, although a number of downside risks persist including protectionist policies.

Rising global activity is likely to be a positive spur to UK exports and in turn support UKEF's business volumes. Global infrastructure requirements remain significant and export credit agencies will be required to play a significant role in supporting long-term financing to address funding gaps, especially where private sector provision may be lacking owing to rising uncertainty and/or new international banking regulations. There continues to be an important role for UKEF to help companies seize export opportunities worldwide by deploying its capital and funding capacity.

How we operate

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

We do so principally by providing:

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

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

In doing this, our role is to complement the private market: we seek to support exports that might otherwise not happen, thereby supporting UK exporters and their supply chains. The space in which we operate is largely determined by the willingness and capacity of the private market to assume financial risks in support of exports at any given time. 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 Organisation for Economic Co-Operation and Development (OECD) countries (for example, the US).

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

UKEF operates under the consent of HM Treasury, which sets financial objectives that we must achieve. These, and the credit risk and pricing policies we operate to meet them, are set out on pages 40 to 59.

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

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 risks, debt sustainability, and bribery and corruption

Generally, we aim to:

- publish guidance for applicants on the processes and factors we take into account in considering applications
- achieve fairer competition by seeking to establish a 'level playing field' internationally through obtaining multilateral agreements in export credit policies and practices
- recover the maximum amount of debt in respect of claims paid, taking account of the government's policy on debt forgiveness
- abide by such codes of practice and guidelines on consultation as may be published by the government from time to time
- be a great place to work, recruiting, developing and retaining the people we need to achieve our Business Plan objectives

Our export solutions

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

Export credit support typically covers exports of capital/semi-capital goods and related services, for example large projects or high value machinery. Due to the high values involved (normally £5 million to more than £1 billion), overseas buyers frequently require loans (usually repayable over 5-10 years, or longer) to finance the purchase of such supplies from UK exporters. We provide support under our finance products (such as buyer credit guarantees) to banks that provide export credit loans, thereby covering the risk of default by borrowers. Alternatively, we can lend to buyers directly.

Trade finance support typically covers consumer or intermediate goods and services, for example, consumer durables or light manufactured goods. These goods are typically sold on short credit terms (up to 1 year), which exposes exporters to (a) risk of non-payment, and/or (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 which are available to exporters and in some cases to their direct suppliers.

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 • Lines of credit • Export refinancing facility	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 bond required under the terms of a contract • Supporting working capital	• Export insurance • Bond insurance • Bond support • Letter of credit • Export working capital	Lower value, higher volume

Investment

Access to UK Export Finance's products and services can provide an incentive for companies to base their international business in UK, supporting foreign direct investment (FDI) into the UK.

We can also support overseas direct investment by insuring UK investors' overseas projects against certain political risks, helping to secure inward flows of dividends and gains to UK frontline overseas investments.

Our support for exports

Businesses supported	
Exporters supported	191
Value of support provided	£2.5 billion
Destination countries	76
Largest single facility	£271 million (buyer credit)
Smallest case	£1,565 (bond support)
Most popular product	Bond support (67 companies)
Highest value product	Buyer credit (£1.3 billion)

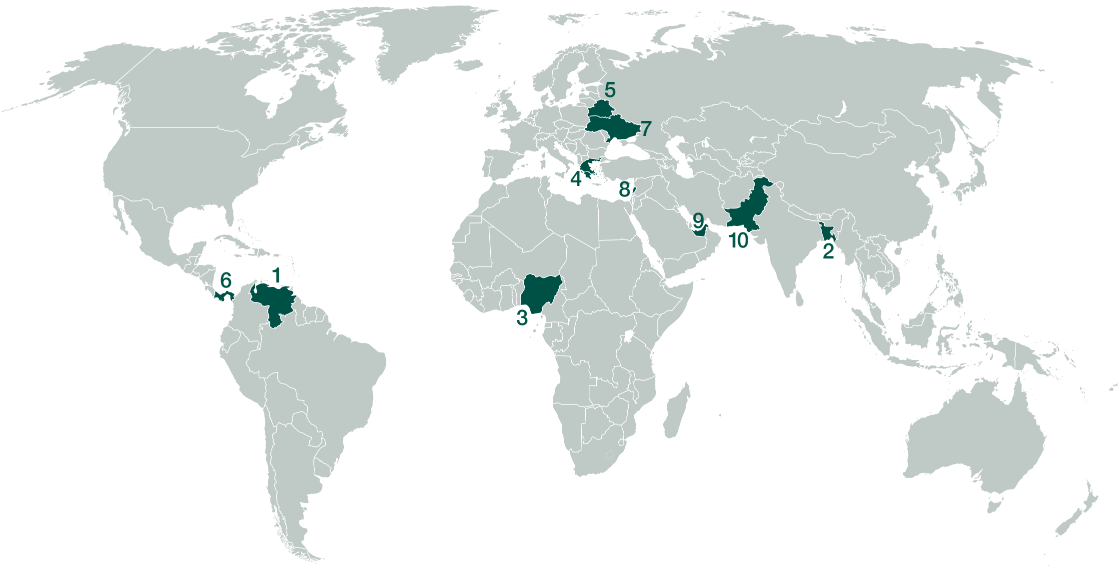
Gordon Welsh
Business Group Director

Making trade finance more accessible

UKEF's short-term trade finance support allows exporters to access finance from their banks to support export activity where otherwise they may not be able to. In many cases, this will be the critical factor that allows an exporter to fulfil their contract.

Support is available in the form of guarantees under our bond support and export working capital support schemes. We also provide insurance for exporters, principally against the risk of non-payment, where the commercial market cannot provide cover.

Export insurance: top 10 markets by value in 2017-18



1. Venezuela
2. Bangladesh
3. Nigeria
4. Greece
5. Belarus
6. Panama
7. Ukraine
8. Lebanon
9. Abu Dhabi
10. Pakistan

In 2017-18, UKEF supported contracts worth £466 million through our trade finance and insurance products, as well as helping 46 companies obtain the finance or insurance they needed from private providers.

Since 2011, when our trade finance products were introduced, we have supported £4.1 billion in export contracts.

This financial year, we delivered two important innovations to improve businesses' access to trade finance:

- Our new bank partnership delivery model
- Widened eligibility for direct suppliers to exporters

Bank delivery model
In October 2017, UKEF launched its new partnership with banks to streamline the process for providing UKEF-backed trade finance support to smaller customers.

Within pre-determined eligibility criteria and for support up to £2 million per counterparty, companies can now access our bond and export working capital support directly from their banks, without the need to apply to UKEF separately.

These products are now delivered through a trade finance digital service that the exporter's bank can use.

In this first phase, the participating banks are Barclays, HSBC, Lloyds/Bank of Scotland, RBS/NatWest/Ulster Bank and Santander.

This new partnership is an important way in which we can make our trade finance more accessible and its delivery more efficient – a central commitment in UKEF's Business Plan.

Supporting companies in exporters' supply chains
At the same time, UKEF expanded eligibility for some of its trade finance products, allowing UK companies supplying goods and services to an exporter to access UKEF guarantees on working capital loans and contract bonds.

This means that companies in the supply chain can now access support from UKEF through their banks for the first time, helping them to become part of major export contracts and spreading the benefits of trade to smaller companies – another of our Business Plan commitments.

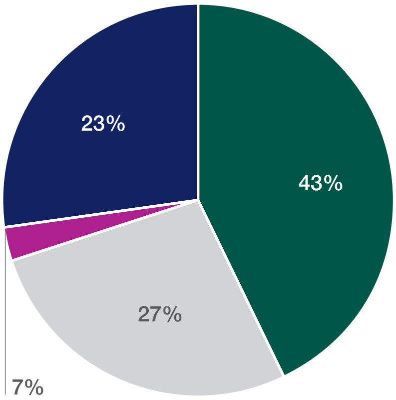
Overseas investment insurance: supporting business to invest aboard

In October 2017, UKEF launched an enhanced overseas investment insurance (OII) policy, as we committed to do in our Business Plan. This improved product gives UK businesses access to improved long-term cover against a wider set of risks on their overseas investments, for example terrorism.

Our product has been designed to offer support where the private insurance market doesn't have the capacity to provide political risk cover on normal terms, for example, where the private sector has reached country and sector exposure limits, or cannot provide cover for very long-term projects.

Export credits: helping UK businesses compete successfully in the global market place

Export credit business supported (medium/long-term) 2017-18



Sector	UKEF maximum liability, £m
Aerospace	1,053
Civil - direct loans	666
Civil - guarantees	556
Defence	167

Export credit support is when UKEF guarantees commercial finance or provides a loan used to purchase goods and services from the UK.

Interest in UKEF's guarantee and direct lending products remains high due to:

- reduced risk appetite and lending capacity for longer tenors among banks
- other governments' budgetary constraints due to low commodity prices and ambitious infrastructure investment

Sector support

Civil, infrastructure and energy

Construction and energy continue to be significant sectors for UKEF; these projects formed 94% of exposure across deals transacted in the civil, infrastructure and energy area for 2017-18 when measured by maximum liability. Construction in particular has risen as a proportion of our portfolio.

UKEF guaranteed a £375,000 loan to support Midlands-based Garrandale's export contract providing train maintenance equipment to the Sydney Metro Northwest project

Three landmark transactions showed the role UKEF is playing to support international demand for UK transport infrastructure expertise.

The first was buyer credit support for a 1 billion Mexican peso loan for the export of 90 low-emission red double-decker buses made by Alexander Dennis for Mexico City's Bus Rapid Transit network – the first Mexican peso transaction we have supported under our expanded local currency financing offering.

Dr Liam Fox, Secretary of State for International Trade, alongside an Alexander Dennis bus on Mexico City's Paseo de la Reforma

We also provided a direct loan of €270m to support a Colas UK contract to build a runway and associated facilities for a new international airport at Kabaale in Uganda. This was UKEF's largest direct loan to a sub-Saharan African government and represents a major breakthrough in a priority region.

In Ghana, we are supporting the expansion of Kumasi Airport, improving transport links to Ghana's second city to encourage trade and tourism. We have provided a €65 million buyer credit to finance a contract with Contracta UK and more than 20 UK sub-contractors.

Geographically the UAE accounted for over half of civil, infrastructure and energy transactions by maximum liability for 2017-18.

Major transactions included support for several construction projects in the UAE, for example $220 million in support for the construction of the Dubai Arena, a state-of-the-art 17,000-seat multipurpose entertainment venue which Kier has designed and built.

There has also been significant activity in other key priority markets, for example Iraq. Here, we have supported several power projects, helping the Government of Iraq to deliver critical post-conflict infrastructure development.

A developing trend is the increase in transactions supported with a combination of traditional buyer credit and a direct loan (7 of 18 transactions). Direct lending is increasingly seen as a decisive factor for less developed markets, in particular due to the need to access efficient long-tenor fixed rate loans where commercial banking liquidity (including for covered lending) may be restricted.

UKEF provided support for a Kier contract to design and build the 17,000-seat Dubai Arena

Direct lending

UKEF's Direct Lending Facility, introduced in 2014, can give UK exporters a competitive edge that can be particularly effective in lower income countries – countries where international competitors may be using concessional financing schemes not offered by the UK government, including tied aid. Against this backdrop, UKEF's direct lending resources are being increasingly focussed on projects in developing markets (for example, support for the Kabaale airport in Uganda, outlined on page 33).

In January 2018, UK construction firm Carillion went into liquidation. In recent years UKEF has provided support to a number of projects on which Carillion was the UK contractor. In these cases the support was provided to Carillion's overseas customers to help them buy from the UK. The exposure is therefore to the overseas buyer, not to Carillion itself.

For the majority of Carillion projects that UKEF has supported, construction has been completed, and finance is now being repaid by the overseas buyers as agreed. There are four projects where construction is yet to be completed; in these cases, Carillion's former joint venture partners have replaced Carillion and complete the contracts. UKEF is continuing to support these projects based on substantially the same goods and services being sourced from the UK, supporting the UK construction supply chain.

Aerospace and defence

This year saw an increase in the volume of support provided for aerospace transactions, which was at a historically low level in 2016-17 when we received no applications for support from Airbus.

The bulk of UKEF aerospace support this year was for the export of Rolls-Royce powered Boeing 787 aircraft. 13 aircraft were delivered with our support to LOT Airlines of Poland, Norwegian Air Shuttle and operating lessor Avolon. These were the first Boeing aircraft to be supported with UKEF as lead ECA.

Support was also provided for the UK share of two Airbus A330 aircraft that were delivered to Rwandair. Given the ongoing Serious Fraud Office (SFO) investigation into the historical use by Airbus of overseas agents, UKEF and our French and German counterparts have developed an extended due diligence framework under which we will assess applications for export credit support from Airbus. The Rwandair transaction was the first such application to be considered under this methodology and, following the successful conclusion of the due diligence process, the first Airbus aircraft to be supported by UKEF since late 2015.

We also supported 4 Bombardier C-Series aircraft delivered to Korean Airlines, working alongside Canadian export credit agency EDC. This was the first time UKEF supported C-Series aircraft, helping to sustain Bombardier's plant in Belfast where the wings and fuselage assemblies for these aircraft are made.

We also continue to support engine overhaul contracts undertaken by GE Aviation facilities in Scotland and Wales. Our assistance, delivered in partnership with the US Export Import Bank, contributes to the security of engineering jobs at these two plants.

Another Northern Irish exporter benefiting from UKEF support in the year was Thales UK. Support of around £164 million was provided for the export of Thales Starstreak missile systems to the Government of Indonesia.

Reinsurance

UKEF continues to see demand concentrations in key markets. We use our range of reinsurance agreements and new capability to seek reinsurance in the private market to address risk concentrations which ensures UK exporters, and their customers, can maintain access to support for "in-demand" markets while UKEF prudently manages its risk portfolio.

Our ECA reinsurance partners are outlined on page 39 (our partners and operations).

Bringing business to the UK

In 2017-18, UKEF has enhanced and expanded the 'leading with finance' approach to bringing business to the UK.

This approach, pioneered in 2016-17, identifies major projects with opportunities for significant supply from the UK, and uses UKEF's attractive finance offer to incentivise project sponsors to procure from UK companies. UKEF then works with colleagues across the Department for International Trade – notably in the Posts and sector teams – and with private sector partners to convene a supplier fair to connect project procurement teams with the relevant companies in the UK supply chain. This has resulted in substantial increases in UK content in these projects – and therefore revenue for UK businesses.

Building on the 2 exporter fairs held in 2016-17, UKEF has held 3 in 2017-18, connecting nearly 400 companies with opportunities potentially worth hundreds of millions of pounds in sectors as diverse as healthcare, construction and energy.

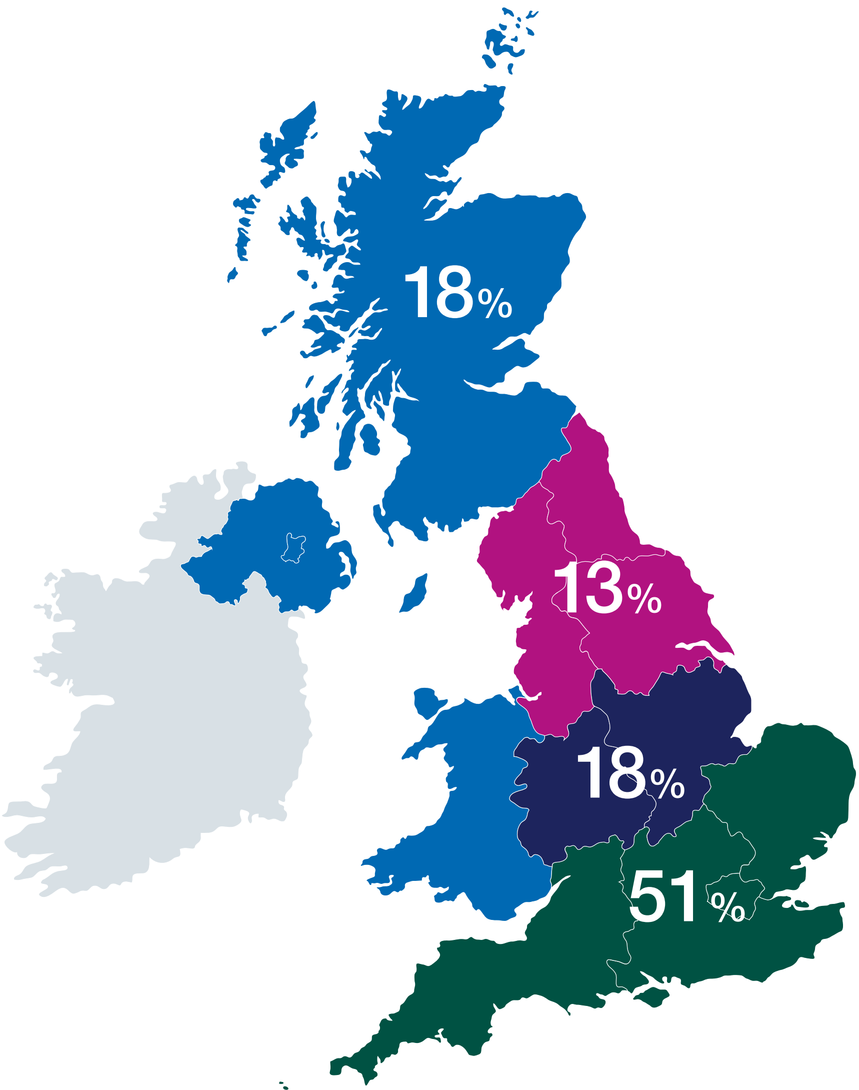
Based on post-event surveys, we also know that on average as many as half of the companies that attend these events find out about other international business opportunities with the project developers and prime contractors.

UKEF held an exporter fair to showcase opportunities with the Duqm oil refinery project in Oman

On-the-ground support for exporters: export finance managers

We have 24 export finance managers (EFMs) across the UK, who act as local points of contact to introduce exporters and businesses with export potential to finance providers, credit insurers, insurance brokers, trade support bodies and sources of government support, including from UKEF.

Proportion of companies benefiting from trade finance or insurance by region in 2017-18



This presence across the UK makes a significant contribution to our drive to increase awareness and uptake of UKEF and its products among small and medium-sized exporters all over the country. EFMs develop relationships on a local basis, providing on-the-ground support for exporters across the UK. This year, EFMs held nearly 2,000 meetings with businesses, providing face-to-face guidance on trade finance options to support their exports, and a further 1,300 with intermediaries including banks and brokers.

In addition to helping companies access UKEF products, EFMs deliver "private market assists" – when their engagement makes 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. EFMs also made more than 1,300 referrals to third-party sources of support.

There were 166 referrals from our export finance managers to services provided by other parts of the Department for International Trade, Scottish Enterprise, Business Wales or Invest Northern Ireland.

“Overseas sales are a hugely important part of Norton’s business and our growth plans for the future. The bespoke support we have received from UK Export Finance has meant that we can realise our ambitions secure in the knowledge that our finance matches our plans.”

- **Stuart Garner, CEO**, Norton Motorcycles

Our partners and operations

UKEF couldn't operate without its network of partners. We aim to collaborate as generously and purposefully as we can, to widen the support we provide to our customers while ensuring that our partners also benefit in kind from working with us.

Our partners

Commercial finance partners – lenders: UKEF provides guarantees to commercial banks when they extend trade and export finance support to their customers. This year, we launched our new partnership model for delivering trade finance support with five major high-street banks, outlined on page 31. We are also working to improve our customers' experience accessing UKEF support through these partners, a project that will continue into the new financial year.

We supported trade promotion programmes with two banks, enabling collaboration between the banks, UKEF and other parts of the Department for International Trade to bring new opportunities to UK businesses and support their growth aspirations.

Commercial insurance partners – brokers: In the same way as commercial lenders play a critical part delivering our trade finance products, commercial insurance brokers are important as our route to market for our insurance products.

Export credit agencies: In 2017-18 we worked with a number of other national export credit agencies to deliver export credit support where contracts included content from third countries. These included Export Development Canada, Nippon Export and Investment Insurance (Japan), Swiss Export Risk Insurance, Servizi Assicurativi del Commercio Estero (Italy), Banque Publique D'Investissement (France), Euler Hermes (Germany) and Compania Espanola de Seguros de Credito a la Exportacion (Spain).

Other government departments: As well as collaborating with colleagues across the Department for International Trade, UKEF works closely across HM Government to leverage other departments' relationships with UK exporters, overseas buyers and intermediaries such as banks. This year, we have built on relationships with key departments including the Foreign & Commonwealth Office, the Department for Business, Energy and Industrial Strategy, HM Treasury, the Department for Transport, the Department for International Development and the Infrastructure Projects Authority, to extend an integrated offer of UKEF products and support to their stakeholders.

Industry bodies: Following on from our successful collaboration with the Energy Industry Council and NOF Energy last year to promote supplier fairs to their membership base, we partnered with several trade associations across the oil and gas, nuclear, renewable energy, healthcare, construction, engineering and manufacturing sectors to support the three similar events held this year.

We continued to work with business representative organisations including the British Chambers of Commerce, Confederation of British Industry, Engineering Employers' Federation, Federation of Small Businesses, Institute of Directors and British Exporters' Association to consult on policy and product development and promote UKEF's support to their memberships.

Intermediaries: Intermediaries such as accountants and lawyers are trusted advisors for their customers, and have the potential to be an important referral channel for UKEF. We have therefore developed and delivered a programme of enhanced engagement with new and existing partners in the sector, including trade bodies such as the Institute of Chartered Accountants in England and Wales and Association of Chartered Certified Accountants and commercial partners, for example PwC, with a view to improving understanding and driving referrals.

Our operations

In 2017-18, the transformation programme has aimed to equip UKEF with the necessary infrastructure and resources to become more user-focused and operate digitally by default. This builds on significant investments in 2016-17 to improve underlying IT infrastructure.

In 2017-18, the transformation programme delivered improvements to numerous systems to enhance efficiency and scalability in UKEF's operations, including:

1. UKEF's new bank partnership delivery model and bespoke digital service for trade finance products
2. A multi-division transaction workflow solution, fully integrated with the digital service used by banks, to make the transaction process more transparent and efficient for our partners
3. An enhanced customer relationship management system to further improve customer engagement
4. A new human resources (HR) management system to make HR administration more efficient
5. An enhanced "Ideas Lab" process to encourage employees to share ideas of ways to improve UKEF products, systems and processes
6. Improvements to our direct lending operational process to begin streamlining and automating delivery
7. A new document storage and management system to improve our case management processes

We also reorganised the Operations function to better equip it to deal with higher volumes of business of greater complexity. We set up a new Operational Service Delivery team to continue to improve support for users of UKEF's digital services, invested in the Change, Innovation and Delivery division to support departmental change and reorganised the commercial and procurement function to improve the quality of contract and procurement management across the department. We have also invested in technology, assets, processes and people to support greater automation to improve efficiency.

Credit risk, portfolio overview and pricing report

Financial risks

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

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

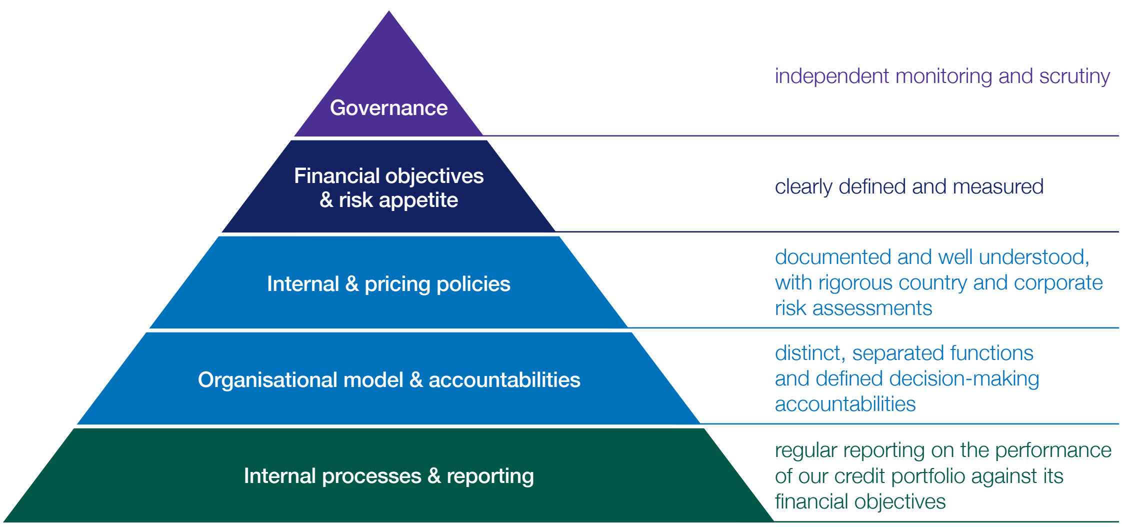
Market risk: the risk of losses due to changing market prices, such as fluctuations in foreign exchange rates and, to a lesser extent, interest rates.

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

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

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

UKEF's credit risk management framework



Similar principles apply to the other sources of financial risk, and the framework for managing each varies accordingly.

Credit risk management

Context

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

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

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

Credit risk governance

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

The UKEF Board provides independent advice, scrutiny and challenge to the Chief Executive across a broad range of areas, including risk management, while its Risk Committee separately reviews the adequacy of risk management and controls across the department.

HMT officials monitor the department's performance against its financial objectives. While UK Government Investments (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 controls are effectively managed. UKGI also provides advice to the Secretary of State on the exercise of ministerial responsibility for UKEF.

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

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

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

1. Chief Executive Officer
2. Chief Risk Officer
3. Chief Financial Officer
4. Business Group Director
5. Deputy Director of Risk Assessment Division
6. Deputy Director of Country Risk and Analysis Division
7. Head of Pricing and Portfolio Risk Unit

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

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

For a meeting to take place, at least 3 standing members of the committee must be present. At least 1 of the following must attend every meeting:

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

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

Financial objectives and appetite

UKEF's financial objectives, set by HMT, are designed to enable it to fulfil its mandate of supporting exporters while ensuring that credit risk and pricing a) is undertaken on a basis that returns adequate rewards to UKEF for the risks it is assuming; and b) does not expose the taxpayer to the risk of excessive loss.

UKEF's credit risk and pricing is governed by five financial measures:

1. **Maximum commitment:** the total amount of nominal credit risk exposure that the department may incur. Set at £50 billion but adjusted for foreign exchange movements (for example, at 31 March 2018 the adjusted maximum commitment was £57.3 billion)
2. **Risk appetite limit**: a form of economic capital limit of £5 billion (detailed further in the next section)
3. **The Exposure Management Framework (EMF):** a limit to exposure of £5 billion for the lowest risk markets, with reducing capacity as the risk profile increases (detailed further in Exposure Management Framework on page 44)
4. **Reserve Index:** an index that measures whether UKEF has accumulated, over time, sufficient revenue to cover its possible credit losses at the 77.5 percentile on our 10-year loss distribution[6]
5. **Pricing Adequacy Index and Premium to Risk Ratio:** detailed under Pricing policies on page 49

The 2017-18 outturn against all our financial objectives is presented on page 23.

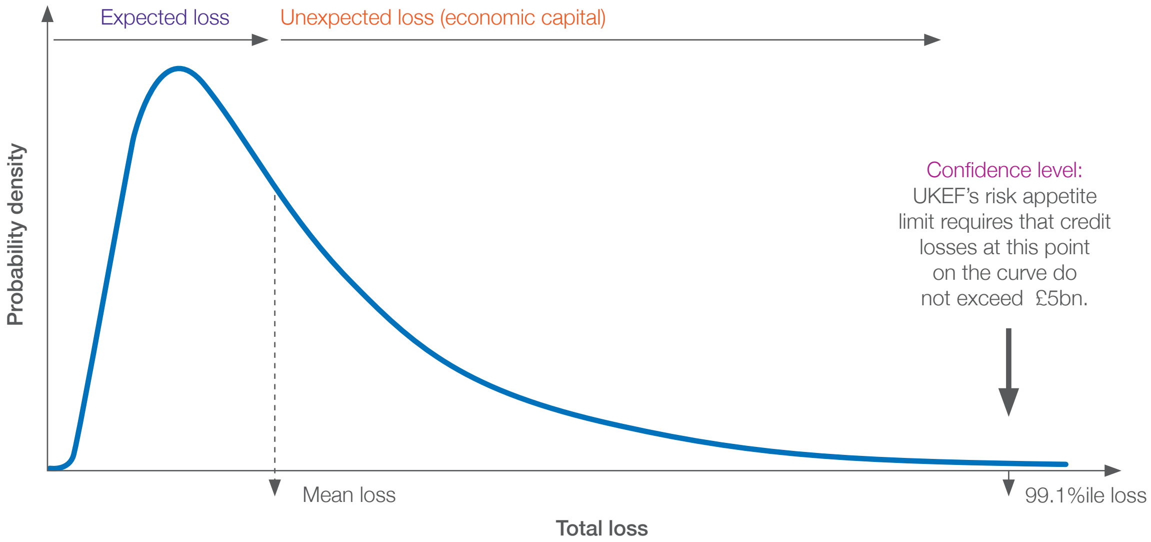
Real-time market data from Bloomberg is used by the Country Risk team

6 The reserve index means the ratio of (a) cumulative reserves plus associated provisions to (b) the aggregate of the value of the 77.5 percentile point on 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 potential future losses. It can be considered as a buffer to cover unexpected losses over a defined future period at a specified confidence level. The chart below illustrates this concept for a hypothetical portfolio of credit risks.

Portfolio loss distribution



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

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

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

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

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

Credit risk policy

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

Pricing methodology

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

Exposure management framework

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

- countries with higher levels of credit risk, based on individual country reviews on a ratings-based approach, will have lower limits
- 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
- the upper boundary for exposure to any individual country is £5 billion

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

Country risk assessment

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

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

Corporate, bank and project finance risk assessment

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

The rapid expansion of our trade finance business, which typically involves small and medium-sized enterprises (SMEs) and relatively small individual credit risk exposures, has led us to purpose-build a number of credit assessment methodologies with shorter turnaround times for certain categories of risk. For example, a specific credit assessment and approval process has been adopted for our bond support and export working capital facilities, under which UKEF shares risks with financial institutions for the provision of working capital loans and on-demand contract bonds in support of export transactions. This process was further enhanced in 2017-18 as we agreed greater delegated authority for financial institutions to apply our guarantee more quickly and flexibly within agreed eligibility criteria (see page 31).

7 The only time when UKEF's internal risk policies might not apply would be if ministers (having regard to the national interest) gave a written direction to the Accounting Officer requiring a specific credit risk to be underwritten. In these circumstances, the credit risk in question would be handled differently, and accounted for under Account 3.

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

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

UKEF's credit risk methodologies

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

UKEF continues to have residual credit exposure to a small number of 'investment grade' banks that act as counterparties in interest rate swaps, entered into by UKEF to hedge interest rate exposure under its legacy fixed-rate export financing scheme, which closed to new business in 2011 (see page 58). UKEF has the right to terminate these trades if a counterparty's rating falls below a specified threshold.

Credit risk assessment outputs

Expected loss is a key measure of credit risk at UKEF, and is central to our pricing methodologies and our underwriting fund accounting.[9] Our credit risk assessments are used to indicate the three components of expected loss:

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

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

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

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

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

The other measure of credit risk we monitor closely is unexpected loss, which is integral to our credit risk appetite (see 'Economic capital and the risk appetite limit' on page 43).

Risk concentration and correlation

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

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

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

- all individual exposures within a country must not exceed the country limit, as established under our exposure management framework
- UKEF may not give a single commitment in excess of £200 million without the agreement of HMT
- the portfolio is further managed by way of review of single obligor, sector and regional/geographic concentration risk

9 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.

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

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

Stress testing and scenario analysis

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

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

- rating downgrades
- increases in loss given default
- a series of large individual defaults
- a combination of downside scenarios

The Credit Committee reviews the results of the analysis and considers in particular the impact of each stress/scenario on the value of the 99.1% point of the portfolio loss distribution, relative to the risk appetite of £5 billion.

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

Baroness Fairhead, Minister of State for Trade and Export Promotion, has Ministerial responsibility for UK Export Finance

Pricing policies

Context

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

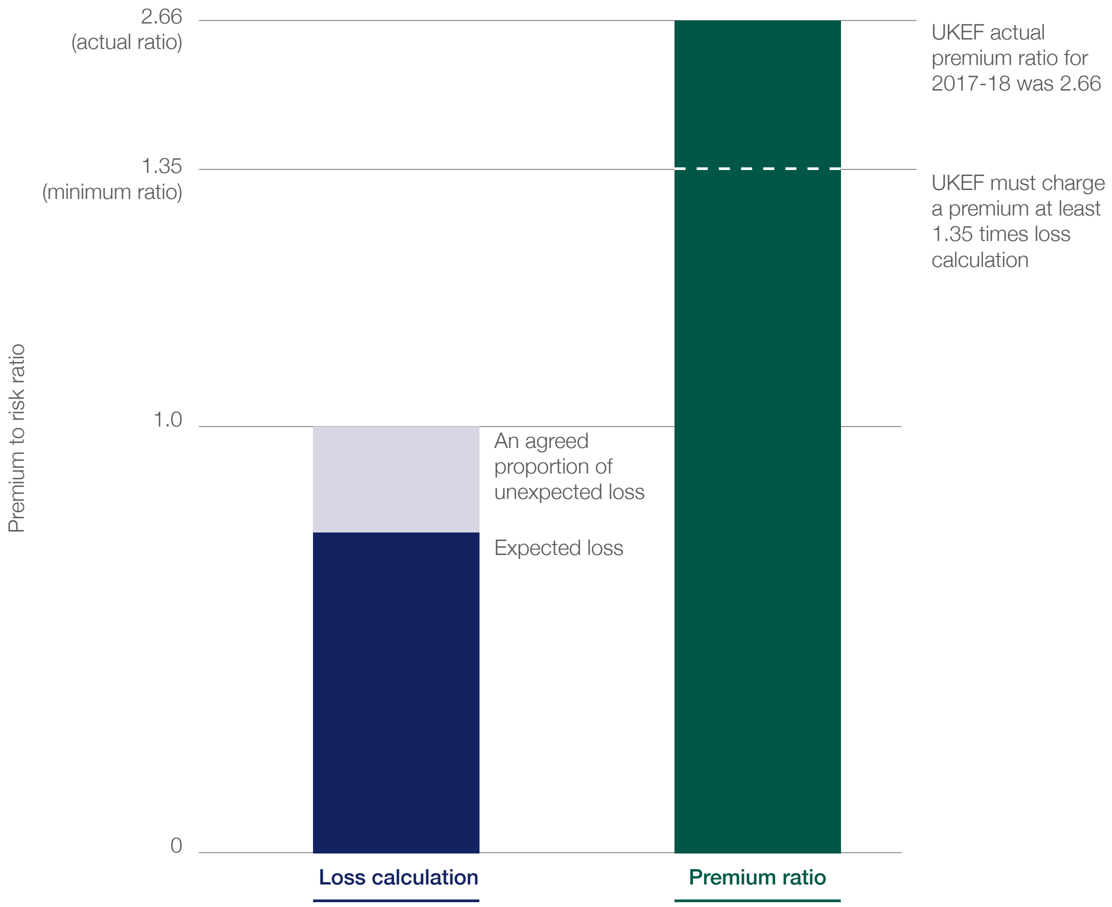
Financial objectives

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

Premium-to-risk ratio

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

The ratio at 31 March 2018 was 2.66 against the 1.35 ratio minimum:

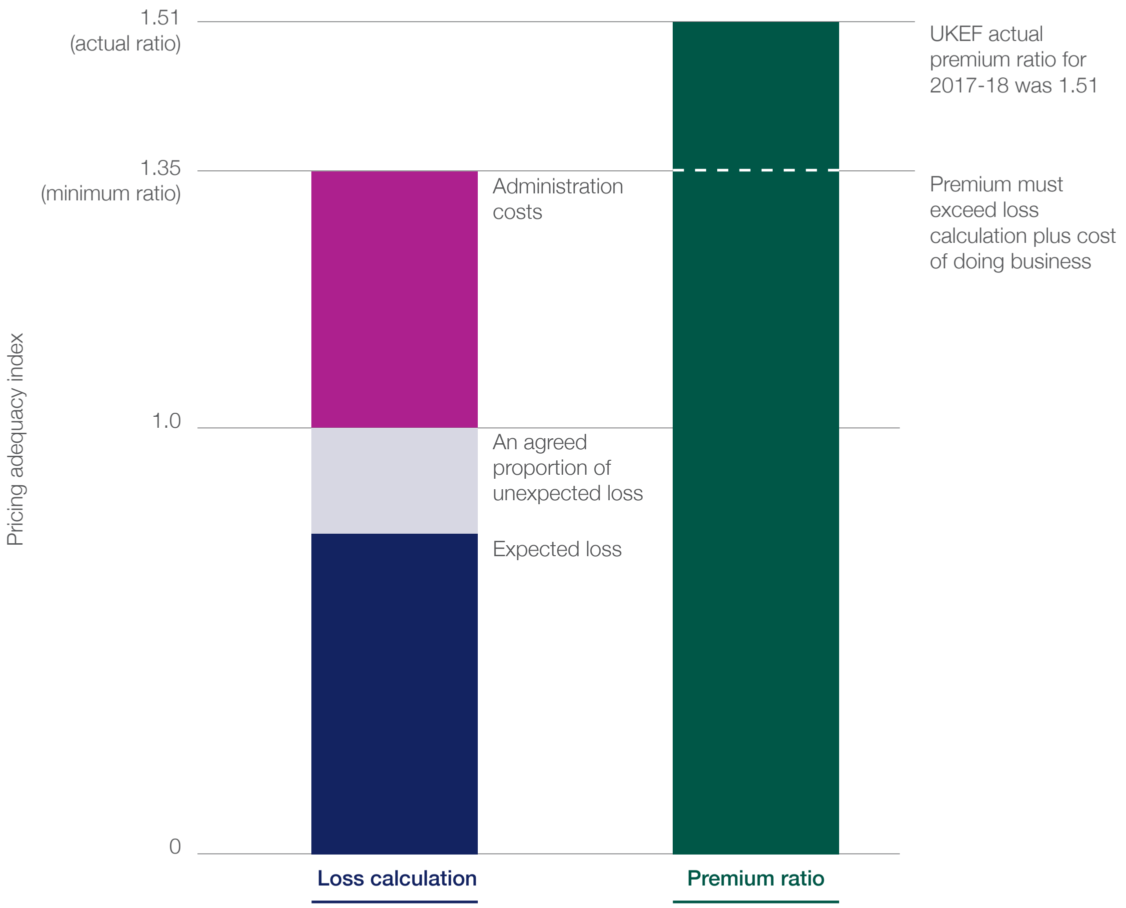


Pricing adequacy index

The second objective set out by HMT is the pricing adequacy index. Whereas the premium-to-risk ratio serves purely as an annual measure, the pricing adequacy index considers a 3-year time scale, applied across 3 accounting periods:

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

For each period, UKEF must demonstrate that the actual/forecast premium will cover and exceed the ‘cost of doing business’, meaning administration costs and an agreed level of possible losses. The ratio for the past 2 years and present financial year was 1.51 against the minimum of 1.0.



Forecasting approach

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

Pricing methodology

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

UKEF aims to support UK exporter competitiveness. It is therefore our policy that we set the lowest tenable premium rates, subject to the following:

- premium rates may not undercut the minimum rates set out in the OECD
- no individual premium can be below the expected loss of the associated transaction
- aggregate premiums must satisfy the premium-to-risk ratio and pricing adequacy index objectives
- as it is UKEF's policy to complement not compete with private finance support, premium rates set for OECD markets without fixed benchmarks (Category 0/'rich' markets) should not undercut available market pricing[10]
- premium rates must comply with our international obligations, including EU state aid legislation

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

Organisational model and accountabilities

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

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

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

Credit processes and reporting

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

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

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

The claims and recoveries unit

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

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

Sovereign defaults that lead to debt renegotiations through the Paris Club[11] are managed by a team within the Chief Operating Officer's Group that specialises in rescheduling, working in conjunction with HMT. Paris Club developments are monitored by the Credit Committee, which must approve any provisions made against this exposure.

The process of recovery through Paris Club rescheduling is often a protracted one: a number of still-active reschedulings relate to exposure principally incurred prior to April 1991.

Credit risk performance 2017-18

Context

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

In portfolio terms, exposure to SMEs in the UK, taken on a risk-shared basis with financial institutions, is relatively low and remains broadly stable due to the typically small transaction size, but may increase in the future as new exporters are supported including through a proactive awareness campaign in accordance with the department's Business Plan.

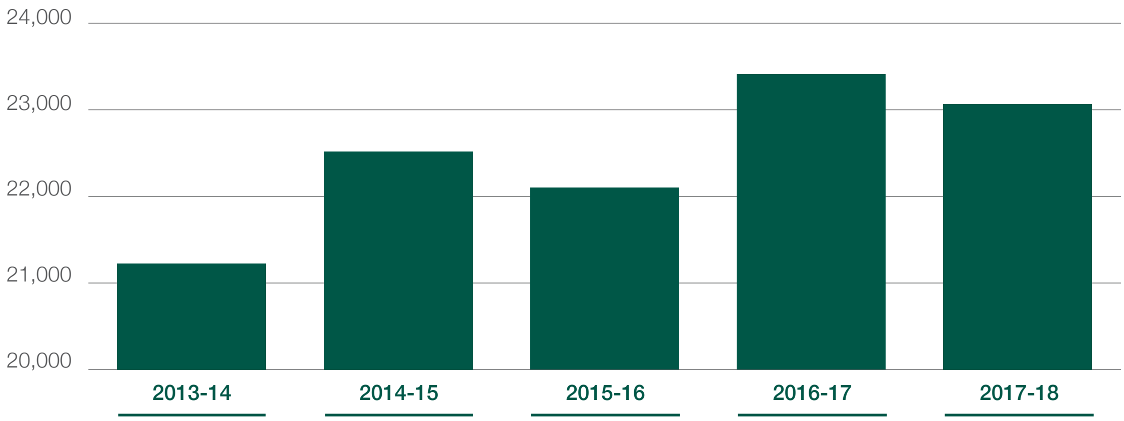
In 2017-18, we again demonstrated full compliance with all our financial objectives relevant to the credit portfolio. A full summary of performance against financial objectives is reported on page 23.

The UKEF credit risk portfolio: 12-month summary

- Total exposure including commitments and legacy Account 1 exposure decreased from £23.4 billion to £23.1 billion – a reduction due to foreign exchange movements and run-offs exceeding new business written
- UKEF's portfolio of risks remained stable in terms of credit quality, while regional and sector concentrations increased in the Middle East and oil, petrochemicals and construction sectors. However, these exposures remain modest relative to the maximum commitment limit and risk appetite limit
- Stress testing (including to oil price shocks) shows that UKEF's portfolio remains resilient and should continue to meet its financial objectives even in a number of extreme economic scenarios
- Country risk capacity increased in a further 115 countries to enable UKEF to meet the increased demand shown by a larger pipeline, and consistent with robust assessments made under the exposure management framework
- Stable expected and unexpected loss rates with a continuing very low rate of claims paid at £2.4 million (of which £1.6 million were for new defaults this year)

Credit risk exposure

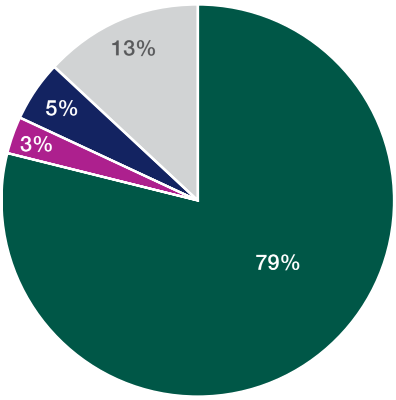
(£m)



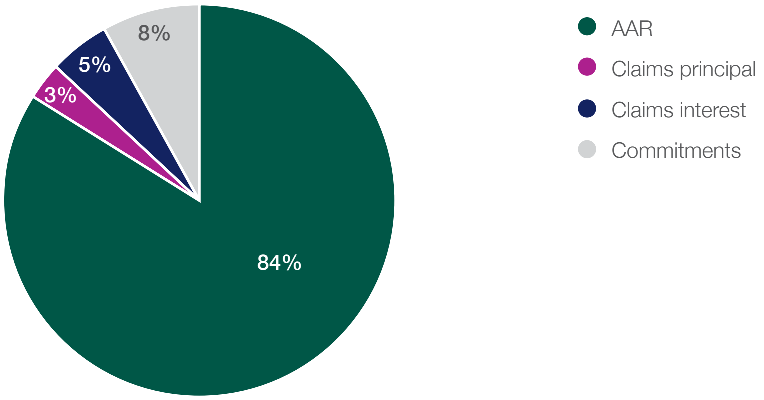
11 The Paris Club is the informal group of official creditors that seeks to establish coordinated and sustainable solutions to debt service difficulties experienced by debtor countries.

The charts below show the breakdown of this exposure between amount at risk (AAR), claims (principal and interest) and commitments.[12]

Breakdown of total exposure 31 March 2018

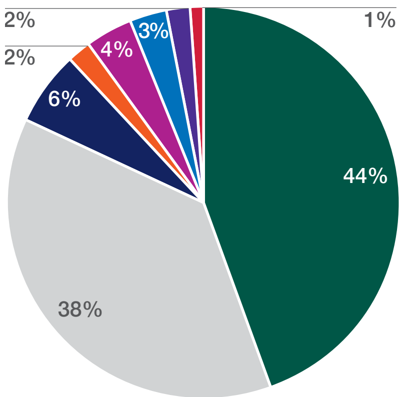


Breakdown of total exposure 31 March 2017

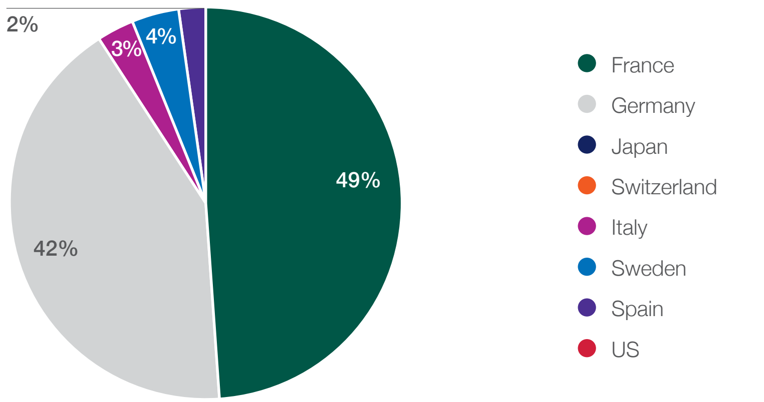


At 31 March 2018, total AAR amounted to £18.2 billion (£19.5 billion in 2017). This figure includes £4.7 billion of counter-guarantees provided to UKEF by other European ECAs (£5.5 billion in 2017), principally related to Airbus business, and £0.4 billion of private reinsurance used to manage risk concentrations in our portfolio (in both years).

Breakdown of export credit agency counter-guarantees 31 March 2018



Breakdown of export credit agency counter-guarantees 31 March 2017



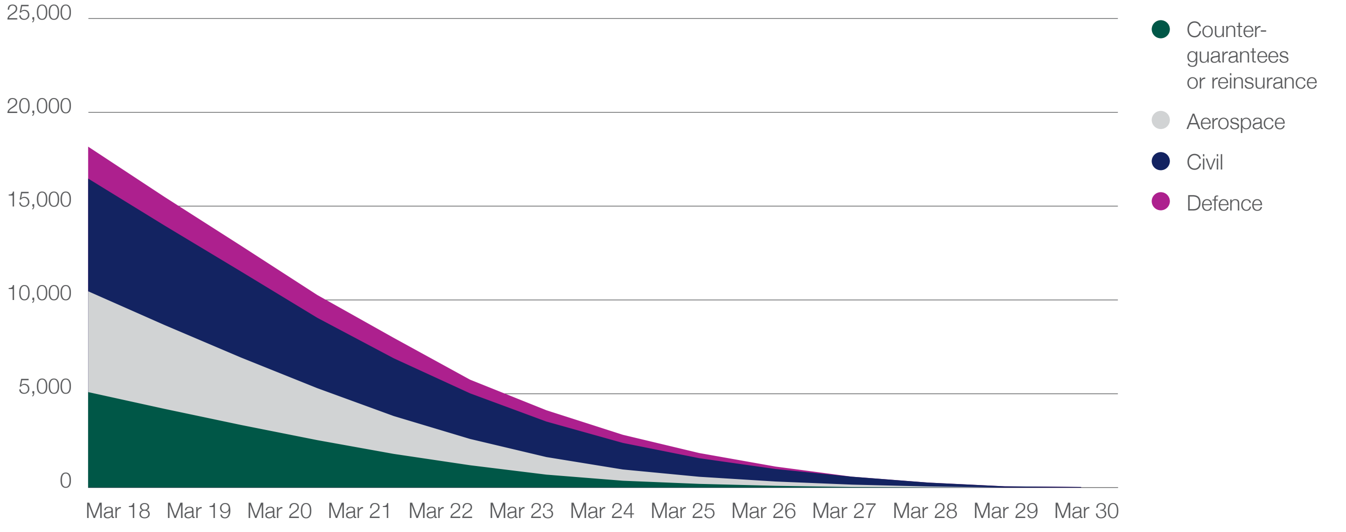
12 Commitments are cases not yet the subject of an issued and effective guarantee, but for which UKEF has communicated its intention, before a specified date and subject to conditions, to provide support.

Horizon of risk

The vast majority of our credit exposure is made up by medium to long-term finance. The chart below illustrates how our current portfolio is expected to run off over time in terms of overall AAR. Over the next 12 months around 15% will run off, with around 56% of the current portfolio expiring within 4 years.

Amount at risk run-off

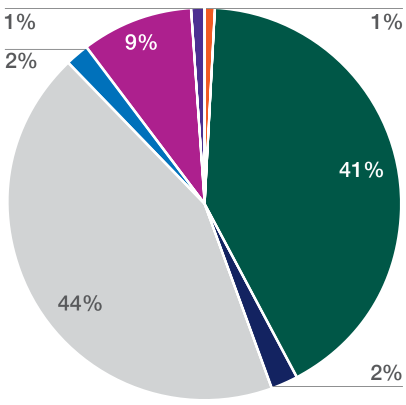
(£m)



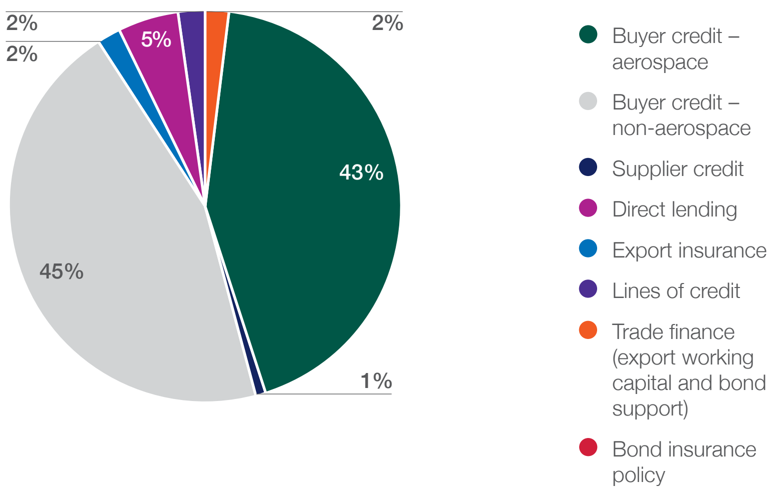
Exposure by product

The charts below break down the AAR by product sector, excluding ECA and private market reinsurance. Overall the portfolio is stable across UKEF's product range, with new business being largely balanced against run-off and a weakening $/£ exchange since the previous year end. Direct lending continues to increase as a proportion of overall exposure.

Exposure by product 31 March 2018



Exposure by product 31 March 2017

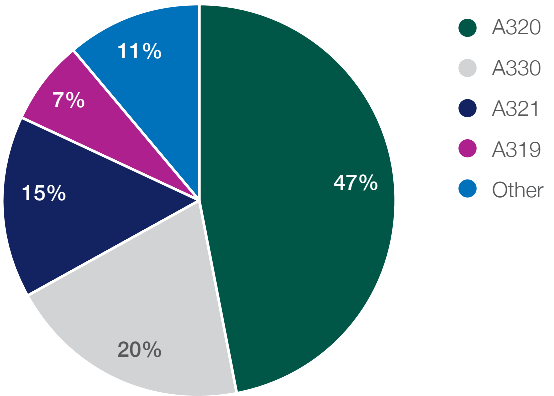


Risk concentrations

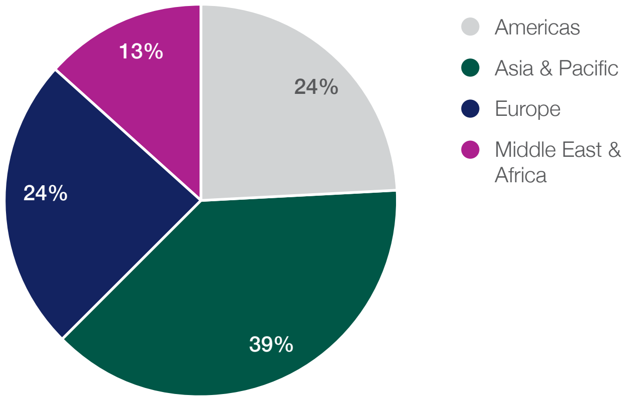
Sectors

UKEF's largest risk concentration remains in aerospace, accounting for 41% of the AAR (net of export credit agency reinsurance/counter-guarantees) as at 31 March 2018 (42% for 2017). However, our aerospace portfolio is well diversified across airlines and aircraft-leasing companies, aircraft type and geographical region, detailed below. Actual exposure is down given run-offs and reduced levels of new business written this financial year.

Aerospace portfolio by aircraft type
(measured by number of aircraft)



Aerospace portfolio by aircraft geography
(measured by number of aircraft)



The majority of aerospace exposure is secured on the underlying aircraft.[13]

Accounting for the value of this asset security, UKEF's net exposure to the sector is slightly lower than last year, at £229 million (£249 million in 2017).

At 31 March 2017, UKEF had £1.5 billion credit exposure to the oil and gas sector, representing 12% of our overall AAR (net of export credit agency reinsurance/counter-guarantees). This was mainly attributed to major emerging market oil companies in Asia and South America.

Other sector concentrations were to the chemicals industry (£1.2 billion AAR), spread across the Middle East and Asia, and commercial real estate (£2.3 billion AAR), mainly in the Middle East. There is a pipeline of new business in both the oil and gas and petrochemical sectors given the strong credentials of UK exporters in these areas and UKEF's proactive approach to enhancing UK content and the number of UK exporters in the projects it supports.

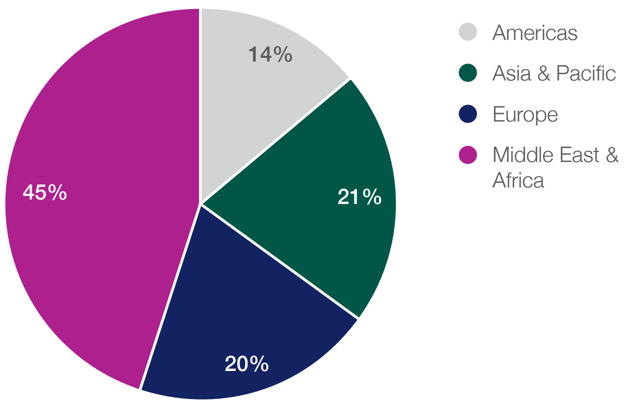
13 This means that UKEF can take possession of aircraft from defaulting airlines. Following the 9/11 terrorist attacks, we took possession of, leased and eventually sold 44 aircraft, ensuring losses both to the airline industry and UK taxpayer were minimised during this difficult period.

Geography

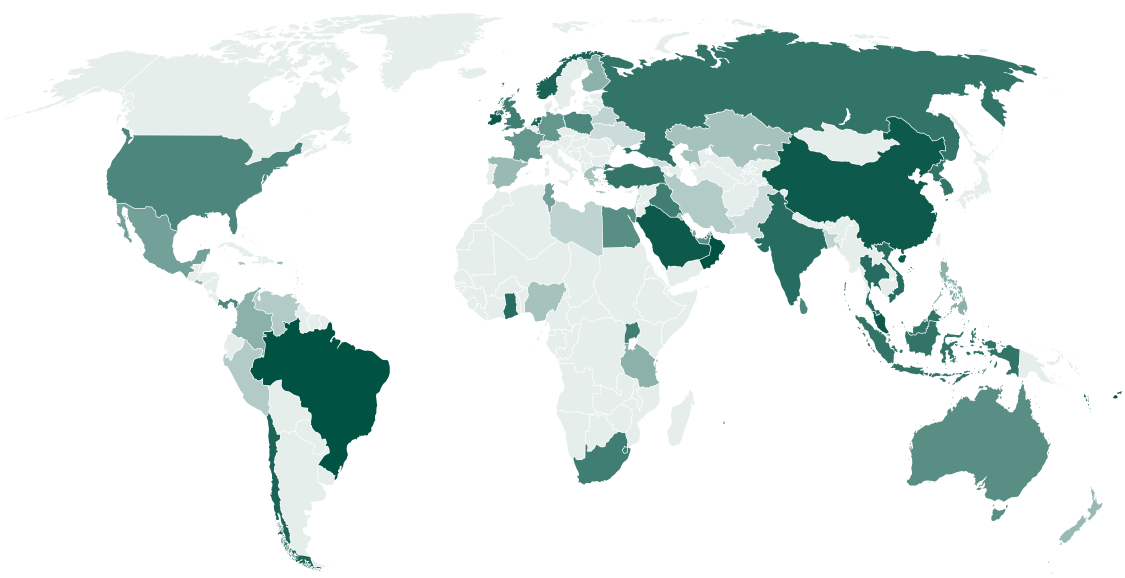
As of 31 March 2018, the Middle East and Africa accounted for 45% of our net AAR portfolio. The majority of this resulted from support of UK exports to Dubai, Saudi Arabia, Oman and Abu Dhabi.

Asia accounted for 21% of net AAR, with around £1.9 billion attributable to civil aerospace business with a number of airlines. In the Americas, around £0.6 billion of exposure was attributable to the aerospace sector, and the remaining exposure largely centred on Brazil.

Regional breakdown of net AAR - whole portfolio



Global AAR at 31 March 2018

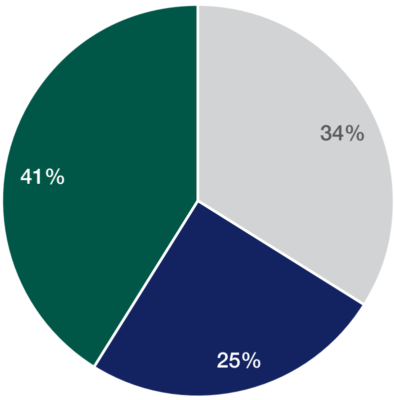


Darker shading indicates higher AAR

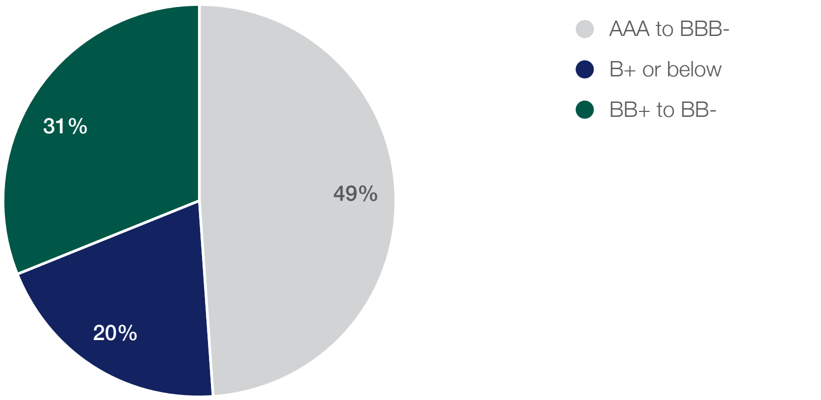
Credit quality

The credit risk quality of our portfolio remained stable in 2017-18. As at 31 March 2018 34% of AAR (net of reinsurance) was rated 'investment grade' by UKEF (compared to 49% in 2017). Rather than reflecting a migration in risk appetite, the decrease in the 'investment grade' (AAA to BBB-) segment was primarily due to rating downgrades in relation to a few substantial transactions while the increase in the B+ and below segment relates to new business issued in the year.

Net AAR by rating
31 March 2018



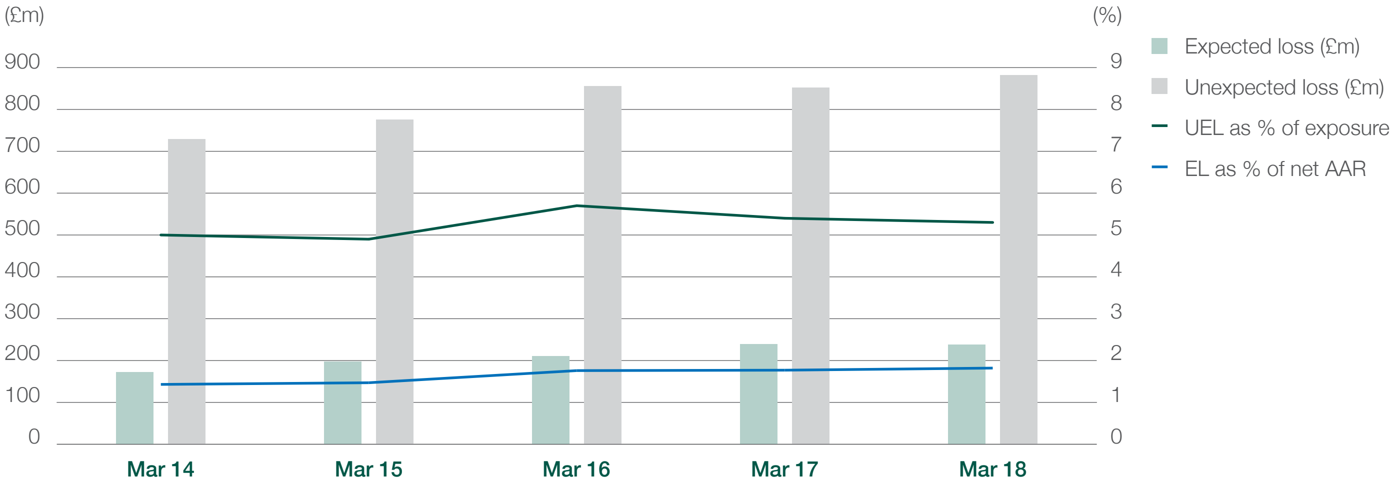
Net AAR by rating
31 March 2017



Portfolio expected loss decreased slightly, consistent with a reduced AAR, from £240 million to £238 million, representing 1.8% of net AAR, as it was in 2017.

Portfolio unexpected loss increased slightly to £882 million as of 31 March 2018, from £853 million in 2017, representing 5.3% of net AAR (5.4% in 2017).

Expected loss and unexpected loss trend



New claims paid in the year

UKEF continued to experience very low levels of claims paid. The low level of new claims is informed by rigorous credit risk assessments, good underwriting and structuring of transactions, and risk management standards more generally, all helped by a largely benign credit environment globally.

There have been fewer defaults affecting the short-term EXIP portfolio than expected, given the majority of transactions are in challenging countries, but exposure to this product is relatively modest. Similarly, the predominantly UK SME portfolio supported under the bond support or working capital schemes has proved to be robust, with minimal losses since the schemes were introduced in 2011. This partly reflects the high proportion of bonding facilities which are intrinsically less risky, but also the well-established nature of our SME clients and their relationships with their banks, with which UKEF shares risk under these schemes.

For claims in 2017-18, we paid a total of £2.4 million (down from £8.4 million in 2016–17).

- Of this, £1.6 million represented claims payments made in respect of new defaults in the year.
- The new claims pertained to buyers defaulting in Azerbaijan and Costa Rica.
- The remaining balance was attributable to defaulting counterparties occurring in earlier years.

Outstanding claims paid and provisions

The bulk of outstanding claims paid and still to be recovered by UKEF arose on business issued and defaulting prior to 1991. Almost all of the £1.46 billion (down from £1.54 billion in 2017) of outstanding claims paid on this business refers to sovereign exposure that is subject to Paris Club rescheduling, the most significant part of which is for Sudan (including a substantial amount due to accrued interest). The overall provision amount for this business decreased slightly on 31 March 2018 to £1.15 billion (down from £1.18 billion in 2017), mainly due to scheduled repayments.

Outstanding claims paid on Account 2 from business issued after 1991 has reduced slightly in the year, at £377 million at 31 March 2018 (down from £414 million in 2017), in line with scheduled Paris Club repayments overtaking increases in accrued interest. Sovereign exposure in Zimbabwe and Indonesia (the latter rescheduled at the Paris Club and performing in accordance with the agreed rescheduling) makes up the majority of this. Historical aerospace claims are also paying down in accordance with agreed rescheduling.

Recoveries

Overall recoveries (on all business, both principal and interest) amounted to £103 million as at 31 March 2018 (£150 million in 2016–17), reducing total recoverable claims (excluding interest on unrecovered claims) to £701 million (£800 million in 2016-17). The majority of recoveries (£80 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.

Risk appetite limit

Consistent with a stable portfolio in terms of exposure and business mix the projected portfolio loss to the 99.1%ile remained steady at £1.4 billion against a financial objective limit of £5 billion set by HMT.

Portfolio stress testing

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

Portfolio stress tests (based on end of March 2018 portfolio)[14]

(£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	245	83	415
Increase in projected portfolio loss to the 99.1%ile point	393	271	956

14 This stress test is based on the complete UKEF portfolio. The corresponding sensitivity analysis presented in note 20 of the accounts is based on a portfolio confined to insurance contracts only, as defined by our accounting policies.

Market risk management

Context

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

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

Foreign currency risk arises from two main areas:

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

Interest rate risk

Fixed rate export finance (FREF) scheme

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

The lending banks funded the loans at floating rates (LIBOR plus a margin). Through 'interest make-up' arrangements, UKEF made up the difference when the lender's floating rate was more than the applicable CIRR. When the floating rate was less than the applicable CIRR, the lender paid UKEF the difference. This system exposed UKEF to interest rate risk.

Before closing the scheme in 2011, UKEF 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.

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

Internal policies in relation to active hedging have been discontinued. Nevertheless, we monitor the financial position of the scheme and its residual interest rate risk closely.

The portfolio is valued on a daily basis with its profit and loss performance measured against a series of internal limits. Movements in excess of these limits are immediately reported to the Chief Financial Officer and the Credit Committee for appropriate action.

These arrangements, along with several other reporting provisions relating to the scheme, are approved annually by the Credit Committee. Periodic sensitivity analysis is carried out on the portfolio to gauge the financial impact of interest rate movements on UKEF.

Due to portfolio run-off, the amounts involved in the FREF scheme are immaterial. Note 20 to the accounts includes details of the remaining maturity profile of the portfolio and the portfolio's sensitivity to movements in interest rates. Final run-off will occur in 2022-23.

Direct lending

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

To ensure that interest earned on each CIRR-based direct loan adequately covers the government's borrowing costs, a check is made prior to commitment that confirms that the sterling CIRR applicable to the direct loan is higher than the corresponding National Loans Fund rate.

If this is not the case, then interest on the direct loan will be charged at the higher rate. A similar arrangement, involving an interest rate check based on cross-currency swap methodologies, applies where direct loans are denominated in eligible foreign currencies.

Foreign currency risk

Translation risk

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

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

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

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

Direct lending

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

Liquidity risk management

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

The nature of some of UKEF's products means that significant payments could be required within a few days in the event of a default by an insured or guaranteed party. Arrangements to cover this eventuality have been pre-agreed with HMT. Regarding UKEF's direct lending activities, the requisite funding is provided by HMT. Note 20 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.

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

Chief Financial Officer's report

Cameron Fox
Chief Financial Officer

This report summarises and highlights the department's financial performance for the year ended 31 March 2018. Given the importance of the management of UKEF's portfolio, this report should be read alongside the Credit risk, portfolio overview and pricing report. The detailed financial performance commentary (see below) for the year has been divided into operating segments (lines of business) and there is also a summary of UKEF's overall performance against resources voted by Parliament.

Overall results

UKEF achieved a net operating income of £5 million for the year ended 31 March 2018 compared with £149 million for the year ended 31 March 2017. The decrease in net operating income for the year was largely as a result of foreign exchange (FX) losses in 2017-18. UKEF reported a loss of £65 million for 2017-18 compared with a gain of £57 million in 2016-17. On an FX-adjusted basis the net operating income for 2017-18 was £70 million compared with £92 million for the year to 31 March 2017.

Foreign exchange

As a significant proportion of UKEF's guarantees, insurance policies and loans are written in foreign currencies (mainly the US dollar), UKEF is exposed to foreign currency risk and associated volatility in terms of the financial results (UKEF is not authorised by HM Treasury (HMT) to hedge exchange rate exposures – see the Credit risk, portfolio overview and pricing report on page 40). During the year, Sterling appreciated by approximately 12% against the US dollar (see Note 20 of the financial statements which includes details of the currency profile of our insurance assets, financial instruments and capital loan commitments).

Operating expenses

These were higher in 2017-18, at £34 million compared with £30 million in 2016-17. This increase was largely due to a planned increase in staff (see our people on page 89). UKEF however continued to deliver on a number of efficiencies related to our Spending Review 2015 saving commitments.

Interest and claims credit

Over the course of 2017-18 there were a number of reductions in provision rates (less so than in 2016-17 however which accounts for the reduced claims credit) on a range of markets as well as the recovery of claims and interest on performing markets resulting in provision releases.

Long-term assets and liabilities

Given the nature of the business that UKEF supports, the department has a significant holding of long term assets and liabilities.

UKEF's major asset, net recoverable claims (denominated in a range of currencies), decreased from £368 million in 2016-17 to £292 million during the year. Gross claims reduced from £0.8 billion to £0.7 billion as recoveries were made.

Reserving for insurance liabilities

UKEF applies the fund basis of accounting (see the financial statements from page 111 for a fuller explanation) for its medium and long term business. At the end of the year the (net) underwriting funds stood at £629 million compared with £582 million at the end of 2016-17. Releases from the funds during the year (being business written in 2008 and 2014) was some £26 million in 2017-18. This release (which is a surplus of premium written over risk and costs of writing the business) reflects the quality of the underwriting and credit decisions made in 2008 and 2014.

Accounts 1 to 5

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

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

A UKEF Board meeting. From left to right: Lawrence Weiss, Noel Harwerth, Shalini Khemka and John Hill

Management commentary — 5-year summary

	2017-18 £m	2016-17 £m	2015-16 £m	2014-15 £m	2013-14 £m
Overall value of guarantees and insurance policies:					
New business supported – net of reinsurance	1,865	2,178	1,507	2,685	2,272
Amounts at risk – gross of reinsurance	16,988	18,859	17,111	18,672	17,195
Statement of comprehensive net income:					
Premium income net of reinsurance	103	102	73	104	120
Staff, other administration and operating costs	34	30	30	31	26
Foreign exchange gain/(loss)	(65)	57	13	34	(32)
Net operating income – total	**5**	**149**	**106**	**129**	**50**
Account 1	9	63	33	41	18
Account 2	22	70	64	81	19
Account 4	2	4	6	7	13
Account 5	(28)	12	3	-	-
Net operating income – foreign exchange adjusted	70	92	93	95	82
Statement of cash flows:					
Claims recoveries – total	**76**	**120**	**133**	**115**	**108**
Account 1	34	47	49	44	38
Account 2	42	73	84	71	70
Interest recoveries in the year – total	**27**	**31**	**28**	**25**	**27**
Account 1	26	28	24	22	23
Account 2	1	3	4	3	4
Claims paid – total	**2**	**8**	**5**	**6**	**13**
Account 2	2	8	5	6	13
Net cash flow from operating activities – total	**225**	**272**	**199**	**237**	**205**
Account 1	60	74	73	65	59
Account 2	114	158	109	165	138
Account 4	2	3	5	6	8
Account 5	49	37	12	1	-
Statement of financial position:					
Recoverable claims before provisioning	**701**	**800**	**876**	**996**	**1,075**
Account 1	463	515	539	583	609
Account 2	238	285	337	413	466
Recoverable claims after provisioning	**292**	**368**	**429**	**531**	**605**
Account 1	190	223	234	264	284
Account 2	102	145	195	267	321
Interest on unrecovered claims after provisioning	**116**	**134**	**134**	**143**	**146**
Account 1	115	133	133	142	145
Account 2	1	1	1	1	1
Underwriting funds – net of reinsurance	**629**	**582**	**547**	**553**	**542**
Account 2	629	582	547	553	542
Recoverable capital loans before provisioning	**505**	**381**	**119**	**82**	**104**
Account 4	15	32	51	75	104
Account 5	490	349	68	7	-

Account 1

The main activity relating to this account is the administration and collection of the claims paid out against these guarantees and insurance policies. 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:

- Net operating income was £9 million compared with £63 million in 2016-17. The decrease in net operating income was due to a foreign exchange loss of £20 million in 2017-18 compared with a gain of £25 million in 2016-17.
- Recoveries of claims paid were £34 million compared with £47 million in 2016-17.
- Recoveries of interest on claims paid were £26 million compared with £28 million in 2016-17.
- The balances for gross claims decreased from £515 million in 2016-17 to £463 million during the year, while those for net claims decreased from £223 million in 2016-17 to £190 million during the same period.
- Interest on net unrecovered claims decreased from £133 million in 2016-17 to £115 million during the year.
- There is no non-claims exposure on this account.

Account 2

The key results were as follows:

- The total of guarantees and insurance policies (net of reinsurance) that were issued and effective during the year was £1,865 million compared with £2,178 million at 31 March 2017.
- Net premium income was £103 million compared with £102 million in 2016-17.
- Net operating income was £22 million compared with £70 million in 2016-17. The decrease in net operating income was mainly due to a foreign exchange loss of £7 million in 2017-18 compared with a gain of £23 million in 2016-17.
- Claims authorised and paid or payable during the year decreased to £2 million from £8 million in 2016-17.
- Claim recoveries for the year were £42 million compared with £73 million in 2016-17.
- Gross claims balances were £238 million compared with £285 million in 2016-17.
- Net claims balances were £102 million compared with £145 million in 2016-17.

Account 3

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

Account 4

The results were as follows:

- The direct funding balance represents the funds originally loaned by HM Treasury to reduce the cost of FREF. The balance continued to reduce during the year to £15 million from £32 million in 2016-17, as regular instalments were made.
- Net operating income was £2 million in 2017-18 compared with £4 million in 2016-17.

Account 5

- This account relates to direct lending activity. During the year 7 new loans were originated (2 loans were originated in 2016-17). There are now 14 loans drawing or drawn.
- There was a net operating loss of £28 million in 2017-18 compared with net operating income of £12 million in 2016-17. This decrease was largely as a result of a foreign exchange loss of £38 million as most of the loans originated were in US Dollars.

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.

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 HMT 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 HMT and voted by Parliament.

	SoPS Note	2017-18 Estimate £'000	2017-18 Outturn £'000	2017-18 Variance £'000
Budget spending:				
Departmental expenditure limit (DEL)	SoPS1(a)	(499)	(499)	-
Annually managed expenditure (AME)	SoPS1(a)	148,402	(4,619)	153,021
Resource total & net operating cost/(income)		**147,903**	**(5,118)**	**153,021**
Non-budget/resource total	SoPS1(a)	-	-	-
Net resource outturn & net operating cost/(income)		**147,903**	**(5,118)**	**153,021**
Budget spending:				
Departmental expenditure limit (DEL)	SoPS1(b)	800	671	129
Annually managed expenditure (AME)	SoPS1(b)	524,959	167,736	357,223
Capital total payments/(receipts)		**525,759**	**168,407**	**357,352**

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 £153 million – This variance is largely due to provision and foreign exchange movements (in particular in relation to a strengthening of sterling against the US dollar of some 12% during the year) which cannot be forecast with certainty and are unhedged. A more detailed explanation of UKEF's foreign exchange risk can be found in the credit risk, portfolio overview and pricing report on page 41 and Note 20 of the financial statements.

Capital – Note SoPS1(b):

AME £357 million – This variance is largely due to the direct lending facility. Most business is written in currencies other than Sterling (primarily US Dollars) therefore it is subject to foreign exchange volatility. The variance is largely due to the fact that whilst it is necessary to ensure there are sufficient voted funds, and therefore headroom to meet potential demand in year, it is not possible to predict actual demand (and therefore the associated drawings). Many deals may not close for reasons beyond the control of the department or the timing of loan origination changes. More details of UKEF's risks, including foreign currency and liquidity risk, can be found in the Credit Risk, Portfolio Overview and Pricing Report.

UKEF supported the sale of Bombardier C Series aircraft for the first time, to Korean Airlines

Head of Environmental and Social Risk's report

Max Griffin
Head of Environmental and Social Risk Management

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

In 2017-18, UKEF was appointed to the Steering Committee of the Equator Principles, a voluntary environmental and social risk management framework followed by many international financial institutions, having adopted them on 31 March 2016.

> **"As a member of the Equator Principles Steering Committee, UKEF will play its role in promoting sustainable business practices among the global trade community. Its appointment is a recognition of the UK government's commitment to sustainable financial decision-making."**
> - **Rt Hon. Greg Hands MP**, Minister of State for International Trade (June 2018)

During 2017-18, all transactions that fell within the scope of the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence[15] (the 'OECD Common Approaches') and/or the Equator Principles[16] were screened for ESHR risks. These two frameworks are complementary but in some cases apply different criteria to determine whether a project falls in scope. Where we identified significant risks, these transactions were categorised as either A (high risk) or B (medium risk) and we carried out an ESHR due diligence review.

In undertaking ESHR reviews, we place emphasis on early dialogue with exporters and other relevant parties to the transactions. The aim is to ensure that projects to which UK exports are destined align with the relevant international ESHR standards prior to our support being provided and subsequently throughout the period of support. Where applicable, UKEF seeks to support project sponsors in designing and implementing management systems that represent good international industry practice, mitigating negative impacts and enabling positive impacts to be achieved where possible. UKEF's benchmark ESHR standards are typically the International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability.

Our ESHR due diligence and monitoring is carried out by UKEF's professionally qualified and experienced Environmental and Social Risk Management (ESRM) team. Where appropriate this is supported by external ESHR consultants.

15 https://www.gov.uk/government/publications/uk-export-finance-environmental-social-and-human-rights-policy/policy-and-practice-on-environmental-social-and-human-rights-due-diligence-and-monitoring
16 http://equator-principles.com/

ESHR due diligence

In 2017-18, we worked with a wide variety of project developers and exporters to help them understand and manage ESHR risks associated with their project activities. We supported[17] 2 category B transactions that fell within the scope of both the OECD Common Approaches and the Equator Principles. A further 1 Category A and 6 Category B transactions were supported, which fell within the scope of the OECD Common Approaches only.

In addition, a total of 2 transactions were supported which were within the scope of the OECD Common Approaches as 'Existing Operations'[18] and had ESHR risks that warranted review.

No transactions falling only within scope of the Equator Principles were supported by UKEF this year.

UKEF had a positive impact on projects through ESHR risk management, for example:

- **Airport development, Uganda** (Category A)
  UKEF was asked to support the construction of Kabaale Airport, Uganda's second international airport. This greenfield development featured a UK exporter and project developer which were both new to UKEF. The review included a visit to Uganda to meet the relevant Ugandan authorities and project developer alongside the exporter, UK embassy and Department for International Development staff. UKEF's involvement in the project led to the development of supplementary environmental and social impact assessment studies (and, subsequently, management plans) including detailed assessments of the potential impact on water resources and biodiversity, as well as cumulative impacts. Additional stakeholder engagement plans were developed and UKEF obtained a commitment from the Uganda Civil Aviation Authority that it would undertake modelling of emissions to air and noise. UKEF agreed to provide support after the authority committed to completing an agreed environmental and social action plan.

- **Infrastructure project, UAE** (Category B)
  The ESRM team engaged with technical and environmental managers to explain and agree an updated ESHR management approach appropriate to the Dubai Arena project, having worked with the project sponsor previously. This was designed to further improve monitoring of the environmental and social performance throughout the duration of UKEF support.

Details of the ESHR risk and impact categorisation of all civil (non-aerospace) cases for which support was issued during 2017-18 and that fall within the scope of the OECD Common Approaches and/or Equator Principles are available on UKEF's website.

ESHR monitoring

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

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17 'Supported' refers to transactions where finance documents were signed and became effective (for example first drawdown took place and UKEF is on cover) within the March 2017 – April 2018 period.

18 'Existing Operations' are determined within the OECD Common Approaches as referring to applications relating to exports of capital goods and/or services to an identified location where there is an existing undertaking that is undergoing no material change in output or function.

UKEF seeks to influence positively the application of standards throughout the monitoring process in order to improve ESHR outcomes. This may include influencing the project developer:

- to promote positive health and safety behaviours, minimising accidents, injury and loss of life
- in re-establishing the livelihoods of people affected by the project
- in the provision of appropriate worker conditions and accommodation
- in promoting positive project impacts
- to ensure that all relevant environmental conditions are met through the project life cycle

The following are examples of our ongoing monitoring commitments for 2017–18 across both Category A and Category B projects:

- **Liwa Plastics Project, Oman** (Category A)
  Construction of the plant and 300km natural gas liquids pipeline commenced in 2017. The pipeline construction crew operates in very remote locations. UKEF's interactions as part of the ECA group with the project developer and main contractor have focused on heat stress management, health and safety management, more rapid provision of a mobile ambulance and the undertaking of timed drills for emergency response along the route.

- **Rural Bridges Phase II, Sri Lanka** (Category B)
  UKEF's ESRM team collaborated with the exporter, Cleveland Bridge UK Limited, and supported it in developing a rapid ESHR assessment methodology and report to be undertaken for each of the 500+ proposed bridge sites for review by the ESRM team before construction could take place. ESHR reports for bridge sites received by the ESRM team during 2017 noted that some bridges were to be located within or in close proximity to national parks. Given the heightened potential biodiversity impacts of bridge construction in these areas, the ESRM team encouraged the exporter to develop enhanced procedures with the relevant Sri Lankan authorities to help mitigate impacts to biodiversity over and above the existing management plans. These plans will ensure biodiversity management procedures meet internationals standards when sites are within or near national parks and other high-risk areas.

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

International ESHR co-operation

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

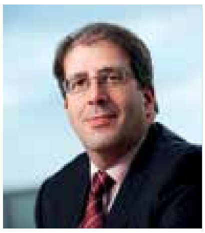
In June 2017, UKEF was elected by the Equator Principles Financial Institutions (EPFI) to join the Equator Principles' Steering Committee in a management support role. We were actively involved in the Equator Principles Annual Meeting, sharing experience and engaging and collaborating with EPFI colleagues. A significant outcome of the meeting was the agreement to update the Equator Principles by mid-2019 and UKEF will continue to proactively participate in this process.

UKEF participates in ESHR practitioner meetings of several multilateral financial institutions. This includes the IFC Community of Learning, as well as meetings of other development and commercial banks and ECAs. UKEF also attended a number of international ESHR industry conferences this year, including the annual conference of the International Association of Impact Assessment and the Institution of Environmental Management and Assessment's launch event for a new Global Environmental Assessment group.

A bridge constructed by Cleveland Bridge in Sri Lanka with UKEF support

Export Guarantees Advisory Council report

The Export Guarantees Advisory Council's role is to advise the Secretary of State for International Trade and the Minister for Trade and Export Promotion on the policies that UKEF applies when doing business, particularly those related to UKEF's application of ethical policies.



Andrew Wiseman
Chair, Export Guarantees Advisory Council

These policies are established by international agreements that relate to export credit agencies (ECAs) and relate to potential environmental, social and human rights risks of the projects UKEF supports, debt sustainability and anti-bribery and corruption procedures. The Council also considers transparency issues including freedom of information.

Members of the Council are appointed by the Minister responsible for UKEF. Members are not remunerated, but provide their services on a voluntary basis.

In 2018, the Council welcomed two new members.

John Morrison is the founding Executive Director of The Institute for Human Rights and Business. He holds over two decades of business and human rights advisory experience.

Dr Roseline Wanjiru is a Senior Lecturer at Newcastle Business School. She brings over twenty years' experience with interdisciplinary research interests in economic development, trade and industrial policy, foreign direct investment and innovation strategies.

The Council's current members are:

Chair

- **Andrew Wiseman**, Partner, Harrison Grant Solicitors

Members

- **Gillian Arthur**, previously Head of Philanthropy Services, Sanne Group
- **Alistair Clark**, Corporate Director, Environment and Sustainability Department, European Bank for Reconstruction and Development
- **Alexandra Elson**, Senior Stakeholder Relations Adviser, Shell plc
- **Neil Holt**, Corporate anti-bribery adviser
- **John Morrison**, Executive Director of the Institute for Human Rights and Business
- **John Newgas**, over 20 years' experience in the manufacturing industry
- **Anna Soulsby**, Associate Professor of Organisational Behaviour, Nottingham University Business School
- **Dr Roseline Wanjiru**, Senior Lecturer and Programme Leader at Newcastle Business School

During 2017-18, the Council met with the newly-appointed Minister of State for Trade and Export Promotion, Baroness Fairhead, and communicated with the Secretary of State for International Trade, Dr Liam Fox MP, on specific issues.

In addition, the Council meets with UKEF representatives to provide advice and carry out reviews to understand how UKEF's principles and policies are applied in practice.

The Council met on 4 occasions this year. Senior officials from UKEF, including the Chief Executive, attended each of these meetings, and briefed the Council on issues and developments over the year, and on individual export transactions supported by UKEF.

Anti-bribery and corruption

In 2017-18, Organisation for Economic Co-operation and Development (OECD) member countries undertook a review of the OECD Recommendation on Bribery and Officially Supported Export Credits (OECD Bribery Recommendation). The Council provided advice to UKEF in advance of the multilateral negotiations, supporting UKEF's approach to strengthening the recommendation to raise standards for all OECD members.

The Council was regularly updated on these international negotiations and sent a letter to the Secretary of State for International Trade to brief him on developments.

Each year, as an assurance exercise, the Council reviews the application by UKEF of the OECD Bribery Recommendation, and in December it considered the annual report from UKEF on its application of the Recommendation. The annual report provides a detailed overview of UKEF's anti-bribery due diligence through the year.

Environmental and social risk management

The Council is responsible for scrutinising and advising UKEF on its environmental, social and human rights (ESHR) risk management. The Environmental and Social Risk Management team (ESRM team) is responsible for implementing UKEF's ESHR policy, which includes identifying, reviewing and, where support is provided, monitoring ESHR risks and impacts in accordance with the OECD Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches) and the Equator Principles.

In 2017, UKEF staff gave a presentation on health and safety management to the Council. This set out the context in which health and safety issues are considered during both due diligence and post-issue monitoring. The presentation summarised the issues most frequently observed, supported by case study examples.

In 2017 the Council focused on gender issues in connection with projects supported by UKEF and requested that the ESRM team review its activities from a gender perspective. The Council reviewed UKEF's initial findings from research into how gender is considered by other ECAs and international financial institutions. The ESRM subsequently updated the Council on enhancements to its screening process and team guidance to better identify gender related risks and opportunities. The Council welcomed UKEF's approach and recommended that UKEF take a leadership role in this area among ECAs and project sponsors, emphasising the positive benefits of gender equality and raising gender issues with project sponsors and exporters at early stages of projects.

The ESRM team presented its annual report to the Council on the activities carried out by the team during 2017. The report highlighted a number of projects where UKEF had been able to positively influence through its ESHR due diligence and monitoring the management of ESHR risks. The Council recognised the increased workload, and particularly noted the quality of the ESRM team's work. The Council was pleased to see that ESHR risk management was a core UKEF activity, fully embedded into UKEF's due diligence processes and that UKEF was leading and influencing other ECAs in the ESHR field, becoming a centre of excellence within government.

Advice on individual cases

The Council does not provide advice on decisions UKEF makes to support individual export transactions and projects. However, it does carry out reviews to understand how UKEF's principles and policies are applied in practice. As appropriate, it also gives advice on how these might be further developed.

One way the Council does this is by asking UKEF to report on projects.

During 2017-18, UKEF representatives discussed with the Council the processes applied to projects that have been classified, based on the project ESHR risks, as Category A (high ESHR risk) or B (medium ESHR risk). The Council reviewed how UKEF undertook its ESHR due diligence and monitored projects' management of construction and operation phase ESHR risks after UKEF support has been provided. The Council paid particular attention to the application of the OECD Common Approaches and the Equator Principles.

For example, in 2017, the Council reviewed the ESHR due diligence and monitoring activities relating to a project supported by UKEF in Ghana. The Offshore Cape Three Points project involves the development of offshore oil and gas fields off Ghana's coast and an on-shore gas receiving facility. The project is intended to fuel up to 1,000 megawatts of power generation, helping Ghana meet its growing energy needs and displace oil-fired power generation with a cleaner fuel alternative. The Council noted the work of the ESRM team in building relationships with the project developers and operators to ensure appropriate environmental and social monitoring and notification requirements were in place during both construction and operations phases.

In addition to reviewing individual cases presented by the ESRM team, the Council has also provided advice to UKEF on other cases in order to assess the principles and policies relating to bribery and corruption.

During 2017-18, the Council reviewed UKEF's engagement with companies under investigation by the Serious Fraud Office (SFO). In addition, the Council also paid particular attention to the need to develop a response to new legal mechanisms as they are developed, for example deferred prosecution agreements with the SFO.

The Council noted the actions taken by UKEF to extend due diligence and monitoring of these companies. The Council noted that the processes that UKEF has put in place are key to promoting transparency and compliance.

Other work of the Council

Throughout the course of the year, the Council reviewed UKEF's handling of information requests made under the Freedom of Information (FoI) Act and the Environmental Information Regulations. The Council recognised the very high proportion of requests answered within statutory deadlines, with a response rate of 94% within deadline for FoI requests in 2017.

The costs of operating the Council during 2017-18 amounted to circa £3,000, largely to reimburse the cost of travel and meeting expenses.

The Council's Terms of Reference, Register of Members Interests, minutes of its meetings and contact details can be found on the government's website: www.gov.uk/government/organisations/export-guarantees-advisory-council.

For further information on the work of the Council please contact the Council Secretary: chiefexecutiveoffice@ukexportfinance.gov.uk.

Accountability

Members of the UKEF Board and its sub-committees

Noël Harwerth
Non-executive Chair of the UKEF Board, member of the Remuneration Committee

Louis Taylor
Chief Executive Officer

Cameron Fox
Chief Finance and Operating Officer

David Havelock CBE
Chief Risk Officer

Shalini Khemka
Non-executive Board member and Member of the Audit Committee
Joined the Board on 1 March 2018

Justin Manson
Ex-officio Board member, UK Government Investments and Member of the Audit, Risk and Remuneration Committees

Amin Mawji OBE
Non-executive Board member, Chair of the Audit Committee and member of the Remuneration Committee

Oliver Peterken
Non-executive Board member, Chair of the Risk Committee and member of the Audit and Remuneration Committees

Lawrence M. Weiss
Non-executive Board member and Member of the Audit, Risk and Remuneration Committees

Eric Peacock CMG was a non-executive director and member of the Audit and Risk Committees until 31 December 2017.

Dr Catherine Raines was an ex-officio Board member until 30 September 2017 in her capacity as Director General at the Department for International Trade (DIT). Following her departure from DIT, 3 DIT representatives, Susan Caldwell, (Managing Director, Strategic Relationships & Performance), Michael Charlton (Managing Director & Chief Investment Officer) and John Hill (Managing Director, International Trade & Investment) attended on a rotational basis.

Governance statement

Introduction

Louis Taylor
Chief Executive Officer

As Accounting Officer for UKEF, I am responsible to ministers and Parliament for the management of UKEF's operations, including the stewardship of financial resources and assets. This Governance Statement sets out how I have discharged this responsibility for the period 1 April 2017 to 31 March 2018.

The areas covered are:

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

Background

Our mission is to ensure that no viable UK export fails for lack of finance or insurance from the private sector, while operating at no net cost to the taxpayer. We work with a wide range of private credit insurers and lenders to help UK companies access export finance (the loans, insurance policies or bank guarantees that enable international trade to take place). We complement the provision of support from the private market, taking account of wider government export strategy and policies.

In providing support, we seek to:

- provide value for money to the taxpayer
- 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 our statute
- maintain the confidence of ministers, Parliament and customers
- effectively communicate what we do to interested parties

We have completed the first year of our 3-year 2017-20 Business Plan which sets out the scale of our ambition, and how we plan to meet it.

Realising the objectives in the plan will ensure we are better equipped to manage risk while more fully meeting the needs of our customers. A priority during this period of transformation and growth is to ensure we maintain an appropriate and effective control environment.

Corporate governance framework

UKEF was set up under statute in 1919 with the legal name of the Export Credits Guarantee Department. It is a legally distinct organisation under the Export and Investments Guarantees Act 1991 (EIGA), and is a Ministerial Department of State.

UKEF is operationally and strategically aligned with the Department for International Trade and reports to the Secretary of State for International Trade. I am the Chief Executive and Principal Accounting Officer of UKEF.

Statutory powers

UKEF's statutory powers are derived from the EIGA which provides that the powers may only be exercised with the consent of HM Treasury ('the Consent') including a financial framework comprising financial objectives and reporting requirements.

Department for International Trade

The Department for International Trade promotes UK exports, maximises opportunities for foreign direct investment and outward direct investment, and develops trade policy. I am one of DIT's Directors General. Other UKEF officials and I attend the DIT Board, DIT's Executive Committee and other DIT subcommittees.

Ministers

Through the year, Ministers have been provided with regular written and verbal advice and briefings on a range of issues concerning UKEF's operations including business planning, partnership with high street banks, development of business opportunities, anti-bribery and corruption due diligence, and new and prospective support for UK exporters.

Baroness (Rona) Fairhead, in her role as Minister for Trade and Export Promotion, is the lead minister for UK Export Finance, having taken up the post in October 2017. Prior to this, Rt Hon. Greg Hands MP held the role. Rt Hon. Dr Liam Fox MP is the department's Secretary of State.

HM Treasury

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

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

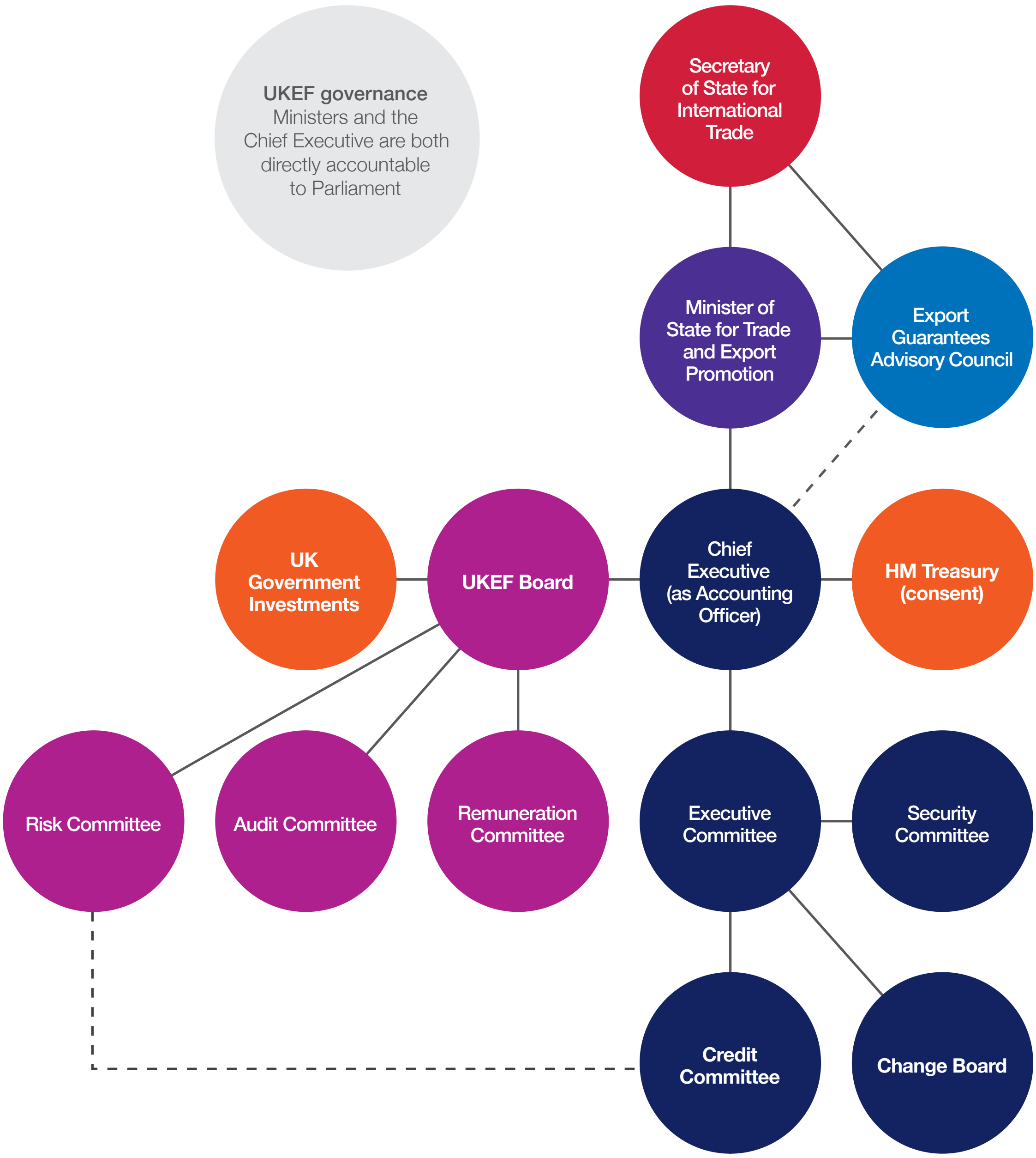
UK Government Investments

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

- corporate governance matters such as the appointment and remuneration of UKEF's Chair, non-executive Board members and Chief Executive Officer
- financial and operating performance, and key performance indicators, for which HM Treasury has delegated performance management responsibility
- risk management and assurance functions and processes
- business planning and strategic direction
- alignment of policy objectives with other government departments

UKEF's governance structure

This figure should be read in conjunction with the full corporate governance framework section.



Export Guarantees Advisory Council (EGAC)

EGAC is an Expert Committee under the Export and Investment Guarantees Act 1991. Its role is to advise the Secretary of State for International Trade on the policies that UKEF applies when doing business, particularly those related to:

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

The Council independently publishes a report of its business in the year, which is available on page 70 and also from the Council's webpages at www.gov.uk/government/organisations/export-guarantees-advisory-council. Council members serve on a voluntary basis. The Council does not hold any independent budget or spending authority. See page 70 for the Council's report.

UKEF Board

In discharging my responsibilities, I am advised by the UKEF Board, of which I am a member. The Board is led by a non-executive Chair. Its membership consists of 3 senior executive directors (the Chief Executive, the Chief Risk Officer and the Chief Financial Officer) and 7 non-executive Board members including ex-officio representatives from the Department for International Trade and UKGI. There is also an observer from HM Treasury. The terms of reference require there to be a majority of non-executive and ex-officio members.

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

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

In line with the Corporate Governance in Central Government Departments Code of Good Practice, an internal board effectiveness evaluation is carried out each year, with an independent external review at least once every 3 years. An external review was started during 2017-18.

UK Export Finance maintains a register of Board members' interests to ensure that any potential or actual conflicts of interest are identified and addressed in advance of the Board's discussions. Where conflicts exist, they are recorded in the Board minutes, along with any appropriate action taken to address them. During 2017-18, no issues relating to conflicts of interest arose that impacted on the Board's ability to conduct its work effectively. Non-executive directorships and substantial shareholdings are published on our website.

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

The Board has 3 sub-committees: the Audit Committee, the Risk Committee and the Remuneration Committee. Membership of these sub-committees comprises non-executive Board members and other independent representatives agreed by the UKEF Board.

Audit Committee

At the start of 2017-18, the Audit and Risk Committee was replaced by an Audit Committee and a Risk Committee, to better manage the areas of oversight of each committee. The Audit Committee annual report can be found on page 86. The Committee Chair reports on the Committee's activities to the Board.

Risk Committee

The Risk Committee annual report can be found on page 87. The Committee Chair formally reports the outcome of Risk Committee meetings to the Board. The Risk Committee has oversight of the Credit Committee.

Remuneration Committee

The Remuneration Committee comprises at least 3 non-executive directors and is chaired by the Chair of the UKEF Board. 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. It also ensures that these recommendations take into account any requirements or guidance from the Cabinet Office, including that the average increase to the SCS pay bill is within any centrally determined budget.

Executive Committee

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

- David Havelock CBE, Chief Risk Officer (to 31 March 2018)
- Gordon Welsh, Business Group Director
- Bhaskar Dasgupta, Chief Operating Officer (to 31 March 2018)
- Cameron Fox, Chief Financial Officer (Chief Finance and Operating Officer from 1 April 2018)
- Shane Lynch, Director of Human Resources (Director of Resources from 1 April 2018)
- Davinder Mann, Head of Legal Division

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 a member of the Executive Committee and whose membership is drawn from senior staff in UKEF:

- Credit Committee, chaired by the Chief Risk Officer, advises on the effective management of UKEF's credit risk exposures at the transaction and portfolio level, and on compliance with credit risk policies.
- Change Board, chaired by the Chief Operating Officer (the Chief Finance and Operating Officer from April 2018), advises on whether UKEF's investment in maintaining and improving its infrastructure, systems and processes is appropriate and effectively targeted and managed, and represents value for money.
- Security Committee, chaired by the Chief Operating Officer (until 28 February 2018) and the Director of Resources (from 1 March 2018), advises on the security of the assets required for UKEF's business operations, systems and processes, ensuring that they are appropriately secured in accordance with legal, regulatory and government requirements.

A register of interests is kept up to date to identify any potential conflicts of interest involving the senior executive directors and, if necessary, address them. No conflicts of interest or potential conflicts of interest have been identified this year.

Governance in 2017-18

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 financial year to seek a written direction from the minister
- UKEF met all its financial objectives in the financial year
- I met UKGI, HM Treasury and Department for International Trade officials as necessary to brief them on issues related to UKEF, so that they could provide informed advice to ministers if and when required
- the appropriate balance of non-executive directors and ex-officio members on the UKEF Board was maintained
- the Executive Committee met at least twice a month throughout the year

The UKEF Board met 8 times in the year, the Audit Committee met 5 times, the Risk Committee met 4 times and the Remuneration Committee met twice, consistent with their terms of reference.

Senior executive directors and their roles

As at 31 March, the roles of the senior executive directors were as follows:

- **Business Group Director:** responsible for our support for exporters and business development
- **Chief Financial Officer:** responsible for finance and accounting
- **Head of Legal Division:** responsible for core legal matters, supporting the department in managing legal risk; and responsible for compliance matters temporarily, until a final decision is made on where within the department this responsibility should permanently reside
- **Chief Risk Officer:** responsible for financial risk, operational risk, and related management systems and practices

- **Director of Resources:** responsible for all people-related issues, staff administrative functions, strategic workforce planning, commercial and security
- **Chief Operating Officer:** responsible for business insight and analytics; operational insight, change management and information technology

Name of Board member	Role	UKEF Board	Audit Committee	Risk Committee	Remuneration Committee
Noël Harwerth	Non-executive Chair	8/8	4/5[19]	3/4[19]	2/2
Louis Taylor	Executive Board member	8/8	5/5[19]	4/4[19]	2/2[19]
Cameron Fox	Executive Board member	8/8	5/5[19]	4/4[19]	-
David Havelock CBE	Executive Board member	8/8	5/5[19]	4/4[19]	-
Shalini Khemka (from 1 March 2018)	Non-executive Board member	1/1	0/0[20]	-	-
Justin Manson	Ex-officio Board member, UK Government Investments	6/8	4/5	3/4	2/2
Amin Mawji	Non-executive Board member and Chair of Audit Committee	8/8	5/5	-	2/2
Oliver Peterken	Non-executive Board member and Chair of Risk Committee	6/8	4/5	4/4	1/2
Lawrence M. Weiss	Non-executive Board member	8/8	5/5	4/4	2/2
Eric Peacock CMG (until 31 December 2017)	Non-executive Board member	6/6	2/4	2/3	2/2
Catherine Raines (until 30 September 2017)[21]	Ex-officio Board member, Department for International Trade	1/4	-	-	-

Third party delivery partners

UKEF works with a network of partners, including commercial finance lenders, commercial insurance brokers, other export credit agencies, other government departments, industry bodies and intermediaries. More information about our partners and operations can be found on pages 38-39.

We work with around 20 financial institutions who act as delivery partners in the provision of the department's Direct Lending product. The terms of these partnerships are governed by a panel memorandum agreement to ensure agreed levels of service are maintained and subject to periodic assurance work undertaken by the UKEF compliance function.

Looking forward, UKEF will continue to extend its delivery partner relationships and keep the terms of the underlying contractual arrangements current in order to improve levels of support to its customers.

19 Not a member of the committee but attends its meetings
20 Meetings took place before appointees joined the organisation
20 After September 2017, Susan Caldwell, (Managing Director, Strategic Relationships & Performance) Michael Charlton (Managing Director & Chief Investment Officer) and John Hill (Managing Director, International Trade & Investment) attended on a rotational basis. Susan Caldwell and Michael Charlton attended once, and John Hill attended twice.

Risk management and control

Our risk management is described in detail in the Credit risk, portfolio overview and pricing report on pages 40 to 59.

Strategic and operational risk

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

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

UKEF's operational risk management framework is designed to:

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

It is not possible to eliminate all risk, so risks are managed and mitigated to an acceptable level. Operational Risk Division (ORD) is part of the 'second line' within UKEF's '3 lines of defence' structure (see figure below). ORD owns the policy through which the operational risk management framework is implemented and maintains our operational risk register. It works with the other second-line and third-line assurance functions and the heads of functional areas across UKEF to reinforce ownership and accountability for risks and the application of effective controls. The 'second line' of defence continues to be developed.

The '3 lines of defence' framework[22]

Operational risks are reviewed by the Executive Committee, the Risk Committee and the Audit Committee. ORD's activities and the operational risk management framework were overseen by the Risk Committee during 2017–18.

Governance assurance exercise

Every quarter I meet with selected risk owners to review their operational risk registers and discuss matters of concern and proposed remedial action.

22 Prior to 2017-18 the Audit and Risk Committees were a single committee, the Audit and Risk Committee

I meet regularly with the Head of Internal Audit, the Head of Operational Risk, the Compliance Manager, and the departmental Security Officer.

At year-end, heads of functional areas complete a Letter of Assurance (LoA) in which they provide me with an assessment of the effectiveness of governance, risk management and control within their area of responsibility. These are reviewed by the assurance functions: Internal Audit, Operational Risk, Compliance, and Security.

At year-end, to provide further assurance, and supported by a non-executive member of the Board, I chair a panel which challenges Directors on their control and assurance responsibilities, including operational risk registers, incidents, and LoAs within their remit.

Cyber and information security risk

Cyber and information security risk in UKEF is reviewed on a regular basis. The Senior Information Risk Owner (SIRO) is the Committee-level representative responsible for all cyber and information risk, and chairs the Security Committee. At 31 March, the SIRO was the Director of Resources.

Our security policy and procedures are managed by the Head of Security, who reports to the SIRO. We measure ourselves against government security and industry information security standards every year. The last full annual review, in May 2017, found that information security risk was being appropriately managed. A subsequent Internal Audit report found some areas for improvement and made a number of recommendations which are being implemented.

However, due to both the evolution of cyber risks and the development of digital services in UKEF, the threat and risk of security events has increased. The Audit and Executive Committees approved a multi-year security strategy to re-align the security controls so that they are more proactive and mitigate against any attack, especially in relation to the trade finance digital service which supports information exchange with our counterparty banks. The Security Committee makes regular independent assessment of prevailing and emerging security risk, and has improved its security incident response and introduced greater rigour into its internal security processes.

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

Individual staff members are responsible for identifying information assets and their location, use and protection. An information asset register is in place to record these assets and this is regularly reviewed through sample testing.

Procedures are in place to administer responses to requests for information from the public under information legislation that gives the public rights of access. Procedures and training are in place to ensure compliance with relevant legislation, such as the Data Protection Act and its replacement in May 2018, the General Data Protection Regulations (GDPR) and with central government requirements, such as the Security Policy Framework (SPF) and the National Cyber Security Strategy.

Information and data management

The department's information and data management approach has continued to develop to meet the transformational challenges and opportunities presented by digitalisation. UKEF completed the implementation of an improved storage tool that is intended to be the single repository for all transaction information documents.

The controls framework has been enhanced to ensure regulatory requirements arising from the GDPR are met.

The department has also invested in forming a Data Quality Council to provide a focal point for definition, oversight and control of all data and metadata. As a cross-divisional group, the Council ensures data asset controls and management are appropriate, complete and proportionate to the business needs and requirements.

Whistleblowing policy

We have a whistleblowing and raising-a-concern policy in place. The policy is based on guidance provided by the Civil Service employee policy, one of the expert services for the Civil Service, and was last updated in November 2017. Awareness of how to raise a concern under the Civil Service Code is very high among staff, with 95% affirming this in the annual staff engagement survey.

No disclosures were made under the policy in 2017–18.

Internal audit and assurance

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

The charter establishes IAAD's position within UKEF; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities during 2017–18. Final approval of the internal audit charter resides with the Audit Committee acting on behalf of the UKEF Board.

On the basis of IAAD's continued engagement throughout 2017–18, the Head of Internal Audit's opinion was 'Limited'. This means that enhancements are recommended in the framework of governance, risk management and control in significant or important areas; action plans are in place and progress is being made against them. This reflects the continued demands on the control environment of a sustained period of internal transformation while ensuring continued compliance with laws, regulations and other obligations, including financial crime legislation.

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.

Compliance

UKEF is committed to following high public sector standards in areas of governance, accountability, transparency and risk management to achieve its objectives. As part of its business operations, UKEF faces risks of financial loss and damage to its integrity and reputation from any failure to comply with applicable laws and regulations. UKEF has a separate compliance function, which reported directly to the Chief Operating Officer (from 1 April 2018 to the Head of Legal Division), which is responsible for ensuring these risks are appropriately managed.

The compliance function has established an assurance process for the newly launched bank partnership distribution model. It is a key component of UKEF's '3 lines of defence' framework, working closely with operational risk and internal audit functions. As a relatively new division, work continues to improve its maturity.

Significant risks and mitigating measures

Financial crime control framework

During 2017-18, UKEF identified a potential gap in the department's financial crime control framework, specifically in checks relating to post-issue management activity. No breaches have been identified to date. An internal exercise was undertaken to identify the population affected by the potential gap and remedial action was taken as necessary. After discussion at the Audit Committee, a review of UKEF's policies and procedures relating to financial crime was commissioned, with a view to the further strengthening of current compliance policies, procedures and processes. This review is ongoing.

Fraud, bribery and corruption

UKEF takes issues of fraud, bribery and corruption extremely seriously, and reports all suspicious circumstances to law enforcement authorities responsible for investigation of criminal offences, including the Serious Fraud Office (SFO). Where there is an ongoing investigation, we implement an extended due diligence framework for considering future support in order to assure ourselves on compliance issues.

In April 2017, we announced that 'Special Handling Arrangements' would no longer be available to applicants for UKEF support. The removal of these arrangements, under which an applicant for UKEF support could request that knowledge of an agent's identity be restricted to three members of UKEF staff, is part of UKEF's commitment to high standards and good practice in matters relating to compliance and transparency.

Support for Airbus

In 2018, alongside Germany and France, UKEF provided export credit support for the refinancing of two Airbus A330s which were exported to Rwanda.

UKEF has worked with the French and German export credit agencies to develop an extended due diligence framework under which it will assess all applications for export credit support from Airbus. This support follows a thorough assessment of the export transaction in line with UKEF's framework on fraud, bribery and corruption to provide assurance on compliance.

This was the first time that UKEF has provided support for an Airbus transaction since April 2016, when UKEF received information from Airbus relating to its historical use of overseas agents that we referred to the SFO.

Organisational restructuring

During 2017-18 the pace of organisational change increased markedly. As a result of restructuring, as staff moved positions, prior roles and responsibilities were not always clarified, leaving limited oversight in some areas. At this stage in our transformation we must acknowledge that we need better to balance the achievement of longer term gains with control of current risks. I have been grateful to our Internal Audit team for identifying potential control weaknesses in this respect and for their follow up work on agreed audit recommendations.

Resources

This year, UKEF has increased the capability and capacity of the recruitment team which has resulted in three times as many new hires in-year compared with 2016-17, and UKEF's vacancy levels are running at 8%, compared to over 20% in prior years. However, UKEF salary levels lag behind financial services comparators. This inability to offer competitive salary packages has had an impact on recruitment and retention in key business areas.

Strategically, the Executive Committee has identified a number of areas where key skills are required, particularly in information security, and knowledge and information management. While our talent management and succession planning has been embedded, a number of tactical solutions, including consultancy and secondment, were required to plug the hard-to-fill gaps, particularly where specialist experience was required.

Corporate Governance Code for Central Government Departments

In preparing this statement, I have taken into account the Corporate Governance in Central Government Departments Code of Practice, 2017. I am satisfied that UKEF is able to demonstrate compliance with this code where it applies to UKEF for the relevant period.

Louis Taylor

Louis Taylor
Chief Executive and Accounting Officer
12 June 2018

Audit Committee report

Amin Mawji
Chair, Audit Committee

The Audit Committee report should be read alongside the Governance Statement which can be found on page 76.

UK Export Finance's Audit Committee Terms of Reference require the Audit Committee to consist of at least 3 non-executive Board members or other independent representatives as agreed by the UKEF Board. Currently, Amin Mawji (Chair), Oliver Peterken, Lawrence M. Weiss and Shalini Khemka, all of whom meet the relevant requirements for independence, serve on this committee. Justin Manson is also a member of the Committee, representing UK Government Investments (UKGI). Eric Peacock CMG completed his term as a non-executive Board member for UK Export Finance in December 2017 and Shalini Khemka has replaced Eric as a member of the Audit Committee.

Although not members of the Audit Committee, the Board Chair, Accounting Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Head of Internal Audit and a representative of the National Audit Office, UKEF's external auditor, normally attend meetings. The Audit Committee may ask any or all of those who normally attend but who are not members to withdraw, so as to facilitate open and frank discussion of particular matters. The Audit Committee Terms of Reference also provide that at least one member of the Committee should have significant, recent and relevant financial experience and should be a member of the Risk Committee to help co-ordinate between the committees.

The attendees discuss auditors' reports, review and assess the auditing process and assess the activities of both external and internal auditors. Audit Committee can also hold private discussions with external and internal auditors, without management present, at Audit Committee meetings when necessary.

Primary tasks and responsibilities

The Audit Committee:

- acts as a focal point for communication and oversight regarding financial accounting and reporting, internal control, and financial and regulatory compliance
- reviews the Internal Audit and Assurance Department (IAAD) Charter; assesses the IAAD strategy and plan, and the adequacy of the resources available to fulfil it
- considers the adequacy of the policies for the prevention and detection of fraud, and the policies for ensuring compliance with relevant regulatory and legal requirements on whistleblowing
- reviews the draft Annual Report and Accounts

Activities during 2017-18

During 2017-18, the following topics were discussed:

- the effectiveness of the internal control framework
- IAAD work plans, IAAD findings and management implementation of remedial actions
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements
- changes to accounting policies, details of the supplementary estimate, Audit Committee's view of the most significant financial statements risks and how these were addressed
- UKEF's operational risk register, and the year-end Letters of Assurance from heads of divisions

The Audit Committee meets at least 4 times in each year. In 2017-18 it met five times.

Risk Committee report

The Risk Committee report should be read alongside the Governance Statement which can be found on page 76.

Oliver Peterken
Chair, Risk Committee

UK Export Finance's Risk Committee Terms of Reference require the Committee to be made up of at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board. Currently, Oliver Peterken (Chair), Lawrence M. Weiss and Shalini Khemka, all of whom meet the relevant requirements for independence, serve on this committee. Justin Manson is also a member of the Committee, representing UK Government Investments (UKGI). Eric Peacock CMG completed his term as a non-executive member for UK Export Finance in December 2017 and was replaced by Shalini Khemka.

Although not members of the Risk Committee, the Chair of the Board, Accounting Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Head of Internal Audit, and a representative of External Audit normally attend meetings. The Risk Committee may ask any or all of those who normally attend but who are not members to withdraw, to facilitate open and frank discussion of particular matters.

The Risk Committee Terms of Reference also provide that at least one member of the Committee will also be a member of the Audit Committee to help facilitate coordination between the Risk and Audit Committees. I am therefore also a member of the Audit Committee.

Primary tasks and responsibilities

In general, the Risk Committee:

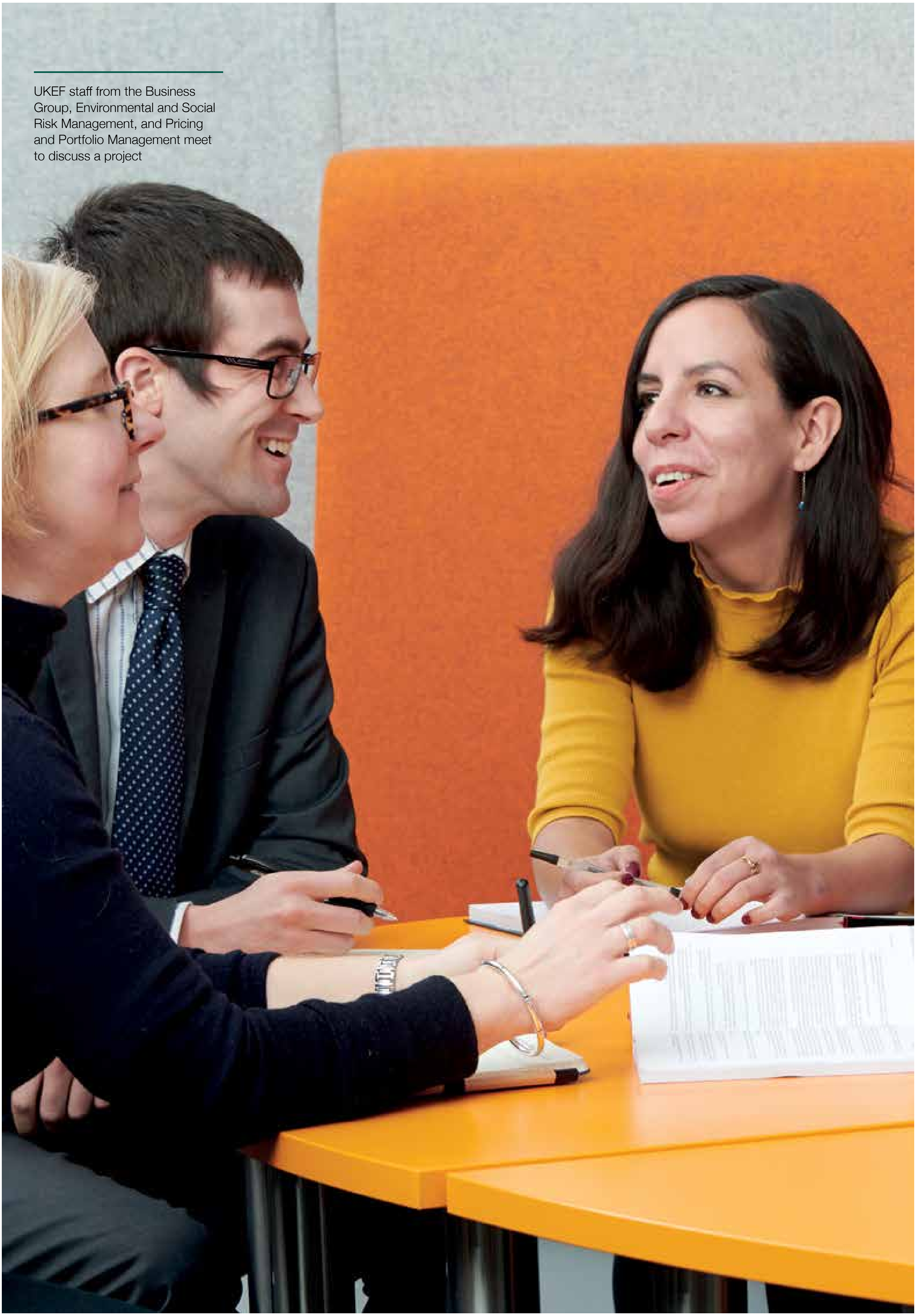
- examines and reviews any material changes to UKEF's key strategic, operational, compliance and reputational risks and considers the adequacy of the arrangements for effective risk management and control
- considers the completeness of the risk profile presented and identifies and evaluates potential emerging or new risk issues facing the organisation as a whole
- considers the Key Risk Indicators as set out by the Credit Risk Group Director
- considers credit risk reports from the Credit Risk Group Director
- considers management assurances from the Chief Operating Officer summarising operational risk, compliance, information assurance and project assurance
- reviews reports on the management of major incidents, "near misses" and lessons learned in areas relevant to the Committee's scope

Activities during 2017-18

During 2017-18, the Committee discussed the following areas:

- the Credit Risk Policy Statement
- revised strategic risk reporting
- UKEF's security strategy
- the Pricing Methodology Statement
- evidence-based provision rates and expected losses

The Risk Committee meets at least 4 times in each year. In 2017-18 it met four times.



UKEF staff from the Business Group, Environmental and Social Risk Management, and Pricing and Portfolio Management meet to discuss a project

Our people

Our people are essential to our ability to deliver our strategic objectives.

Shane Lynch
Human Resources Director

This has been a year of unprecedented change for UKEF. Following a significant increase in recruitment activity, designed to enable us to achieve the objectives set out in our Business Plan for 2017-20, our headcount is at its highest level in over a decade.

We have transformed our operating model and built on the creation of a single Business Group in 2016-17, in which staff work flexibly across all sectors, by reorganising our middle office functions, outlined in our partners and operations (page 38 to 39). This model will be further developed by bringing together business development, marketing and communications into a new origination function, which will work closely with the newly-established global network of export finance specialists, based in Brazil, Dubai, Ghana, Indonesia and Turkey. This network has been created in partnership with the Department for International Trade, which employs these staff, and is an example of the seamless approach to supporting UK exporters.

The increase in headcount has had a significant impact on learning and development requirements, with the need to induct and integrate a large number of new starters while continuing to deliver against our learning and development priorities. This led to a year-on-year increase in learning hours delivered of 55%.

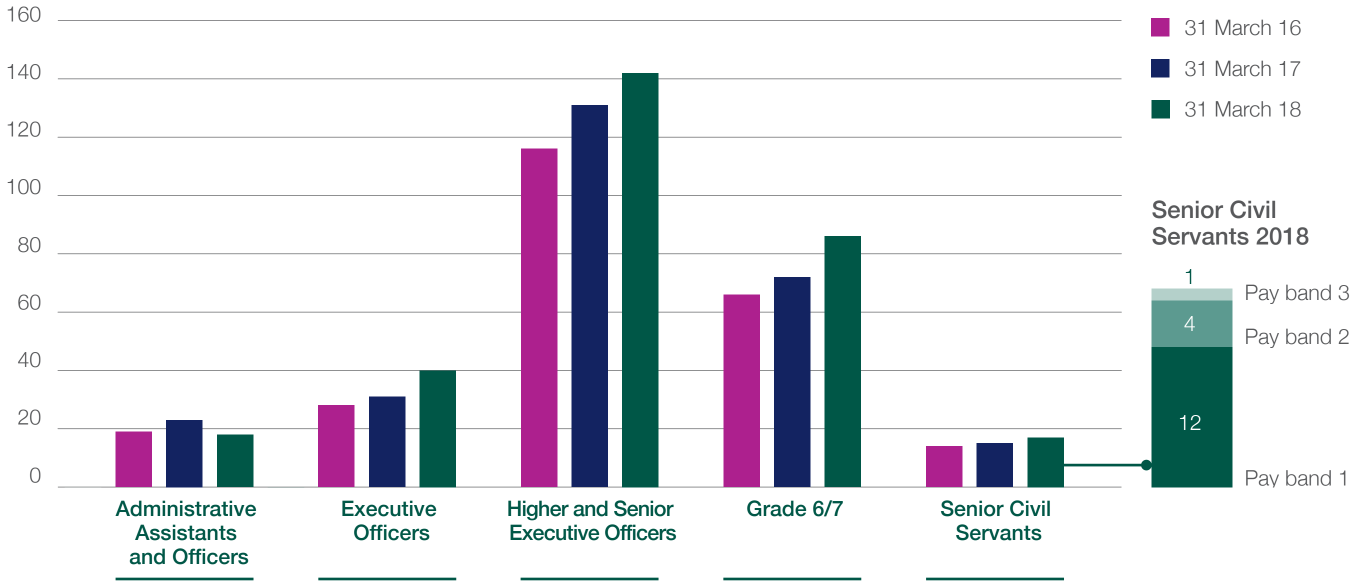
We continue to strive to increase diversity within our workforce and 2017-18 saw us sign up to the HM Treasury Women in Finance Charter and attain Level 3 of the national Disability Confident Employer Scheme.

We were very proud to have achieved our highest ever staff engagement score of 66% in the annual Civil Service People Survey; this was a particular attainment against the backdrop of a wide-ranging change programme. For the second year running we achieved a 4% increase and are now considered a “high performing” government department.

Our ambition does not stop here. We want to have the most engaged workforce in the Civil Service and believe our offer to our staff – a unique combination of commercial and central government experience in a supportive environment where their contributions are valued – will help us to achieve that aim.

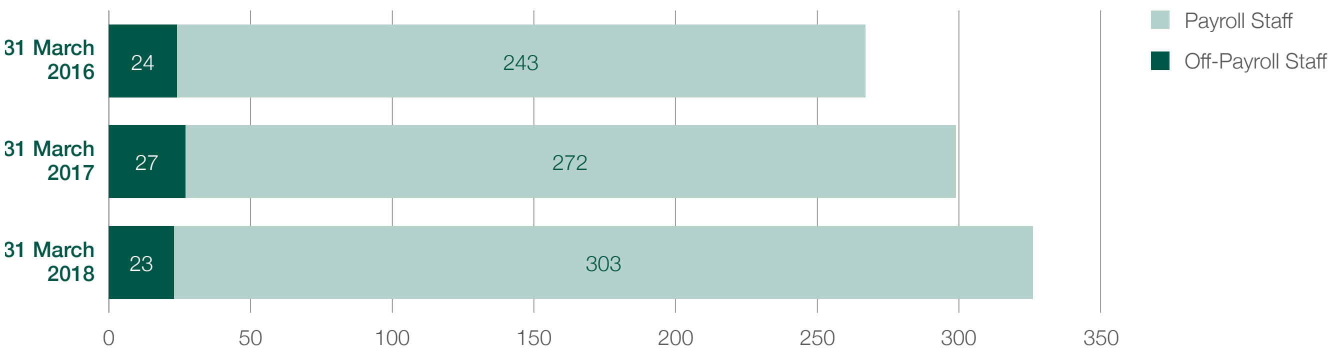
Workforce snapshot[23]

As at 31 March 2018, the directly-employed workforce stood at 303 (298.2 FTE). This represents an increase of 11.4% over the previous 12 months and 23.2% over the last four years.

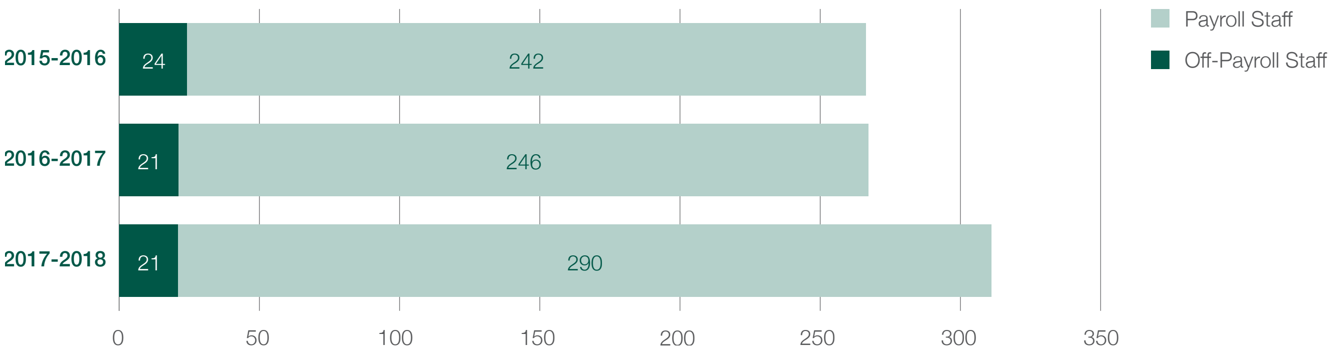


A further 23 off-payroll staff were engaged, predominately supporting our IT and Change & Innovation divisions. UKEF has reduced its reliance on contingent labour significantly since 2015 and has delivered over £1 million in cost savings.

Headcount



Average FTE



Our recognised trade union is the Public and Commercial Services Union (PCS). Union representatives meet HR colleagues formally on a monthly basis. There are also bi-annual meetings between trade union representatives and senior management, led by the Chief Executive Officer. HR tracks attendance at these meetings and they equated to 32.5 hours of facility time for 3 staff (less than 1% of their time), with an estimated cost of £888, during 2017-18.

23 These disclosures have been subject to external audit.

Recruitment

The recruitment market remained relatively challenging during 2017-18. Over 60% of our hires came from the private sector and the UKEF's Civil Service pay offering compared to external comparators, coupled with the relative buoyancy of the UK job market, continued to have an impact on attracting staff. Despite these constraints, there was an 80% increase in new hires compared to the previous financial year. Increased capacity and expertise within the human resources team, coupled with a more innovative "digital first" approach to sourcing candidates, were pivotal in driving this improved performance. This included an award-nominated campaign to recruit IT and change specialists. UKEF has also seconded professionals from private sector and government partners to enhance our mix of skills.

Over 40% of new hires were female, improving the gender balance within the department.

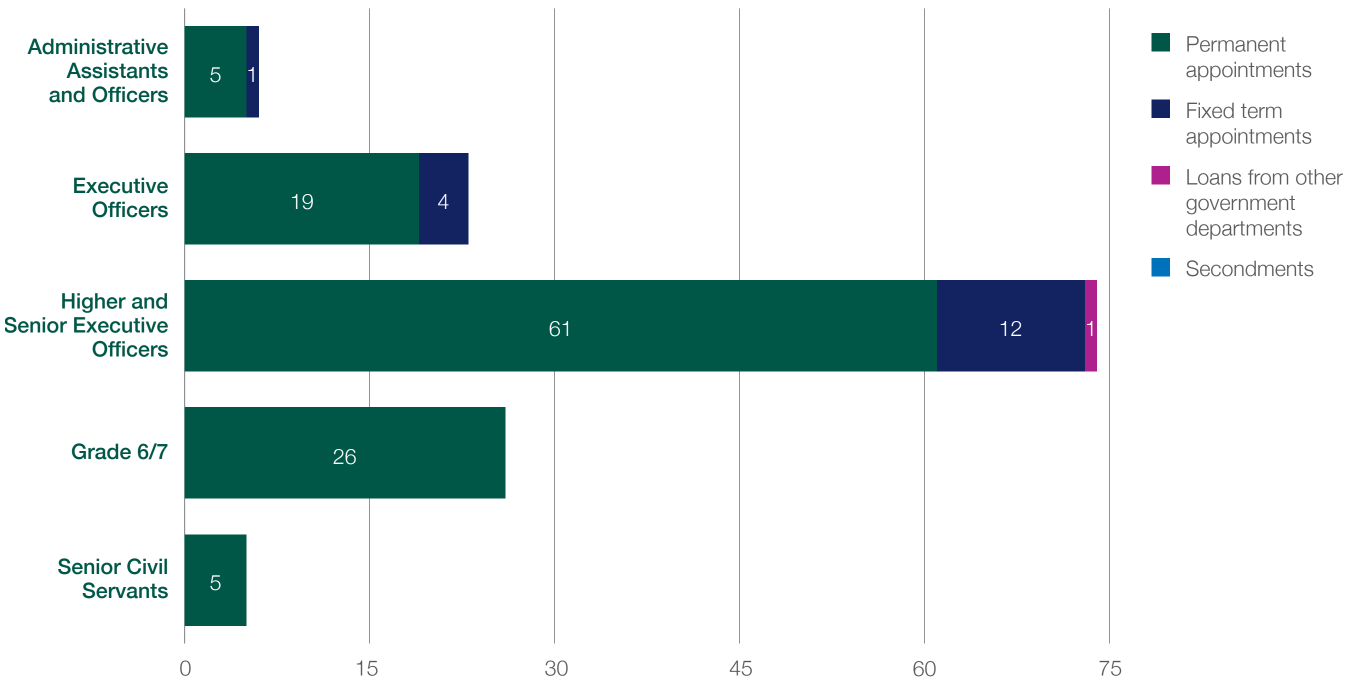
All UKEF recruitment is carried out in accordance with the relevant employment legislation and the recruitment principles issued by the Civil Service Commission.

40%

of new hires were women, improving the gender balance within the department

UKEF's award-nominated campaign dedicated to recruiting IT and change specialists

Appointments in 2017-18 by grade



Diversity & Inclusion

The Civil Service Diversity & Inclusion Strategy was launched in November 2017 and sets out an ambition that the Civil Service becomes the most inclusive employer in the UK.

We share this ambition and want to ensure that we are supporting all our employees to realise their full potential. We strive to create an environment that is inclusive while valuing and embracing diversity, building a great place to work.

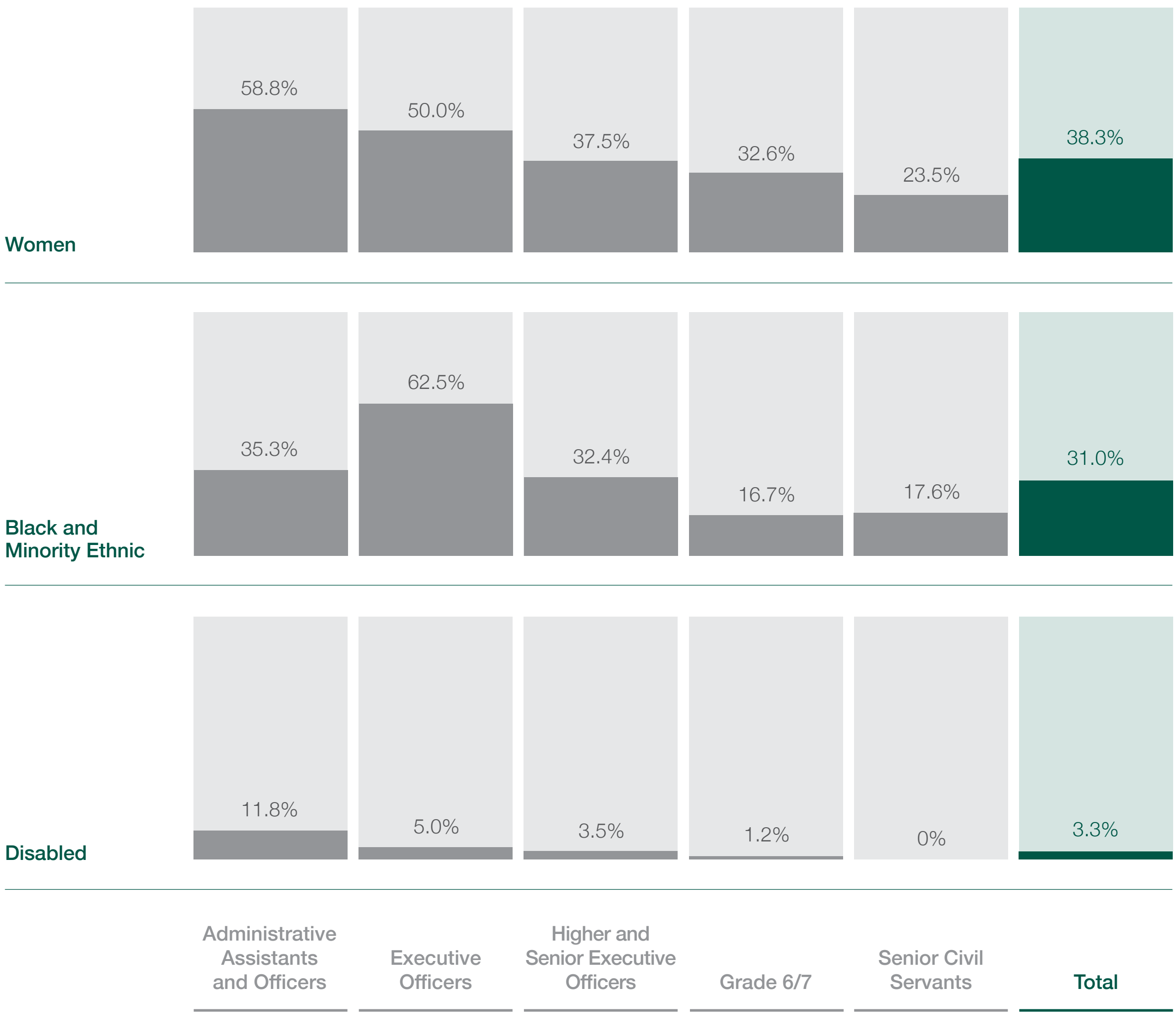
Our recruitment process is a key enabler for a more diverse workforce. The application process is anonymous to protect against bias, and we offer a Guaranteed Interview Scheme to disabled applicants. All UKEF staff are required to complete training on diversity, inclusion and unconscious bias.

The proportion of female staff and of those from BAME groups increased during 2017-18 and we plan to build on this by continuing to recruit staff from across all protected characteristics.

We recognise that we need to improve the gender balance within the department, particularly at senior levels, and have signed up to HM Treasury's Women in Finance Charter. The Charter commits us to a number of actions that will improve gender equality at UKEF. We have also attained Level 3 of the national Disability Confident Employer scheme.

Our staff have an essential role to play in creating an inclusive work environment and, working with colleagues from across the Department for International Trade, our staff networks have become important agents for change.

Diversity as of 31 March 2018



Learning and development

The increase in headcount over the year had a significant impact on learning and development at UKEF. We had to balance the need to induct a large number of new staff in to the department with continuing to meet the developmental requirements of our existing staff group.

We assessed the key skills and capabilities collectively required to deliver against the ambitions set out in our 2017-2020 Business Plan and our Executive Committee agreed the Department's learning and development priorities. Our top five priorities for 2017-18 were:

- Management and leadership skills
- Building relationships
- Projects & programme management
- Customer focus
- Commercial awareness

In addition, we also continue to develop technical training programmes to develop skills that are unique within government to UKEF, including credit risk analysis, project finance and an accredited training programme on trade finance for UKEF and Department for International Trade staff.

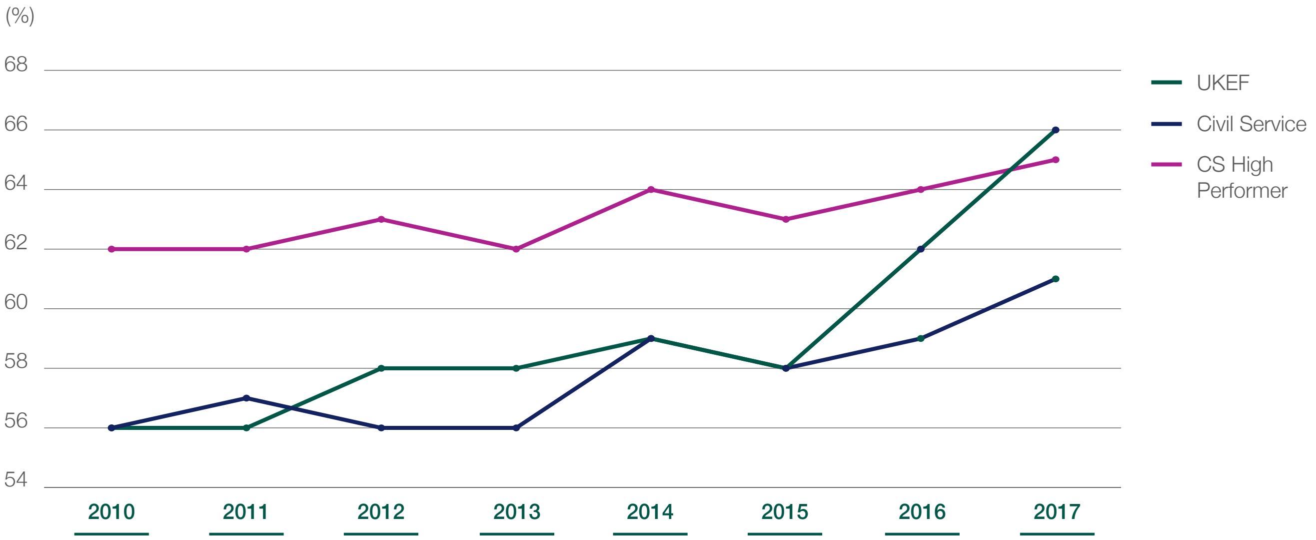
During 2017-18 the average number of days spent on formal learning and development activities per employee was 4.4 days (3.5 days in 2016-17) with 9,629 hours of learning delivered. This is an increase of 55% from 2016-17. The average spend per head was £1,002 (£840 in 2016-17). This year's figures are a strong indicator of UKEF's commitment to the continuous development of our workforce.

Engagement

The 4% increase in our engagement score in the 2017 People Survey results, bringing the score to 66%, was underpinned by significant increases in our scores for management skills (+8%) and leadership and managing change (+10%). It was clear that our staff are motivated by their work ["I am interested in my work" – 93%] and there is a strong understanding and connection with our goals ["I understand how my work contributes to UKEF's objectives" – 90%]. Within the Civil Service, UKEF has risen from the 40th to the 80th percentile since 2015 and we are now considered a 'high performer'. Our ambition, to have the most engaged workforce in the Civil Service, remains, and we will use the feedback from this year's survey to further improve our performance.

93%

of UKEF staff feel motivated by their work



“Our staff demonstrate a genuine enthusiasm for their work and what UKEF does. Innovation is encouraged and valued.”

- Feedback from a UKEF staff member in the 2017 People Survey

Health, safety and wellbeing

During 2017, we embedded our Health & Wellbeing Strategy, which was created for the first time in 2016. Our ambition is to create an environment which allows our employees to achieve their full potential while supporting their physical and mental wellbeing.

UKEF has an employee assistance programme that supports employees in addressing challenges across their work, family and personal lives. We also have an occupational health service to ensure that we put in place any reasonable adjustments to support employees in the workplace. UKEF offers a range of benefits designed to support staff wellbeing, including a cycle to work scheme, eye tests, workstation assessments, flu vaccinations and annual health screening. Staff also participate in several sports societies including men’s and women’s football, rounders, cricket and athletics.

We have seen a significant reduction in our sickness levels from 7.2 days per employee in 2015-16 to 3.5 days in 2017-18. This is below average for both the Civil Service and private sector.

Reward and recognition

HM Treasury has overall responsibility for the government’s pay policy. This includes defining the overall parameters for Civil Service pay uplifts each year to ensure that pay awards are consistent with the government’s overall objectives.

Cabinet Office has responsibility for Civil Service management. It works with departments and agencies on workforce and reward strategies to cultivate consideration of workforce needs and properly tailored reward policies.

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

All pay remits must be approved by a secretary of state or responsible minister, and each department, through its Accounting Officer, is responsible for the propriety and regularity of the pay award to staff. UKEF operated its 2017-18 pay award and performance awards within the guidance set by HM Treasury.

UKEF also operates an in-year reward scheme to recognise exceptional pieces of work, effort or activity that support UKEF in achieving its overall objectives. We made 174 awards to employees through this scheme in 2017-18.

The remuneration arrangements for senior civil servants (SCS) are set by the Prime Minister based on independent advice from the senior salaries review body.

The remuneration of the ministers responsible for UKEF is disclosed in the Department for International Trade’s annual report.

Remuneration Committee

The Remuneration Committee is constituted as a sub-committee of the UK Export Finance (UKEF) Board and its responsibilities are as follows:

- determine and publish the department's SCS pay strategy
- review the relative contribution of its SCS members
- consider and agree proposals from the Chief Executive on individual pay decisions in light of the criteria outlined in guidance from the Cabinet Office about the remuneration of its SCS members
- ensure that these recommendations take into account any requirements or guidance from the Cabinet Office
- monitor pay outcomes to ensure that any differences are justified
- monitor the identification of those SCS members needing extra help and support to improve their performance
- communicate pay outcomes to SCS staff
- ensure that line managers receive feedback on final pay decisions so that they can explain to individuals how these have been reached
- at the request of the UKEF Board, advise on the remuneration of new appointments of SCS members.

As at 31 March 2018, the membership was:

- **Noël Harwerth**, non-executive Chair
- **Amin Mawji OBE**, non-executive Board member
- **Lawrence M. Weiss**, non-executive Board member
- **Oliver Peterken**, non-executive Board member

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive and the Human Resources Director may be invited to attend all or part of any meeting as and when appropriate.

A Legal Division meeting

Salary and pension entitlements for directors

The salary and pension entitlements of the Directors (defined within the Civil Service as pay scale SCS2 or above) of UKEF are set out below. This table includes current Directors and former Directors who left the department during the financial year. These disclosures have been subject to external audit.

Officials	Salary £'000		Bonus payments £'000		Pension Benefits £'000		Total £'000	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Louis Taylor Chief Executive	250-255	250-255	10-15	0	96	96	**315-320**	**345-350**
Cameron Fox Chief Financial Officer	95-100	90-95	10-15	10-15	40	36	**150-155**	**140-145**
Gordon Welsh Business Group Director	140-145	140-145	0-2.5	0	46	221	**190-195**	**360-365**
David Havelock CBE Chief Risk Officer	135-140	135-140	15-20	0-5	73	28	**225-230**	**165-170**
Bhaskar Dasgupta Chief Operating Officer	135-140	65-70 (135-140 FTE)	0	0	53	26	**185-190**	**90-95**

Notes

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

Bonuses are based on attained performance levels and are made as part of the appraisal process. The Cabinet Office set the parameters for SCS performance awards. Due to the nature of the performance appraisal cycle, bonuses are paid in the year following that for which the performance has been assessed; therefore, the bonuses reported in 2017-18 relate to performance in 2016-17.

None of the Directors received any benefits-in-kind during the year.

Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the most highly paid director in their organisation and the median remuneration of the organisation's workforce. These disclosures have been subject to external audit.

	2017-18	2016-17
Band of highest paid director's remuneration £'000	250-255	250-255
Median total (£)	40,426	40,785
Remuneration ratio	6.2	6.1

The banded remuneration of the highest-paid director in UK Export Finance in the financial year 2017-18 was £250,000-£255,000 (£250,000-£255,000 in 2016-17). In 2017-18 this was 6.2 times (2016-17, 6.1) the median remuneration of the workforce, which was £40,426 (2016-17, £40,785).
The average ratio across the FTSE 100 has been calculated to be 150.

In both 2017-18 and the previous year, 0 employees received remuneration in excess of the highest-paid director. Remuneration ranged from £20,442-£265,000 (2016-17, £20,220-£250,000).

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

The ratio is calculated by taking the mid-point of the total remuneration of the highest paid executive director divided by the midpoint of the remuneration (median) of the organisation's workforce. This is based on the remuneration of the highest paid executive director and remuneration of the full-time equivalent staff of other staff at the reporting period end date on an annualised basis. The purpose of this calculation is to allow some comparability over time and across the public 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.

Civil Service pensions

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

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

Pension Benefits	Accured pension at pension age as at 31 March 2018 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2018	CETV at 31 March 2017	Real increase in CETV	Employer contribution to partnership pension account
Officials	£'000	£'000	£'000	£'000	£'000	Nearest £100
Louis Taylor Chief Executive	50-55	5-7.5	614	530	45	0
Cameron Fox Chief Financial Officer	5-10	0-2.5	82	57	15	0
Gordon Welsh Business Group Director	45-50 *plus a lump sum of 20-25*	2.5-5 *plus a lump sum of 0-2.5*	944	841	44	0
David Havelock CBE Chief Risk Officer	25-30	2.5-5	458	391	57	0
Bhaskar Dasgupta Chief Operating Officer	50-55	2.5-5	576	523	24	0

Accrued pension

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

Cash equivalent transfer values

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

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

Real increase in CETV

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

Staff pension costs

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme and UK Export Finance is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. More information can be found in the Civil Superannuation accounts, which are prepared by the Cabinet Office and published on the Civil Service Pensions website: **www.civilservice.gov.uk/pensions**

For 2017-18, employers' contributions of £2,762,612 were payable to the PCSPS (2016-17 £2,317,532) at 1 of 4 rates in the range 20.0% to 24.5% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017–18 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 £113,128 (2016-17: £66,360) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay (adjusted to between 8% and 14.75% from October 2015). The employer also matches employees' contributions of up to 3% of pensionable pay. In addition, employer contributions of £3,637 (2016-17: £1,968), 0.5% of pensionable pay (adjusted from 0.8% last year), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Fees paid to non-executive directors

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

The total payments to non-executive directors for the year were in the following ranges. These disclosures have been subject to external audit.

Non-executive member	Fees for 2017-18 £000	Fees for 2016-17 £000
Noël Harwerth Chair of UKEF Board Member of Remuneration Committee	45-50	10-15 (45-50 FTE)
Lawrence M. Weiss Member of UKEF Board Member of Audit, Risk and Remuneration Committees	10-15	5-10 (10-15 FTE)
Amin Mawji OBE Member of UKEF Board Chair of Audit Committee Member of Remuneration Committee	15-20	15-20
Eric Peacock CMG Member of UKEF Board Member of Audit and Risk Committees	10-15	10-15
Oliver Peterken Member of UKEF Board Chair of Risk Cmmittee Member of Audit and Remuneration Committees	15-20	0-5 (10-15 FTE)
Shalini Khemka Member of UKEF Board Member of Audit Committee *Started 1 March 2018*	0-5 (10-15 FTE)	N/A

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

UKEF secured funding from the GREAT campaign to upscale its marketing activities and developed new advertising materials showcasing UKEF as the 'Exporters' Edge'

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 £245 per day during 2017-18.

Off-payroll engagements that had lasted longer than 6 months as at 31 March 2018:

Number of existing engagements at 31 March 2018	11
of which, had existed for	
less than 1 year	1
between 1 and 2 years	6
between 2 and 3 years	3
between 3 and 4 years	0
4 years or more at the time of reporting	1
Total	**11**

Tax assurance for new off-payroll engagements:

Number of new engagements, plus those that reached six months duration, between 1 April 2017 and 31 March 2018	22
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	22
Number for whom assurance has been requested	22
of which	
assurance has been received	22
assurance has not been received	0
have been terminated as a result of assurance not being received	0

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

No. of off-payroll engagements of Board members, and/or senior officials with significant financial responsibility during the year	0
No. of individuals who have been 'deemed' Board members and or senior officials with significant financial responsibility during the year.	13

Cost of off-payroll engagements

The total cost for 2017-18 including engagements of individuals whose daily cost was less than £245 per day was £2,798,440 (2016–17: £2,392,686).

Expenditure on consultancy

Total expenditure on consultancy in 2017–18 amounted to £369,255 (2016-17: £24,885).

Compensation for loss of office

2 members of staff left under voluntary exit terms during 2017-18.

Exit package and 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
	2017-18			2016-17		
<£10,000	0	1	1	0	0	0
£10,000 - £25,000	0	1	1	0	2	2
£25,000 - £50,000	0	0	0	0	2	2
£50,000 - £100,000	0	0	0	1	0	1
£100,000 - £150,000	0	0	0	0	0	0
£150,000 - £200,000	0	0	0	0	0	0
Total no. of exit packages	0	2	2	1	4	5
Total cost/£000	0	30	30	79[24]	92	171[24]

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

Ill health retirement costs are met by the pension scheme and are not included in the table above. During 2017–18 no individuals retired early on ill-health grounds (2016–17: nil); the total additional accrued pension liabilities in the year amounted to £0 for 2017–18 (2016–17: £0).

24 The cost of redundancies in 2016-17 has increased since reported in last year's annual report and accounts due to a review of legislation on exit terms.

Parliamentary Accountability and Audit

Statement of Accounting Officer's responsibilities

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

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

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

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

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records, and for safeguarding UKEF's assets, are set out in Managing Public Money published by HM Treasury.

The Accounting Officer confirms that, so far as he is aware, there is no relevant audit information of which UKEF's auditor is unaware, and that he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that UKEF's auditor is aware of that information.

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

Statement of Parliamentary Supply

For the year ended 31 March 2018

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 2017-18

								2017-18	2016-17
		Estimate			Outturn			Voted outturn compared with Estimate: savings/ (excess)	Outturn
		Voted	Non-Voted	Total	Voted	Non-Voted	Total		Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Departmental Expenditure Limit									
- Resource	SOPS1(a)	(499)	-	(499)	(499)	-	(499)	-	-
- Capital	SOPS1(b)	800	-	800	671	-	671	129	64
Annually Managed Expenditure									
- Resource	SOPS1(a)	148,402	-	148,402	(4,619)	-	(4,619)	153,021	(149,382)
- Capital	SOPS1(b)	524,959	-	524,959	167,736	-	167,736	357,223	250,724
Total Budget		**673,662**	**-**	**673,662**	**163,289**	**-**	**163,289**	**510,373**	**101,406**
Total Resource		147,903	-	147,903	(5,118)	-	(5,118)	153,021	(149,382)
Total Capital		525,759	-	525,759	168,407	-	168,407	357,352	250,788
Total		**673,662**	**-**	**673,662**	**163,289**	**-**	**163,289**	**510,373**	**101,406**

Net cash requirement 2017-18

		2017-18	2017-18		2016-17
		Estimate	Outturn	Outturn compared with Estimate: savings/ (excess)	Outturn
	Note	£'000	£'000	£'000	£'000
Total	SOPS2	**339,463**	**(56,660)**	**396,123**	**(21,465)**

Administration Costs 2017-18

	2017-18	2017-18	2016-17
	Estimate	Outturn	Outturn
	£'000	£'000	£'000
Total	**(499)**	**(499)**	**-**

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

Explanations of variances between the Estimate and the Outturn are given in the management commentary within the Chief Financial Officer's Report and within SoPS1 below.

The Notes on pages 104 to 106 form part of the Statement of Parliamentary Supply.

SoPS1 Analysis of net outturn by section

SoPS1(a) Resource

											2016-17
							2017-18				
							Outturn	Estimate	Outturn compared with Estimate: savings/ (excess)	Outturn compared with Estimate, adjusted for virements	Outturn
	Administration			Programme			Total	Total			Total
	Gross	Income	Net	Gross	Income	Net	Net	Net			Net
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)											
A Export Credit Guarantees and Investments	33,628	(34,127)	(499)	-	-	-	(499)	(499)	-	-	-
Total	33,628	(34,127)	(499)	-	-	-	(499)	(499)	-	-	-
Voted spending in Annually Managed Expenditure (AME)											
B Export Credits	-	-	-	94,899	(119,418)	(24,519)	(24,519)	59,437	83,956	83,956	(130,031)
C Fixed Rate Export Finance Assistance	-	-	-	2,078	(2,699)	(621)	(621)	1,962	2,583	2,318	(1,435)
D Loans and interest equalisation	-	-	-	-	(1,694)	(1,694)	(1,694)	(1,959)	(265)	-	(2,819)
E Direct Lending	-	-	-	38,302	(16,087)	22,215	22,215	88,962	66,747	66,747	(15,097)
Total	-	-	-	135,279	(139,898)	(4,619)	(4,619)	148,402	153,021	153,021	(149,382)
Total Resource	33,628	(34,127)	(499)	135,279	(139,898)	(4,619)	(5,118)	147,903	153,021	153,021	(149,382)

Explanation of variances between Estimate and outturn:

A Voted spending in RDEL – UKEF operates (with HM Treasury approval) a zero net RDEL regime for administration costs whereby a proportion of UKEF's trading income is treated as negative RDEL to fund administration costs. As part of the Spending Review 2015 SR(15) UKEF has a maximum amount of income (agreed per year over the 4 years) which can be used to fully offset expenditure. Also annually (as part of the Supply Estimates process) HM Treasury then approve the maximum amount of UKEF's trading income that can be treated as negative RDEL based on its expected level of activity and affordability. This arrangement is in place as it reflects the fact that UKEF prices premium written to cover risk and administration costs. A net RDEL outturn of zero shows UKEF is covering its administration costs from the premium that was written. In 2017-18 the department increased the annual CDEL budget by £0.5m (at Supplementary Estimate) by switching spend from RDEL to CDEL. The impact of the switch meant that the net RDEL changed to £(0.5)m.

B Export Credits £84 million – the variance largely relates to a change in economic outlook with regard to the recoverability of insurance assets as well as foreign exchange movements that were significant in 2017-18 due to a 12% strengthening of the Sterling against the US Dollar.

C Fixed Rate Export Finance Assistance £3 million – this relates to changes in fair value of financial instruments.

E Direct Lending £67 million – this variance relates to foreign exchange movements on expected lending activity which cannot be forecast with certainty and which is unhedged. A more detailed explanation of UKEF's foreign exchange risk can be found in the credit risk, portfolio overview and pricing report in the Performance section of the Annual Report and Note 20 of the financial statements.

SoPS1(b) Capital

					2017-18	2016-17
			Outturn	Estimate		Outturn
	Gross	Income	Net	Net	Net total compared with Estimate	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)						
A Export Credit Guarantees and Investments	671	-	671	800	129	64
Total	671	-	671	800	129	64
Voted spending in Annually Managed Expenditure (AME)						
D Loans and interest equalisation	-	(17,334)	(17,334)	(10,718)	6,616	(18,522)
E Direct Lending	213,178	(28,108)	185,070	535,677	350,607	269,246
Total	213,178	(45,442)	167,736	524,959	357,223	250,724
Total Capital	213,849	(45,442)	168,407	525,759	357,352	250,788

Explanation of variances between Estimate and outturn:

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

E Direct Lending £351 million – this variance relates to the fact the Direct Lending facility had a lower take up than the headroom provided (to meet possible demand) in the Estimate. More details of UKEF's risks including foreign currency and liquidity risk can be found in the Credit Risk, Portfolio Overview and Pricing Report in the Performance section of the Annual Report and Note 20 of the financial statements.

SoPS2 Reconciliation of Net Resource Outturn to Net Cash Requirement

	SOPS Note	2017-18 Estimate £'000	2017-18 Outturn £'000	2017-18 Variance £'000
Resource Outturn	SOPS1(a)	147,903	(5,118)	153,021
Capital Outturn	SOPS1(b)	525,759	168,407	357,352
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation & amortisation of Equipment and Intangible Assets		(100)	(127)	27
Net foreign exchange differences & other non cash items		(140,451)	(44,564)	(95,887)
New provisions and adjustments to previous provisions		(74,088)	(55,179)	(18,909)
Adjustments to reflect movements in working balances:		-		
Increase/(Decrease) in receivables		(129,554)	(49,625)	(79,929)
(Increase)/Decrease in payables		9,912	(70,402)	80,314
Use of provisions		82	(52)	134
Net cash requirement		**339,463**	**(56,660)**	**396,123**

Parliamentary Accountability Disclosures

These disclosures are subject to audit.

Losses

In 2017-18 UKEF made realised and unrealised foreign exchange losses totalling £65m (as disclosed in Note 6 of the financial statements). These were incurred as part of business as usual activities but are required to be disclosed in this report.

Other Parliamentary Accountability Disclosures

In 2017-18 UKEF has not made any special payments or gifts, and does not have any remote contingent liabilities.

Louis Taylor

Louis Taylor
Chief Executive and Accounting Officer
12 June 2018

The certificate and report of the comptroller and auditor general to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the Exports Credits Guarantee Department (trading as UK Export Finance) for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statement of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2018 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(B) to the financial statements concerning the significant uncertainty attached to the final outcome of the underwriting activities. The long-term nature of the risk underwritten means that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts in future years. Details of the impact of this on the financial statements are provided in Note 1(B) to the financial statements.

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 2018 and shows that those totals have not been exceeded; and
- the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Department in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor’s responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Department and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
18 June 2018

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

UKEF supported the sale of two Rolls Royce-powered Boeing 787 aircraft to Polish airline LOT Airlines

Financial statements

UK Export Finance 2017-18 at 31 March 2018

Statement of Comprehensive Net Income

For the year ended 31 March 2018

	Note	2017-18 £'000	2016-17 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		129,930	120,061
Less ceded to reinsurers		(26,757)	(18,432)
Net premium income	3(a)	103,173	101,629
Net investment return	3(b)	17,907	20,731
Net claims credit & provision for likely claims	5	11,288	26,121
Net foreign exchange gain	6	-	47,287
Total income		**132,368**	**195,768**
Expenses			
Changes in insurance liabilities (net of reinsurance)	18	(46,881)	(35,638)
Staff costs	7	(15,865)	(14,800)
Other administration and operating costs	8	(11,014)	(12,201)
Net foreign exchange loss	6	(26,794)	-
Total expenses		**(100,554)**	**(62,639)**
Net income arising from Export Credit Guarantees and Insurance Activities		**31,814**	**133,129**
Export Finance Assistance			
Income			
Net investment return	3(b)	18,402	9,817
Net foreign exchange gain	6	-	9,534
Total income		**18,402**	**19,351**
Expenses			
Staff costs	7	(4,011)	(1,698)
Other administration and operating costs	8	(2,785)	(1,400)
Net foreign exchange loss	6	(38,302)	-
Total expenses		**(45,098)**	**(3,098)**
Net Income arising from Export Finance Assistance Activities		**(26,696)**	**16,253**
Net operating income for the year		**5,118**	**149,382**

All income and expenditure is derived from continuing operations.

The Notes on pages 116 to 155 form part of these accounts.

Statement of Financial Position

As at 31 March 2018

	Note	31 March 2018 £'000	31 March 2017 £'000
Non-current assets:			
Equipment and intangible assets		686	142
Financial assets			
Fair value through profit or loss	9(a)	912	2,157
Loans and receivables	9(b)	374,773	280,676
Insurance contracts			
Insurance assets	10	342,495	438,971
Reinsurers' share of insurance liabilities	11	371,715	348,216
Insurance and other receivables	12	4,935	6,048
Total non-current assets		**1,095,516**	**1,076,210**
Current assets:			
Financial assets			
Fair value through profit or loss	9(a)	1,005	2,017
Loans and receivables	9(b)	47,604	50,758
Insurance contracts			
Insurance assets	10	65,906	63,113
Insurance and other receivables	12	20,690	4,614
Cash and cash equivalents	13	81,660	107,465
Total current assets		**216,865**	**227,967**
Total assets		**1,312,381**	**1,304,177**
Current liabilities:			
Financial liabilities			
Fair value through profit or loss	15	(879)	(1,652)
Payable to Consolidated Fund	16	(81,660)	(107,465)
Provisions	17	(1,639)	(81)
Insurance and other payables	17	(28,186)	(12,420)
Total current liabilities		**(112,364)**	**(121,618)**
Non-current assets plus net current assets		**1,200,017**	**1,182,559**
Non-current liabilities			
Financial liabilities			
Fair value through profit or loss	15	(589)	(2,245)
Insurance contracts			
Insurance liabilities	18	(1,001,056)	(930,676)
Provisions	17	(143)	(63)
Total non-current liabilities		**(1,001,788)**	**(932,984)**
Assets less liabilities		**198,229**	**249,575**
Taxpayers' equity			
Exchequer Financing		(3,287,351)	(3,236,619)
Cumulative Trading Surplus		3,567,791	3,535,977
General Fund		(82,211)	(49,783)
Total taxpayers' equity		**198,229**	**249,575**

The Notes on pages 116 to 155 form part of these accounts.

Louis Taylor
Chief Executive and Accounting Officer
UK Export Finance
12 June 2018

Statement of Cash Flows

As at 31 March 2018

	Note	2017-18 £'000	2016-17 £'000
Cash flows from operating activities			
Net operating income		5,118	149,382
Adjustments for non-cash transactions:			
Depreciation & amortisation			
Depreciation of equipment	8	127	180
Other:			
Audit fees	8	196	196
Amortised loans & receivables income	9(b)	(17,781)	(8,382)
Net unrealised foreign exchange (gain) / loss on net assets other than cash	6	62,149	(42,298)
Provisions:			
Insurance liabilities net of reinsurance movement	18	46,881	35,638
Financial guarantees provision movement	17(c)	1,586	-
Claims provision movement	10(a)	(12,874)	(26,121)
Interest on claims provision movement	10(b)	19,586	16,343
Early retirement and dilapidation movement		52	(242)
Movements in Working Capital other than cash:			
Claims assets before provisions	10(a)	73,076	111,280
Interest on claims assets before provisions	10(b)	(9,856)	(6,494)
Loans & receivables	9(b)	56,751	43,794
Insurance & other receivables		(15,387)	8,032
Insurance & other payables		15,615	(8,267)
Financial assets held at fair value	9(a)	2,257	2,806
Financial liabilities held at fair value	15	(2,429)	(3,594)
Net cash inflow/(outflow) from operating activities		225,067	272,253
Cash flows from investing activities			
Purchase of equipment and intangibles		(671)	(64)
Export Finance Assistance loans:			
Advances	9(b)	(213,178)	(271,103)
Recoveries	9(b)	45,442	20,379
Net cash inflow/(outflow) from investing activities		(168,407)	(250,788)
Net cash inflow from operating and investing activities		56,660	21,465
Cash flows from financing activities			
Receipts from the Consolidated Fund (Supply):			
relating to the current year		25,000	86,000
Net cash inflow/(outflow) from financing activities		25,000	86,000
Net increase in cash and cash equivalents in the year before adjusting payments to the Consolidated Fund		81,660	107,465
Payments to the Consolidated Fund:			
relating to the prior year	13	(107,465)	(164,840)
Net decrease in cash and cash equivalents in the year		(25,805)	(57,375)
Cash and cash equivalents at the beginning of the year	13	107,465	164,840
Cash and cash equivalents at the end of the year	**13**	**81,660**	**107,465**

The net decrease in cash and cash equivalents in the year includes the effect of foreign exchange rate changes on cash held in foreign currency of £(2.9) million (refer to Note 6).

The Notes on pages 116 to 155 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2018

	Note	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2016		(3,267,608)	3,402,848	(13,778)	121,462
Changes in taxpayers' equity for 2016-17					
Non-Cash Adjustments:					
Auditors' remuneration	8	196	-	-	196
Movements in Reserves:					
Transfers between reserves		52,258	-	(52,258)	-
Recognised in Statement of Comprehensive Net Income		-	133,129	16,253	149,382
Total recognised income and expense for 2016-17		*52,454*	*133,129*	*(36,005)*	*149,578*
Amounts arising in year payable to the consolidated fund		(21,465)	-	-	(21,465)
Balance at 31 March 2017		(3,236,619)	3,535,977	(49,783)	249,575
Changes in taxpayers' equity for 2017-18					
Non-Cash Adjustments:					
Auditors' remuneration	8	196	-	-	196
Movements in Reserves:					
Transfers between reserves		5,732	-	(5,732)	-
Recognised in Statement of Comprehensive Net Income		-	31,814	(26,696)	5,118
Total recognised income and expense for 2017-18		*5,928*	*31,814*	*(32,428)*	*5,314*
Amounts arising in year payable to the consolidated fund	13	(56,660)	-	-	(56,660)
Balance at 31 March 2018		**(3,287,351)**	**3,567,791**	**(82,211)**	**198,229**

The Notes on pages 116 to 155 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 2017-18 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

In accordance with IFRS 4 Insurance Contracts, UKEF has applied existing accounting practices for insurance contracts. Additionally, UKEF has taken advantage of the option in IAS 39 *Financial Instruments: Recognition and Measurement* and has elected to continue to regard some financial guarantee contracts as insurance contracts. Further details are given in policy Note 1(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 2017-18 FReM applies financial reporting Standards that are effective for the financial year.

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

The new Standards set out below will have an impact on the financial statements when they become effective.

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

  In September 2016, the IASB issued amendments to IFRS 4, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduce a temporary exemption that enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 and continue to apply IAS 39 to financial instruments. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

  The department meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts Standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2021. The department performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 March 2016 when UKEF's insurance liabilities were significant compared to the total amount of liabilities and the percentage of liabilities connected with insurance was greater than 90%. The liabilities connected with insurance that are not liabilities arising from contracts within the scope of IFRS 4 relates to UKEF's liability to consolidated fund (refer to Note 2(iv) Segmental Statement of Financial Position for the carrying amount of this liability for Accounts 1 and 2). During 2017-18, there had been no significant change in the department's activities that requires reassessment. The Department intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial instruments in the reporting period starting on 1 January 2018.

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

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

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

Major FReM changes for 2017-18

UKEF has reviewed the major FReM changes for 2017-18 and determined there are no changes that will have a significant impact on the Department's 2017-18 financial statements.

(B) Use of significant judgement and estimates

The preparation of these financial statements includes the use of significant judgments and estimates and assumptions which affect the reported amounts of assets, liabilities, income and expenses, and related disclosure of contingent assets and liabilities in the financial statements. All estimates are based on management's knowledge of current facts and circumstances, assumptions based upon that knowledge, and management's predictions of future events and actions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, possibly significantly. There have been no major changes on these assumptions in the current year.

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

Due to the long-term nature of the risk underwritten, the outcome of UKEF's activities is subject to 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. The provision rates are made on a case-by-case basis and are approved by the Credit Committee. Paris Club developments and related provision rates are also monitored and approved by the Credit Committee. 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.

Other areas of judgement exercised by the Department include the applications of Fund basis of accounting for insurance contacts (refer to Note 1(D) below) and the deferral of the application of IFRS 9 (refer to Note 1(A) above).

(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. These have been applied consistently in dealing with items considered material to the accounts.

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

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

(D) Insurance contracts

Product classification

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

Fund Basis of Accounting for insurance contracts

The Fund Basis of Accounting has been applied rather than the Annual Basis (whereby the profit/loss is determined at the end of each accounting period for cover provided during that period). Insufficient information is available on expected future claims and recoveries for reliable estimates to be made at the end of each financial year. The use of the Fund Basis of Accounting is not recommended practice under the Association of British Insurers' Statement of Recommended Practice (which has now been withdrawn and replaced with FRS 103). However, UKEF considers it to be the most appropriate method to account for its insurance contracts.

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

Liability adequacy test

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

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

- **Political:** risks associated with a sovereign country which could potentially affect every supported transaction in that country due to both political risks 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 Statement of Comprehensive Net Income 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. 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.

UKEF pays the following type of interest:

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

(F) Foreign exchange

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

(G) Consolidated Fund Payable

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

(H) Exchequer financing

To reflect the long-term nature of UKEF's activities, and recognising that cash flows from operating and investing activities 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 investing activities.

(I) 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.

(J) Financial assets

Recognition and measurement

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.

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 through profit or loss' financial assets includes derivative instruments that are not designated as effective hedging instruments. Fair value is determined in the manner described in Note 9. All derivatives are carried as assets when the fair values are positive (or as liabilities when the fair values are negative). 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.

'Loans and receivables' include insurance receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market. These are measured at 'amortised cost' using the 'effective interest rate', except for short-term receivables where the recognition of interest would be immaterial and which are hence carried at their estimated net recoverable amount. 'Amortised cost' is the amount at which a financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation (using the effective interest method) of any difference between the initial amount and the maturity amount minus any reduction for impairment.

The effective interest rate method allocates interest income or expense over the relevant period by applying the 'effective interest rate' to the carrying amount of the asset or liability. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability on initial recognition.

Impairment of financial assets

Financial assets other than those at 'fair value through profit or loss', are regularly assessed for indicators of impairment. If the carrying value of a financial asset is greater than the recoverable amount, the carrying value is reduced through a charge to the Statement of Comprehensive Net Income in the period of impairment. For 'loans and receivables', the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original 'effective interest rate'. In the case of any loans the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Net income. The carrying amount of the asset is reduced directly only upon write off. Interest income on impaired loans is recognised based on the estimated recoverable amount. Reversals of impairments are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down.

(K) Financial liabilities

Financial liabilities at 'fair value through profit or loss' are recognised both initially and subsequently at their fair value, with any resultant gains or loss recognised in the Statement of Comprehensive Net Income. The net gain or loss recognised in the Statement of Comprehensive Net Income incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 15.

(L) 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.

(M) 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.

(N) Contingent liabilities

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

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts and the amount reported to Parliament separately noted.

2 Segmental information

UKEF applies IFRS 8 – *Operating Segments* considering UKEF's legal and regulatory reporting requirements. These form the basis of the operating results that are regularly reviewed by 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.

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 2018

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Income						
Gross premium income	-	129,930	-	-	-	129,930
Less ceded to reinsurers	-	(26,757)	-	-	-	(26,757)
Net premium income	-	103,173	-	-	-	103,173
Net investment return income	16,348	1,559	-	2,315	16,087	36,309
Claims credit	13,760	-	-	-	-	13,760
Total income	**30,108**	**104,732**	**-**	**2,315**	**16,087**	**153,242**
Expenses						
Claims charge & provision for likely claims	-	(2,472)	-	-	-	(2,472)
Changes in insurance liabilities net of reinsurance	-	(46,881)	-	-	-	(46,881)
Staff costs	(377)	(15,488)	-	(318)	(3,693)	(19,876)
Other administration and operating costs	(262)	(10,752)	-	(221)	(2,564)	(13,799)
Net foreign exchange loss	(19,778)	(7,016)	-	-	(38,302)	(65,096)
Total expenses	**(20,417)**	**(82,609)**	**-**	**(539)**	**(44,559)**	**(148,124)**
Net income / (loss)	**9,691**	**22,123**	**-**	**1,776**	**(28,472)**	**5,118**

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

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

iii. Additional segmental information

For the year ended 31 March 2018, there were two customers (the parties paying the premium) who accounted for more than 10% of the total premium revenue, net of amounts ceded to reinsurers. These customers accounted for net premium income of £53.6 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 2018

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Non-current assets:						
Equipment and intangible assets	-	686	-	-	-	686
Financial assets						
Fair value through income	-	-	-	912	-	912
Loans & receivables	-	-	-	9,824	364,949	374,773
Insurance contracts						
Insurance assets	261,152	81,343	-	-	-	342,495
Reinsurers' share of insurance liabilities	-	371,715	-	-	-	371,715
Insurance and other receivables	-	4,935	-	-	-	4,935
Total non-current assets	**261,152**	**458,679**	**-**	**10,736**	**364,949**	**1,095,516**
Current assets:						
Financial assets						
Fair value through income	-	-	-	1,005	-	1,005
Loans & receivables	-	-	-	5,286	42,318	47,604
Insurance contracts						
Insurance assets	44,555	21,351	-	-	-	65,906
Insurance and other receivables	-	20,690	-	-	-	20,690
Cash and cash equivalents	59,927	114,240	-	19,037	(111,544)	81,660
Total current assets	**104,482**	**156,281**	**-**	**25,328**	**(69,226)**	**216,865**
Total assets	**365,634**	**614,960**	**-**	**36,064**	**295,723**	**1,312,381**
Current liabilities:						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(879)	-	(879)
Payable to Consolidated Fund	(59,927)	(114,240)	-	(19,037)	111,544	(81,660)
Provisions	-	(1,639)	-	-	-	(1,639)
Insurance and other payables	(553)	(27,314)	-	-	(319)	(28,186)
Total current liabilities	**(60,480)**	**(143,193)**	**-**	**(19,916)**	**111,225**	**(112,364)**
Non-current assets plus net current assets	**305,154**	**471,767**	**-**	**16,148**	**406,948**	**1,200,017**
Non-current liabilities						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(589)	-	(589)
Insurance liabilities	-	(1,001,056)	-	-	-	(1,001,056)
Provisions	-	(143)	-	-	-	(143)
Total non-current liabilities	**-**	**(1,001,199)**	**-**	**(589)**	**-**	**(1,001,788)**
Assets less liabilities	**305,154**	**(529,432)**	**-**	**15,559**	**406,948**	**198,229**
Taxpayers' equity						
Exchequer Financing	(1,310,017)	(2,380,370)	(101,682)	14,819	489,899	(3,287,351)
Cumulative Trading Surplus	1,615,171	1,850,938	101,682	-	-	3,567,791
General Fund	-	-	-	740	(82,951)	(82,211)
Total taxpayers' equity	**305,154**	**(529,432)**	**-**	**15,559**	**406,948**	**198,229**

v. Segmental Statement of Financial Position at 31 March 2017

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Non-current assets:						
Equipment and intangible assets	-	142	-	-	-	142
Financial assets						
Fair value through income	-	-	-	2,157	-	2,157
Loans & receivables	-	-	-	14,819	265,857	280,676
Insurance contracts						
Insurance assets	312,549	126,422	-	-	-	438,971
Reinsurers' share of insurance liabilities	-	348,216	-	-	-	348,216
Insurance and other receivables	-	6,048	-	-	-	6,048
Total non-current assets	**312,549**	**480,828**	**-**	**16,976**	**265,857**	**1,076,210**
Current assets:						
Financial assets						
Fair value through income	-	-	-	2,017	-	2,017
Loans & receivables	-	-	-	17,723	33,035	50,758
Insurance contracts						
Insurance assets	43,445	19,668	-	-	-	63,113
Insurance and other receivables	-	4,610	-	3	1	4,614
Cash and cash equivalents	74,160	157,590	-	21,594	(145,879)	107,465
Total current assets	**117,605**	**181,868**	**-**	**41,337**	**(112,843)**	**227,967**
Total assets	**430,154**	**662,696**	**-**	**58,313**	**153,014**	**1,304,177**
Current liabilities:						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(1,652)	-	(1,652)
Payable to Consolidated Fund	(74,160)	(157,590)	-	(21,594)	145,879	(107,465)
Provisions	-	(81)	-	-	-	(81)
Insurance and other payables	(604)	(11,798)	-	(2)	(16)	(12,420)
Total current liabilities	**(74,764)**	**(169,469)**	**-**	**(23,248)**	**145,863**	**(121,618)**
Non-current assets plus net current assets	**355,390**	**493,227**	**-**	**35,065**	**298,877**	**1,182,559**
Non-current liabilities						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(2,245)	-	(2,245)
Insurance contracts						
Insurance liabilities	-	(930,676)	-	-	-	(930,676)
Provisions	-	(63)	-	-	-	(63)
Total non-current liabilities	**-**	**(930,739)**	**-**	**(2,245)**	**-**	**(932,984)**
Assets less liabilities	**355,390**	**(437,512)**	**-**	**32,820**	**298,877**	**249,575**
Taxpayers' equity						
Exchequer Financing	(1,250,090)	(2,266,327)	(101,682)	32,153	349,327	(3,236,619)
Cumulative Trading Surplus	1,605,480	1,828,815	101,682	-	-	3,535,977
General Fund	-	-	-	667	(50,450)	(49,783)
Total taxpayers' equity	**355,390**	**(437,512)**	**-**	**32,820**	**298,877**	**249,575**

3 Premium Income & Net investment return

3(a) Premium Income

	2017-18 £'000	2016-17 £'000
Underwriting Premium Income:		
Insurance contracts premium receivable (IFRS4)		
Current Underwriting Year:		
Gross Premium	127,039	116,779
Less ceded to reinsurers	(26,757)	(18,432)
Net Premium income	**100,282**	**98,347**
Previous Underwriting Years:		
Gross Premium	40	201
Less ceded to reinsurers	-	-
Net Premium income	**40**	**201**
Summary		
Gross Premium	127,079	116,980
Less ceded to reinsurers	(26,757)	(18,432)
Net Premium income	**100,322**	**98,548**
Financial guarantees premium amortised (IAS 39)		
Summary		
Gross Premium	2,851	3,081
Less ceded to reinsurers	-	-
Net Premium income	**2,851**	**3,081**
Total Net premium income	**103,173**	**101,629**

3(b) Net Investment Return

	Note	Account 1 £'000	Account 2 £'000	2017-18 Total £'000	2016-17 Total £'000
Export Credit Guarantees and Insurance					
Interest income	4	16,348	1,559	17,907	20,731
Total Income		**16,348**	**1,559**	**17,907**	**20,731**
Net Income		**16,348**	**1,559**	**17,907**	**20,731**

	Note	Account 4 £'000	Account 5 £'000	2017-18 Total £'000	2016-17 Total £'000
Export Finance Assistance					
Amortised loans & receiveables income	9(b)	1,694	16,087	17,781	8,382
Gain in fair value of derivatives		2,699	-	2,699	4,484
Total Income		**4,393**	**16,087**	**20,480**	**12,866**
Loss in fair value of derivatives		(2,078)	-	(2,078)	(3,049)
Total Costs		**(2,078)**	**-**	**(2,078)**	**(3,049)**
Net Income		**2,315**	**16,087**	**18,402**	**9,817**

4 Interest receivable

	Note	Account 1 £'000	Account 2 £'000	2017-18 Total £'000	2016-17 Total £'000
Interest arising from claims					
- interest charged in the year	10(b)	26,495	10,815	37,310	37,036
- net increase in provisions for unrecovered interest	10(b)	(10,329)	(9,257)	(19,586)	(16,343)
Interest arising from claims net of provisions		16,166	1,558	17,724	20,693
Other Interest		182	1	183	38
Interest credit for the year		**16,348**	**1,559**	**17,907**	**20,731**

Other Interest includes bank interest on balances with commercial banks.

5 Claims credit and provision for likely claims

	Note	Account 1 £'000	Account 2 £'000	2017-18 Total £'000	2016-17 Total £'000
Amounts authorised and paid in the year	10(a)	-	(2,432)	(2,432)	(8,416)
Expected recoveries on claims authorised and paid in the year		-	2,035	2,035	3,836
Provision on claims authorised and paid in the year		-	(397)	(397)	(4,580)
Net change in provisions for claims authorised and paid in previous years		13,760	(489)	13,271	30,701
Claims credit/(charge) for the year	10(a)	**13,760**	**(886)**	**12,874**	**26,121**
Change in provision for claims on financial guarantees	17(c)	-	(1,586)	(1,586)	-
Claims credit & provision for likely claims		**13,760**	**(2,472)**	**11,288**	**26,121**

There is no reinsurance element included within the figures above.

6 Net foreign exchange gain / (loss)

	Note	Account 1 £'000	Account 2 £'000	2017-18 Total £'000	2016-17 Total £'000
Export Credit Guarantees and Insurance					
Net foreign exchange gain/(loss) arising on:					
- recoverable claims after provisions	10(a)	(12,351)	(3,774)	(16,125)	24,487
- recoverable interest on claims after provisions	10(b)	(7,591)	(35)	(7,626)	9,518
- insurance premium receivables		-	(424)	(424)	99
- insurance payables		164	164	328	(1,340)
- cash		-	(2,947)	(2,947)	14,523
Net foreign exchange gain/(loss) for year		**(19,778)**	**(7,016)**	**(26,794)**	**47,287**

	Note	Account 4 £'000	Account 5 £'000	Total £'000	Total £'000
Export Finance Assistance					
Net foreign exchange gain/(loss) arising on:					
- loans & receivables	9(b)	-	(37,823)	(37,823)	10,481
- payables		-	(479)	(479)	(947)
Net foreign exchange gain/(loss) for year		**-**	**(38,302)**	**(38,302)**	**9,534**

	Total £'000	Total £'000
Summary:		
Net foreign exchange gain/(loss) for year on cash assets	(2,947)	14,523
Net foreign exchange gain/(loss) for year on net assets other than cash	(62,149)	42,298
Net foreign exchange gain / (loss) for year	**(65,096)**	**56,821**

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 2018**	**31 March 2017**
Euro	1.14	1.17
Japanese Yen	149.07	139.31
US Dollars	1.40	1.25

7 Staff costs

	2017-18 £'000	2016-17 £'000
Salaries and Wages	15,026	12,562
Social Security Costs	1,639	1,418
Early Retirement Payments	320	200
Other Pension Costs	2,839	2,433
Total Costs before provision movements	19,824	16,613
Early Retirement Provision utilisation & adjustment	52	(115)
Total Staff Costs	**19,876**	**16,498**
Of which:		
Export Credit Guarantees and Insurance	15,865	14,800
Export Finance Assistance	4,011	1,698

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

8 Other administration and operating costs

	2017-18 £'000	2016-17 £'000
Agency Staff	2,775	2,393
Training	312	207
Recruitment	238	230
Travel & Subsistence	820	654
Accomodation	2,381	2,524
IT Other	2,945	3,202
Project Costs	985	1,562
Legal	154	580
Business Promotion	561	94
Depreciation	127	180
Irrecoverable VAT	1,375	1,505
Other Administration	1,126	597
Total Costs before provision ulilisation and adjustment	13,799	13,728
Dilapidation provision utilisation & adjustment	-	(127)
Total Other Administrative Costs	**13,799**	**13,601**
Of which:		
Export Credit Guarantees and Insurance	11,014	12,201
Export Finance Assistance	2,785	1,400
Included in the above figures:		
Audit Fees	196	196

9 Financial assets

9(a) Fair value through profit or loss

	31 March 2018 £'000	31 March 2017 £'000
Interest rate derivatives in relation to Export Finance Loan Guarantees	1,917	4,174
Total	**1,917**	**4,174**
Falling due:		
- within one year	1,005	2,017
- after more than one year	912	2,157

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.

9(b) Loans & receivables

	31 March 2018 £'000	31 March 2017 £'000
Loans & receivables	422,377	331,434
Total	**422,377**	**331,434**
Falling due:		
- within one year	47,604	50,758
- after more than one year	374,773	280,676

	Note	Account 4 £'000	Account 5 £'000	Total £'000
Movements:				
Balance at 1 April 2016		**51,184**	**54,457**	**105,641**
Loans advanced	21	-	271,103	271,103
Loans recovered		(18,522)	(1,857)	(20,379)
Net foreign exchange gain/(loss)		-	10,481	10,481
Amortised income		2,819	5,563	8,382
Other movement in working capital		(2,939)	(40,855)	(43,794)
Balance at 31 March 2017		**32,542**	**298,892**	**331,434**
Loans advanced	21	-	213,178	213,178
Loans recovered		(17,334)	(28,108)	(45,442)
Net foreign exchange gain/(loss)		-	(37,823)	(37,823)
Amortised income		1,694	16,087	17,781
Other movement in working capital		(1,792)	(54,959)	(56,751)
Balance at 31 March 2018		**15,110**	**407,267**	**422,377**
Of which:				
Capital loans recoverable		14,819	489,899	504,718
Net interest receivable		291	2,491	2,782
Unamortised income		-	(85,123)	(85,123)
Falling due:				
- within one year		5,286	42,318	47,604
- after more than one year		9,824	364,949	374,773

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

The fair value of Export Finance Loans for Account 4 was £16,617,000 (2016-17: £35,829,000) and Account 5 £494,977,000 (2016-17: £360,963,000).

10 Insurance assets

	31 March 2018 £'000	31 March 2017 £'000
Recoverable claims	292,123	368,450
Interest on unrecovered claims	116,278	133,634
Total	**408,401**	**502,084**
Falling due:		
- within one year	65,906	63,113
- after more than one year	342,495	438,971

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.

10(a) Recoverable claims

	Account 1 £'000	Account 2 £'000	Total £'000
Recoverable claims - gross			
Balance at 1 April 2016	538,797	337,596	876,393
Claims approved in the year	-	8,416	8,416
Recoveries made in the year	(47,150)	(72,546)	(119,696)
Recoveries abandoned in the year	-	(217)	(217)
Net foreign exchange movements	22,772	11,849	34,621
Balance at 31 March 2017	**514,419**	**285,098**	**799,517**
Claims approved in the year	-	2,432	2,432
Recoveries made in the year	(34,449)	(41,059)	(75,508)
Recoveries abandoned in the year	(1)	(1,102)	(1,103)
Net foreign exchange movements	(17,428)	(6,588)	(24,016)
Balance at 31 March 2018	**462,541**	**238,781**	**701,322**
Recoverable claims - provisions			
Balance at 1 April 2016	305,025	142,246	447,271
Release of provisions in the year	(21,042)	(5,079)	(26,121)
Recoveries abandoned in the year	-	(217)	(217)
Net foreign exchange movements	7,137	2,997	10,134
Balance at 31 March 2017	**291,120**	**139,947**	**431,067**
(Release)/increase of provisions in the year	(13,760)	886	(12,874)
Recoveries abandoned in the year	(1)	(1,102)	(1,103)
Net foreign exchange movements	(5,077)	(2,814)	(7,891)
Balance at 31 March 2018	**272,282**	**136,917**	**409,199**
Net recoverable claims as at:			
- 31 March 2018	**190,259**	**101,864**	**292,123**
- 31 March 2017	223,299	145,151	368,450
- 31 March 2016	233,772	195,350	429,122

There are no recoverable claims on Accounts 3 and 4.

10(b) Interest on unrecovered claims

	Account 1 £'000	Account 2 £'000	Total £'000
Interest on unrecovered claims - gross			
Balance at 1 April 2016	993,106	120,831	1,113,937
Interest charged in the year	26,112	10,924	37,036
Interest received in the year	(28,051)	(2,491)	(30,542)
Recoveries abandoned in the year	(2,171)	(372)	(2,543)
Net foreign exchange movements	33,333	457	33,790
Balance at 31 March 2017	**1,022,329**	**129,349**	**1,151,678**
Interest charged in the year	26,495	10,815	37,310
Interest received in the year	(25,822)	(1,632)	(27,454)
Recoveries abandoned in the year	(2,792)	(27)	(2,819)
Net foreign exchange movements	(26,310)	(401)	(26,711)
Balance at 31 March 2018	**993,900**	**138,104**	**1,132,004**
Interest on unrecovered claims - provisions			
Balance at 1 April 2016	860,332	119,640	979,972
Increase in provisions in the year	7,600	8,743	16,343
Recoveries abandoned in the year	(2,171)	(372)	(2,543)
Net foreign exchange movements	23,873	399	24,272
Balance at 31 March 2017	**889,634**	**128,410**	**1,018,044**
Increase in provisions in the year	10,329	9,257	19,586
Recoveries abandoned in the year	(2,792)	(27)	(2,819)
Net foreign exchange movements	(18,719)	(366)	(19,085)
Balance at 31 March 2018	**878,452**	**137,274**	**1,015,726**
Net interest on unrecovered claims as at:			
- 31 March 2018	**115,448**	**830**	**116,278**
- 31 March 2017	132,695	939	133,634
- 31 March 2016	132,774	1,191	133,965

11 Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 2016	332,196
Movements summary:	
Addition to the underwriting funds in the year	18,432
Net decrease in insurance liabilities on closed funds	(2,412)
Total Movements	*16,020*
Balance at 31 March 2017	**348,216**
Movements summary:	
Addition to the underwriting funds in the year	26,758
Net decrease in open credit funds	(2,688)
Other fund movements	2
Net decrease in insurance liabilities on closed funds	(573)
Total Movements	*23,499*
Balance at 31 March 2018	**371,715**

Movements are summarised within Note 18.

12 Insurance and other receivables

	31 March 2018 £'000	31 March 2017 £'000
Export Credit Guarantees and Insurance:		
Insurance premium receivables	24,016	9,110
Insurance prepayments and accrued income	1,609	1,548
Total	25,625	10,658
Export Finance Assistance:		
Other receivables	-	4
Total	-	4
Total	**25,625**	**10,662**
Falling due:		
- within one year	20,690	4,614
- after more than one year	4,935	6,048

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

13 Cash and cash equivalents

	£'000
Balance at 1 April 2016	164,840
Net cash inflow to UKEF	21,465
Receipts from the Consolidated Fund:	
in respect of amounts received in the current year	86,000
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(164,840)
Balance at 31 March 2017	**107,465**
Net cash inflow to UKEF	56,660
Receipts from the Consolidated Fund:	
in respect of amounts received in the current year	25,000
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(107,465)
Balance at 31 March 2018	**81,660**

Cash and cash equivalents comprise:	31 March 2018 £'000	31 March 2017 £'000
Government Banking Service	16,697	39,636
Commercial banks and cash in hand	64,963	67,829
Total	**81,660**	**107,465**

14 Reconciliation of Net Cash Requirement to decrease in cash

	2017-18 £'000	2016-17 £'000
Net cash inflow from operating and investing activities	56,660	21,465
Receipts from the Consolidated Fund relating to the current year	25,000	86,000
Amounts due to the Consolidated Fund	81,660	107,465
Payments to the Consolidated Fund relating to the prior year	(107,465)	(164,840)
Increase/(Decrease) in cash	**(25,805)**	**(57,375)**

15 Financial liabilities at fair value

	31 March 2018	31 March 2017
	£'000	**£'000**
Interest rate derivatives in relation to Export Finance Loan Guarantees	381	1,118
Interest rate derivative contracts entered into for hedging purposes	1,087	2,779
Total	**1,468**	**3,897**
Falling due:		
- within one year	879	1,652
- after more than one year	589	2,245

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.

16 Payable to the Consolidated Fund

	31 March 2018 £'000	31 March 2017 £'000
Amounts payable to the Consolidated Fund	81,660	107,465
Total	**81,660**	**107,465**
Falling due:		
- within one year	81,660	107,465

The balance due within one year represents UKEF's bank balance as at 31 March 2018.

17 Insurance and other payables

17(a) Insurance liabilities

	31 March 2018 £'000	31 March 2017 £'000
Export Credit Guarantees and Insurance:		
Insurance payables - amounts due to policyholders	7,806	112
Income Tax and National Insurance	467	402
Deferred income and other payables	19,594	11,888
Total	27,867	12,402
Export Finance Assistance:		
Other payables	319	18
Total	319	18
Total	**28,186**	**12,420**
Falling due:		
- within one year	28,186	12,420

17(b) Provisions for early retirement

	31 March 2018 £'000	31 March 2017 £'000
Early Departure Provision	196	144
Total	**196**	**144**
Falling due:		
- within one year	53	81
- after more than one year	143	63

17(c) Provisions for financial guarantees

	31 March 2018 £'000	31 March 2017 £'000
Provisions for likely claims on financial guarantees	1,586	-
Total	**1,586**	**-**
Falling due:		
- within one year	1,586	-
- after more than one year	-	-

18 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 2 £'000	Total £'000
Insurance liabilities - Gross of reinsurance		
Balance at 1 April 2016	879,018	879,018
Movements:		
Addition to the underwriting funds in the year	93,219	93,219
Release of excess funds - cash	(212)	(212)
Release of excess funds - credit	(18,149)	(18,149)
Other fund movements	(1,508)	(1,508)
Change in insurance liabilities on closed funds	(21,692)	(21,692)
Total Movements	*51,658*	*51,658*
Balance at 31 March 2017	**930,676**	**930,676**
Movements:		
Addition to the underwriting funds in the year	103,123	103,123
Release of excess funds - cash	(521)	(521)
Release of excess funds - credit	(28,324)	(28,324)
Other fund movements	(1,466)	(1,466)
Change in insurance liabilities on closed funds	(2,432)	(2,432)
Total Movements	*70,380*	*70,380*
Balance at 31 March 2018	**1,001,056**	**1,001,056**
Insurance liabilities - Net of reinsurance		
Balance at 1 April 2016	546,822	546,822
Movements:		
Addition to the underwriting funds in the year	74,787	74,787
Release of excess funds - cash	(212)	(212)
Release of excess funds - credit	(18,149)	(18,149)
Other fund movements	(1,508)	(1,508)
Change in insurance liabilities on closed funds	(19,280)	(19,280)
Total Movements	*35,638*	*35,638*
Balance at 31 March 2017	**582,460**	**582,460**
Movements:		
Addition to the underwriting funds in the year	76,365	76,365
Release of excess funds - cash	(521)	(521)
Release of excess funds - credit	(25,636)	(25,636)
Other fund movements	(1,468)	(1,468)
Change in insurance liabilities on closed funds	(1,859)	(1,859)
Total Movements	*46,881*	*46,881*
Balance at 31 March 2018	**629,341**	**629,341**

Summary of movements:	Account 2 £'000	Total £'000
2016-17		
Gross changes in insurance liabilities	*51,658*	*51,658*
Reinsurers' share of changes in insurance liabilities	*(16,020)*	*(16,020)*
Changes in insurance liabilities (net of reinsurance)	***35,638***	***35,638***
2017-18		
Gross changes in insurance liabilities	*70,380*	*70,380*
Reinsurers' share of changes in insurance liabilities	*(23,499)*	*(23,499)*
Changes in insurance liabilities (net of reinsurance)	***46,881***	***46,881***

Movements in reinsurance are analysed within Note 11.

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 2008-09 and cash fund years up to and including 2014-15 are closed years.

	2008-09 fund year £'000	2009-10 fund year £'000	2010-11 fund year £'000	2011-12 fund year £'000	2012-13 fund year £'000	2013-14 fund year £'000	2014-15 fund year £'000	2015-16 fund year £'000	2016-17 fund year £'000	2017-18 fund year £'000
Account 2										
Credit funds										
At end of year	14,077	29,302	34,350	32,460	33,987	34,208	46,367	28,315	32,214	43,848
One year later	14,549	26,329	28,410	28,421	26,790	34,184	44,703	29,114	26,001	-
Two years later	11,946	20,725	24,153	20,398	26,204	35,429	48,413	21,070	-	-
Three years later	10,156	14,483	15,338	21,011	24,580	35,278	36,502	-	-	-
Four years later	8,491	10,479	13,602	17,117	22,511	20,860	-	-	-	-
Five years later	5,757	7,513	10,628	15,215	13,443	-	-	-	-	-
Six years later	3,639	4,584	8,044	8,331	-	-	-	-	-	-
Seven years later	2,250	4,036	3,714	-	-	-	-	-	-	-
Eight years later	1,575	1,561	-	-	-	-	-	-	-	-
Nine years later	638	-	-	-	-	-	-	-	-	-
Cash funds										
At end of year	7,963	544	311	71	8,860	69	261	480	689	383
One year later	7,120	109	1	12	7,314	14	291	-	16	-
Two years later	4,590	-	1	12	7,583	171	78	-	-	-
Three years later	232	-	1	-	9,438	27	40	-	-	-
Four years later	244	-	-	-	4,462	-	-	-	-	-
Five years later	221	-	-	-	3,928	-	-	-	-	-
Six years later	249	-	-	-	-	-	-	-	-	-
Seven years later	256	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-
Credit fund total	638	1,561	3,714	8,331	13,443	20,860	36,502	21,070	26,001	43,848
Cash fund total	-	-	-	-	3,928	-	40	-	16	383
Expected Loss total	**638**	**1,561**	**3,714**	**8,331**	**17,371**	**20,860**	**36,542**	**21,070**	**26,017**	**44,231**
Summary										**180,335**

Expected Loss Summary:	funds 2008-09 to 2017-18 open £'000	funds 2008-09 to 2017-18 closed £'000	funds 2008-09 to 2017-18 total £'000	funds years to 2007-8 closed £'000	funds grand total £'000
Account 2:					
Credit fund total	175,330	638	175,968	2,465	178,433
Cash fund total	399	3,968	4,367	50	4,417
Account 2 total	175,729	4,606	180,335	2,515	182,850
Expected Loss total	**175,729**	**4,606**	**180,335**	**2,515**	**182,850**

19 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.

20 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 Credit Risk, Portfolio Overview and Pricing Report in the Performance section of the Annual Report.

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

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

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

b) **Credit risk**;

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

d) **Liquidity risk;** and

e) **Risk measurement.**

20(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 20(a)(ii) and 20(c)(iii)). In addition there is some foreign exchange market risk which is explained in Note 20(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.

20(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 2018		
Interest rate swap arrangements on Export Finance Loan Guarantees	(46)	25
Interest rate derivative contracts entered into for hedging purposes	280	(286)
Net impact on profit or loss	**234**	**(261)**
As at 31 March 2017		
Interest rate swap arrangements on Export Finance Loan Guarantees	(178)	438
Interest rate derivative contracts entered into for hedging purposes	657	(674)
Net impact on profit or loss	**479**	**(236)**

Sensitivities to movements at 5% increase and decrease in interest rate volatility were nil (2016-17: nil) for interest rate swap arrangements.

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 2018				
Interest rate swap arrangements on Export Finance Loan Guarantees	9,723	12,602	-	22,325
Interest rate derivative contracts entered into for hedging purposes	8,896	16,519	-	25,415
As at 31 March 2017				
Interest rate swap arrangements on Export Finance Loan Guarantees	24,965	23,031	-	47,996
Interest rate derivative contracts entered into for hedging purposes	16,245	27,670	-	43,915

20(a)(ii) Foreign currency risk

Foreign currency risk arises from two main areas: transaction risk and translation risk. Transaction risk is the risk of movements in the sterling value of foreign currency receipts on conversion into sterling. Translation risk is the risk that UKEF's Statement of Financial Position and net operating income will be adversely impacted by changes in the sterling value of foreign currency denominated assets and liabilities from movements in foreign currency exchange rates. UKEF is heavily exposed to translation risk due to the value of non-sterling assets and liabilities held. The most significant exposure relates to insurance assets (refer Note 20(c)(iii) below).

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

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

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
As at 31 March 2018				
Financial assets:				
Fair value through profit or loss	198	1,487	232	1,917
Account 4 loans at amortised cost	15,110	-	-	15,110
Account 5 loans at amortised cost	-	380,547	26,720	407,267
Insurance and other receivables	4,014	11,416	10,195	25,625
Financial liabilities:				
Fair value through profit or loss	(644)	(640)	(184)	(1,468)
Insurance and other payables	(28,186)	-	-	(28,186)
Financial Commitments:				
Account 5 amounts available	-	393,370	197,167	590,537
As at 31 March 2017				
Financial assets:				
Fair value through profit or loss	469	3,083	622	4,174
Account 4 loans at amortised cost	32,542	-	-	32,542
Account 5 loans at amortised cost	-	281,473	17,419	298,892
Insurance and other receivables	4,452	1,854	4,356	10,662
Financial liabilities:				
Fair value through profit or loss	(1,804)	(1,556)	(537)	(3,897)
Insurance and other payables	(12,420)	-	-	(12,420)
Financial Commitments:				
Account 5 amounts available	-	256,839	951	257,790

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

20(b) Credit Risk

Credit risk is the risk of loss in value of financial assets due to lending counterparties failing to meet all or part of their obligations as they fall due. Credit risk related to UKEF's insurance contracts, including financial guarantees, is discussed under Insurance Risk (Note 20(c)(i) below)

UKEF has implemented policies and procedures that seek to minimise credit risk. Full details can be found in the Credit Risk, Portfolio Overview and Pricing Report in the Performance section of the Annual Report.

20(b)(i) Credit risk

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

	Investment grade £'000	Non-investment grade £'000	Total £'000
As at 31 March 2018			
Account 5: Direct Lending			
Loans at amortised cost	187,681	219,586	407,267
Commitments	164,311	426,226	590,537
As at 31 March 2017			
Account 5: Direct Lending			
Loans at amortised cost	94,635	204,257	298,892
Commitments	136,553	121,237	257,790

20(b)(ii) Credit concentration risk

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

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
As at 31 March 2018					
Account 5: Direct Lending					
Loans at amortised cost	18,861	53,830	334,576	-	407,267
Commitments	293	3,518	586,726	-	590,537
As at 31 March 2017					
Account 5: Direct Lending					
Loans at amortised cost	17,419	52,850	228,623	-	298,892
Commitments	951	11,861	244,978	-	257,790

20(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.

20(c)(i) Credit risk

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

Full details of the policies and procedures that have been implemented to seek to minimise credit risk can be found in the Credit Risk, Portfolio Overview and Pricing Report in the Performance section of the Annual Report.

The following table provides information regarding the credit exposure of Amounts at Risk and Expected Loss within the UKEF Account 2 portfolio as at 31 March 2018:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at Risk, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	5,728,879	3,726,292	9,455,171
Other	3,328,412	4,017,778	7,346,190
Total	**9,057,291**	**7,744,070**	**16,801,361**
Account 2: Financial Guarantees			
Total	**-**	**186,336**	**186,336**
Amounts at Risk, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	1,575,238	3,726,292	5,301,530
Other	2,392,411	4,017,778	6,410,189
Total	**3,967,649**	**7,744,070**	**11,711,719**
Account 2: Financial Guarantees			
Total	**-**	**186,336**	**186,336**
Expected Loss, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	43,176	71,975	115,151
Other	26,099	94,777	120,876
Total	**69,275**	**166,752**	**236,027**
Account 2: Financial Guarantees			
Total	**-**	**15,265**	**15,265**
Expected Loss, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	3,499	71,975	75,474
Other	12,599	94,777	107,376
Total	**16,098**	**166,752**	**182,850**
Account 2: Financial Guarantees			
Total	**-**	**15,265**	**15,265**

The following table provides information regarding the credit exposure of Amounts at Risk and Expected Loss within the UKEF Account 2 portfolio as at 31 March 2017:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at Risk, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	7,314,831	3,493,110	10,807,941
Other	5,042,246	2,795,594	7,837,840
Total	**12,357,077**	**6,288,704**	**18,645,781**
Account 2: Financial Guarantees			
Total	**-**	**212,755**	**212,755**
Amounts at Risk, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	2,296,141	3,493,110	5,789,251
Other	4,030,711	2,795,594	6,826,305
Total	**6,326,852**	**6,288,704**	**12,615,556**
Account 2: Financial Guarantees			
Total	**-**	**212,755**	**212,755**
Expected Loss, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	71,118	67,945	139,063
Other	37,116	100,162	137,278
Total	**108,234**	**168,107**	**276,341**
Account 2: Financial Guarantees			
Total	**-**	**6,423**	**6,423**
Expected Loss, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	8,295	67,945	76,240
Other	29,067	100,162	129,229
Total	**37,362**	**168,107**	**205,469**
Account 2: Financial Guarantees			
Total	**-**	**6,423**	**6,423**

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

There are no Amounts at Risk and Expected Loss on Accounts 1 and 3.

Insurance Assets – unrecovered claims

When a default event occurs, UKEF will seek to recover the amount of any claims paid under the insurance policy or guarantee. The total amount of the unrecovered claim is recorded within unrecovered claims, with a provision made for any amount estimated to be irrecoverable. Such provisions are determined on a case-by-case or, for sovereign risk, sometimes on a country by country basis and are derived from assessments of the likely recovery. Provisions are arrived at by using a variety of information including payment performance, expected Paris Club treatment, International Monetary Fund/World Bank debt sustainability analysis, and UKEF's own assessment of the economic risk.

Additionally, for certain unrecovered claims (e.g. related to guarantees for aerospace asset-backed financing), the amounts estimated as being recoverable will also be partly dependent upon the value of the underlying assets. These are determined on the basis of industry standard worst-case values provided by an independent valuer. Individual provisions on unrecovered claims within the aerospace portfolio are assessed on a case-by-case basis. For cases where the aircraft remain with the airline during and following a debt restructuring, the calculation of provisions, using a portfolio risk model, aligns the calculation of provisions and Expected Loss as closely as possible with the calculation of Expected Loss for performing cases. For cases where aircraft are remarketed and sold or placed on an operating lease following repossession from the original airline, provisions are based upon the current value of the exposure, less expected recoveries net of estimated future costs.

For claims paid under insurance contracts written in underwriting years still open, provisions are charged against the balance of the underwriting fund for the relevant underwriting year. Any excess of provisions over the available underwriting fund for the year is charged to net income. Any provisions against paid claims on insurance contracts written in years where the underwriting funds have been released are charged directly to net income.

The following table provides information regarding the credit exposure of the recoverable claims and related interest as at 31 March 2018.

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims - gross			
Account 1	12,933	449,608	462,541
Account 2	84,200	154,581	238,781
Total	**97,133**	**604,189**	**701,322**
Recoverable claims - net of provisions			
Account 1	12,828	177,431	190,259
Account 2	83,510	18,354	101,864
Total	**96,338**	**195,785**	**292,123**
Interest on unrecovered claims - gross			
Account 1	55	993,845	993,900
Account 2	349	137,755	138,104
Total	**404**	**1,131,600**	**1,132,004**
Interest on unrecovered claims - net of provisions			
Account 1	55	115,393	115,448
Account 2	346	484	830
Total	**401**	**115,877**	**116,278**

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2017:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims - gross			
Account 1	16,193	498,226	514,419
Account 2	105,016	180,082	285,098
Total	**121,209**	**678,308**	**799,517**
Recoverable claims - net of provisions			
Account 1	16,031	207,268	223,299
Account 2	103,966	41,185	145,151
Total	**119,997**	**248,453**	**368,450**
Interest on unrecovered claims - gross			
Account 1	72	1,022,257	1,022,329
Account 2	461	128,888	129,349
Total	**533**	**1,151,145**	**1,151,678**
Interest on unrecovered claims - net of provisions			
Account 1	72	132,623	132,695
Account 2	457	482	939
Total	**529**	**133,105**	**133,634**

20(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 2018.

	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	5,841,726	622,272	820,452	2,170,721	9,455,171
Other	1,334,493	1,146,231	3,937,232	928,234	7,346,190
Total	**7,176,219**	**1,768,503**	**4,757,684**	**3,098,955**	**16,801,361**
Account 2: Financial Guarantees					
Total	**186,336**	**-**	**-**	**-**	**186,336**
Amounts at Risk, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	1,974,798	614,390	820,453	1,891,889	5,301,530
Other	425,533	1,119,190	3,937,232	928,234	6,410,189
Total	**2,400,331**	**1,733,580**	**4,757,685**	**2,820,123**	**11,711,719**
Account 2: Financial Guarantees					
Total	**186,336**	**-**	**-**	**-**	**186,336**
Expected Loss, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	76,449	8,930	6,396	23,376	115,151
Other	20,276	26,402	53,793	20,405	120,876
Total	**96,725**	**35,332**	**60,189**	**43,781**	**236,027**
Account 2: Financial Guarantees					
Total	**15,265**	**-**	**-**	**-**	**15,265**
Expected Loss, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	36,772	8,930	6,396	23,376	75,474
Other	6,776	26,402	53,793	20,405	107,376
Total	**43,548**	**35,332**	**60,189**	**43,781**	**182,850**
Account 2: Financial Guarantees					
Total	**15,265**	**-**	**-**	**-**	**15,265**

The following table provides an indication of the concentration of credit risk within the UKEF Account 2 portfolio as at 31 March 2017:

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	6,350,568	953,383	1,101,674	2,402,316	10,807,941
Other	1,538,078	1,339,548	4,012,309	947,905	7,837,840
Total	**7,888,646**	**2,292,931**	**5,113,983**	**3,350,221**	**18,645,781**
Account 2: Financial Guarantees					
Total	**212,755**	**-**	**-**	**-**	**212,755**
Amounts at Risk, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	1,331,878	953,383	1,101,674	2,402,316	5,789,251
Other	530,247	1,335,844	4,012,309	947,905	6,826,305
Total	**1,862,125**	**2,289,227**	**5,113,983**	**3,350,221**	**12,615,556**
Account 2: Financial Guarantees					
Total	**212,755**	**-**	**-**	**-**	**212,755**
Expected Loss, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	75,559	15,850	11,658	35,996	139,063
Other	20,922	33,899	55,808	26,649	137,278
Total	**96,481**	**49,749**	**67,466**	**62,645**	**276,341**
Account 2: Financial Guarantees					
Total	**6,423**	**-**	**-**	**-**	**6,423**
Expected Loss, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	12,736	15,850	11,658	35,996	76,240
Other	12,873	33,899	55,808	26,649	129,229
Total	**25,609**	**49,749**	**67,466**	**62,645**	**205,469**
Account 2: Financial Guarantees					
Total	**6,423**	**-**	**-**	**-**	**6,423**

20(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 2018:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	513,854	184,043	3,425	701,322
- Provisions	(340,751)	(65,256)	(3,192)	(409,199)
Interest on unrecovered claims				
- Gross	895,905	220,374	15,725	1,132,004
- Provisions	(837,617)	(162,459)	(15,650)	(1,015,726)
Net insurance assets at 31 March 2018	**231,391**	**176,702**	**308**	**408,401**

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2018 is as follows:

- 10% increase would increase the carrying value by £16,064,000 (31 March 2017 by £21,267,000).
- 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 2017:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	552,718	243,459	3,340	799,517
- Provisions	(349,237)	(78,714)	(3,116)	(431,067)
Interest on unrecovered claims				
- Gross	886,418	250,357	14,903	1,151,678
- Provisions	(822,038)	(181,168)	(14,838)	(1,018,044)
Net insurance assets at 31 March 2017	**267,861**	**233,934**	**289**	**502,084**

20(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 19) as required.

The scheduled maturity profile of UKEF's insurance contracts and financial guarantees, expressed in terms of total Amounts at Risk and the dates at which those periods of risk expire, is set out in the following table:

	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Total £'000
As at 31 March 2018:					
Account 2: Insurance Contracts					
Gross Amounts at Risk	2,573,934	9,138,026	4,654,692	434,709	16,801,361
Less: Amounts at Risk ceded to reinsurers	(865,113)	(2,874,298)	(1,314,772)	(35,459)	(5,089,642)
Net amounts at risk	**1,708,821**	**6,263,728**	**3,339,920**	**399,250**	**11,711,719**
Account 2: Financial Guarantees					
Gross Amounts at Risk	82,397	86,465	17,474	-	186,336
Less: Amounts at Risk ceded to reinsurers					
Net amounts at risk	**82,397**	**86,465**	**17,474**	**-**	**186,336**
As at 31 March 2017:					
Account 2: Insurance Contracts					
Gross Amounts at Risk	2,569,208	9,635,947	5,798,240	642,386	18,645,781
Less: Amounts at Risk ceded to reinsurers	(845,071)	(3,336,797)	(1,761,144)	(87,213)	(6,030,225)
Net amounts at risk	**1,724,137**	**6,299,150**	**4,037,096**	**555,173**	**12,615,556**
Account 2: Financial Guarantees					
Gross Amounts at Risk	70,948	108,289	33,518	-	212,755
Less: Amounts at Risk ceded to reinsurers					
Net amounts at risk	**70,948**	**108,289**	**33,518**	**-**	**212,755**

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.

20(e) Risk measurement

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

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

Sensitivity testing and scenario analysis

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

Sensitivity test results

Sensitivity test analysis is conducted on UKEF's Account 2 portfolio twice a year, using criteria endorsed by the Credit Committee. The stress tests indicate the impact on the Expected Loss on UKEF's portfolio from movements in the main factors that determine the insurance risk faced by the organisation.

For full details see the Credit Risk, Portfolio Overview and Pricing Report in the Performance section of the Annual Report.

The following table sets out the impact of the movements indicated on issued and effective guarantees on: (i) total Expected Loss, and (ii) Statement of Comprehensive Net Income which for insurance contracts takes account of the utilisation of the underwriting fund.

	Across the board ratings downgrade by		Increased persistence	Reduced recovery rates
	1 notch	2 notches	+ 2 years	-20%
	£'000	£'000	£'000	£'000
As at 31 March 2018:				
Account 2: Insurance Contracts				
- Increase in Expected Loss	85,964	192,250	6,141	56,365
- Decrease in net income for the year	4,460	21,419	2	3,173
As at 31 March 2017:				
Account 2: Insurance Contracts				
- Increase in Expected Loss	80,235	190,652	7,101	68,040
- Decrease in net income for the year	3,699	39,231	37	3,960

There is no remaining exposure on Accounts 1 and 3.

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

21 Capital Loan Commitments

The following table summarises the movement in amounts authorised and available to be drawn on issued and effective lending products which are accounted for on an amortised cost basis under IAS 39:

	Account 5 £'000	Total £'000
Movements:		
Balance at 1 April 2016	**217,313**	**217,313**
Loans issued & effective	282,868	282,868
Amounts drawn	(271,103)	(271,103)
Net foreign exchange adjustments	22,471	22,471
Change in Cover	6,241	6,241
Balance at 31 March 2017	**257,790**	**257,790**
Loans issued & effective	593,380	593,380
Amounts drawn	(213,178)	(213,178)
Net foreign exchange adjustments	(46,387)	(46,387)
Change in Cover	(1,068)	(1,068)
Balance at 31 March 2018	**590,537**	**590,537**

22 Contingent liabilities

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

	31 March 2018 £'000	31 March 2017 £'000
Summary: Gross of reinsurance		
Account 2	16,987,697	18,858,536
Total	**16,987,697**	**18,858,536**
Summary: Net of reinsurance		
Account 2	11,898,055	12,828,311
Total	**11,898,055**	**12,828,311**

22(a) Products accounted as insurance contracts on a fund accounted basis

The following tables summarise movements in Amounts at Risk (AAR) on issued and effective products which are accounted under IFRS4:

Gross of reinsurance	**Account 2 £'000**	**Total £'000**
Balance at 1 April 2016	16,916,464	16,916,464
Guarantees and insurance policies issued and effective	2,870,607	2,870,607
Run off	(3,347,277)	(3,347,277)
Net foreign exchange adjustments	2,154,603	2,154,603
Interest rate adjustments	194,108	194,108
Change in Valuation	(142,724)	(142,724)
Balance at 31 March 2017	**18,645,781**	**18,645,781**
Guarantees and insurance policies issued and effective	2,196,146	2,196,146
Run off	(2,603,650)	(2,603,650)
Net foreign exchange adjustments	(1,663,341)	(1,663,341)
Interest rate adjustments	292,158	292,158
Change in Valuation	(65,733)	(65,733)
Balance at 31 March 2018	**16,801,361**	**16,801,361**

Net of reinsurance	**Account 2 £'000**	**Total £'000**
Balance at 1 April 2016	11,461,066	11,461,066
Guarantees and insurance policies issued and effective	2,093,457	2,093,457
Run off	(2,411,789)	(2,411,789)
Net foreign exchange adjustments	1,438,500	1,438,500
Interest rate adjustments	163,363	163,363
Change in Valuation	(129,041)	(129,041)
Balance at 31 March 2017	**12,615,556**	**12,615,556**
Guarantees and insurance policies issued and effective	1,795,566	1,795,566
Run off	(1,736,272)	(1,736,272)
Net foreign exchange adjustments	(1,126,039)	(1,126,039)
Interest rate adjustments	218,322	218,322
Change in Valuation	(55,414)	(55,414)
Balance at 31 March 2018	**11,711,719**	**11,711,719**

22(b) Products accounted for as financial guarantees

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

Gross & Net of reinsurance	**Account 2 £'000**	**Total £'000**
Balance at 1 April 2016	194,106	194,106
Guarantees and insurance policies issued and effective	84,411	84,411
Run off	(79,045)	(79,045)
Net foreign exchange adjustments	12,821	12,821
Change in Valuation	462	462
Balance at 31 March 2017	**212,755**	**212,755**
Guarantees and insurance policies issued and effective	69,146	69,146
Run off	(88,754)	(88,754)
Net foreign exchange adjustments	(8,705)	(8,705)
Interest rate adjustments	1,822	1,822
Change in Valuation	72	72
Balance at 31 March 2018	**186,336**	**186,336**

23 Related party transactions

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

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

24 Events after the reporting period

There are no reportable non-adjusting events after the reporting period.

The Accounting Officer authorised these financial statements for issue on the same date as the date of the Certificate and Report of the Comptroller and Auditor General.

Annexes

Business supported

Export credits

Exporter/investor	Buyer/airline/ operating lessor	Project/goods and services	Product	Maximum liability (£)
Finland				
Ishida Europe Ltd	HK Scan Corporation	Agricultural facility construction	Supplier credit	14,594,418
Ghana				
Contracta Construction UK Ltd	Ministry of Transport	Airport construction	Buyer credit	66,693,386
Indonesia				
Sabre Computers International Ltd	Ministry of Defence	Air training systems	Buyer credit	3,413,120
Thales UK Ltd	Ministry of Defence	Air defence system	Buyer credit	163,895,810
Iraq				
Enka UK Construction Ltd	Ministry of Electricity	Gas-fired power plant construction	Supplier credit facility/ letter of credit guarantee	87,910,650
GE Global Services GMBH	Ministry of Electricity	Gas-fired power plant upgrade	Buyer credit/ direct lending	87,211,216
Ireland				
The Boeing Company/Rolls Royce PLC	Avolon Holdings Ltd	Rolls Royce-powered Boeing aircraft	Buyer credit	401,784,401
Korea, Republic of				
Bombardier	Korean Airlines Company Ltd	Bombardier aircraft	Buyer credit	31,397,508
Mauritius				
Airbus SAS	Eastern & Southern African Trade Development Bank	Airbus aircraft	Buyer credit	41,902,448
Mexico				
Alexander Dennis Ltd	Operador Linea 7 SA	Low-emission buses	Buyer credit	29,859,319
Alexander Dennis Ltd	Sky Bus Reforma SA DE CV	Low-emission buses	Buyer credit	26,126,904

Norway				
The Boeing Company/Rolls Royce PLC	Norwegian Air Shuttle ASA	Rolls Royce-powered Boeing aircraft	Buyer credit	436,946,772
Poland				
The Boeing Company/Rolls Royce PLC	LOT Airlines	Rolls Royce-powered Boeing aircraft	Buyer credit	115,181,317
Uganda				
SBC (Uganda) Ltd	Ministry of Works and Transport	Airport construction	Direct lending	271,460,755
United Arab Emirates				
Carillion Construction Ltd[25]	Dubai World Trade Centre LLC	Property construction	Buyer credit/ direct lending	172,006,881
Carillion Construction Ltd[25] & Zaha Hadid Ltd	Sharjah Environment Co LLC	Property construction	Direct lending	67,945,256
Kier Infrastructure & Overseas Ltd	Dubai Arena LLC	Arena construction	Buyer credit/ direct lending	191,462,666
Kier Infrastructure & Overseas Ltd	Resolute Plot 35 SPV	Property construction	Buyer credit/ direct lending	149,330,233
Kier Infrastructure & Overseas Ltd	Resolute Staff Accommodation	Property construction	Buyer credit/ direct lending	55,882,819
United States				
GE Caledonian	Atlas Air Inc	Aircraft engine overhaul	Buyer credit	25,780,157

25 Since Carillion's liquidation, its former joint venture partners have replaced Carillion and are completing the contracts.

Trade finance and insurance: businesses supported by sector

Product type	Number of exporters	Small and medium-sized enterprises	Number of Destination Countries	Maximum liability (£)
Administrative and support service activities				
Bond Support	1	1	1	245,137
Export Insurance	2	2	2	1,180,441
Export Working Capital	4	4	6	1,430,194
Agriculture, forestry and fishing				
Export Insurance	1	1	1	179,005
Construction				
Export Working Capital	2	2	2	1,108,076
Bond Support	5	3	5	4,636,425
Export Insurance	1	1	1	18,419
Defence				
Export Insurance (Exip)	1	1	1	1,919,615
Education				
Export Working Capital	0	0	0	1,839,675
Bond Support	2	1	2	3,522,890
Information and communication				
Export Working Capital	2	1	3	2,666,400
Bond Support	5	4	14	2,759,049
Manufacturing				
Bond Support	38	36	67	23,689,648
Export Insurance	19	11	22	12,682,979
Export Working Capital	12	12	25	13,727,112
Mining and quarrying				
Export Working Capital	0	0	0	1,198,075
Bond Support	2	2	2	411,464
Professional, scientific and technical activities				
Export Working Capital	1	1	2	224,525
Bond Support	10	9	11	3,601,616
Export Insurance	2	0	2	185,818
Transportation and storage				
Bond Support	1	1	1	1,593,356

Water supply; sewerage, waste management and remediation activities				
Bond Support	1	1	1	231,887
Wholesale and retail trade; repair of motor vehicles and motorcycles				
Export Working Capital	4	3	26	6,070,546
Bond Support	2	2	2	189,482
Export Insurance	13	11	13	3,569,911

UKEF's export insurance policy helped ensure family dairy farm Lye Cross Farm didn't lose business with an important overseas client when its private insurer withdrew from the market.

Sustainability of our estate

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

UKEF's estate

UKEF is based at 1 Horse Guards Road (1HGR), London, SW1A 2HQ. UKEF is a minor occupier of 1 HGR, accounting for 7% of the total internal area. As landlord, HM Treasury (HMT) is responsible for the provision of all energy and utility services. HMT follows government procurement best practice in procuring those contracts.

Greening Government Commitments

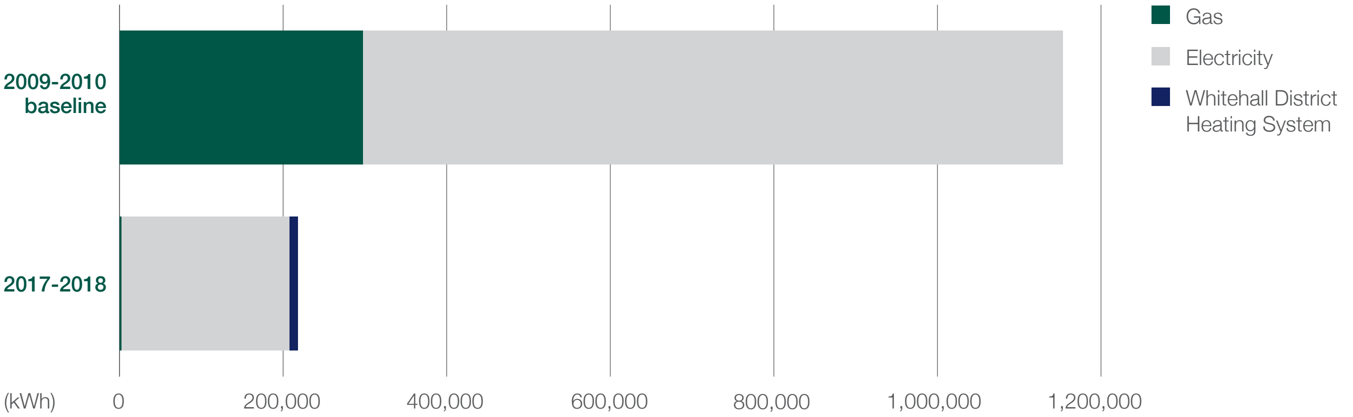
The Greening Government Commitments (GGC) are the government's commitments for delivering sustainable operations and procurement. They aim to reduce significantly the government's environmental impact by reducing emissions of greenhouse gases (GHG), reducing waste, reducing water usage and making procurement more sustainable. The 2017-18 reporting year is the third year of the 5-year performance reporting cycle to 2020. Compared to a 2009-10 baseline, by 2019-20, the government will:

- cut GHG emissions by 31% from the whole estate and UK business transport
- reduce the number of domestic business flights taken by 30%
- reduce waste sent to landfill to less than 10% of overall waste; continue to reduce the amount of waste generated and increase the proportion of waste which is recycled
- reduce paper consumption by 50%

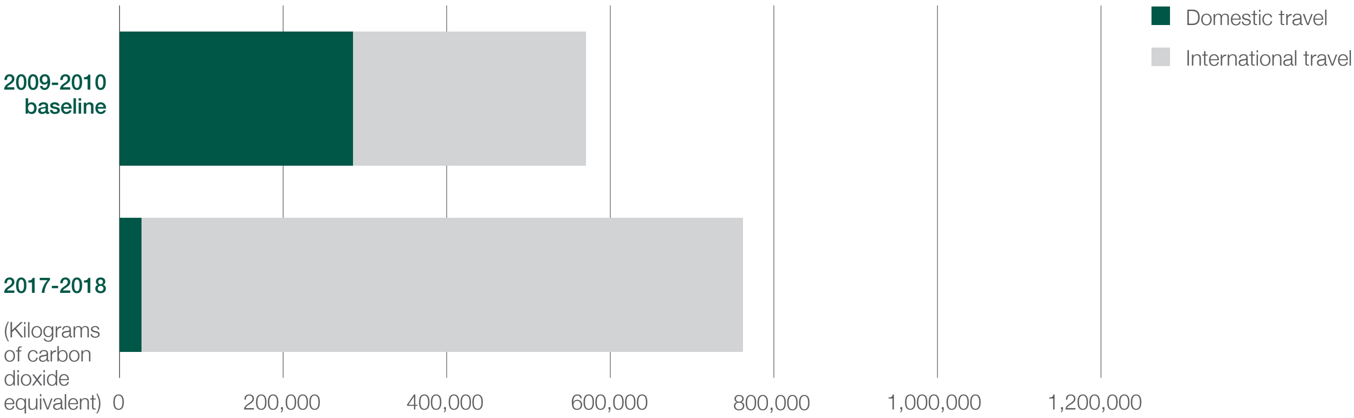
Summary of performance

Area	2009-10 Baseline	2017-18
Greenhouse gas emissions from UK estate and domestic travel (tonnes of CO2 equivalent)	485.55	194.45
Estate Waste (tonnes)	78.62	10.8
Estate Water (m3)	2,762	895.6

Energy usage from estate

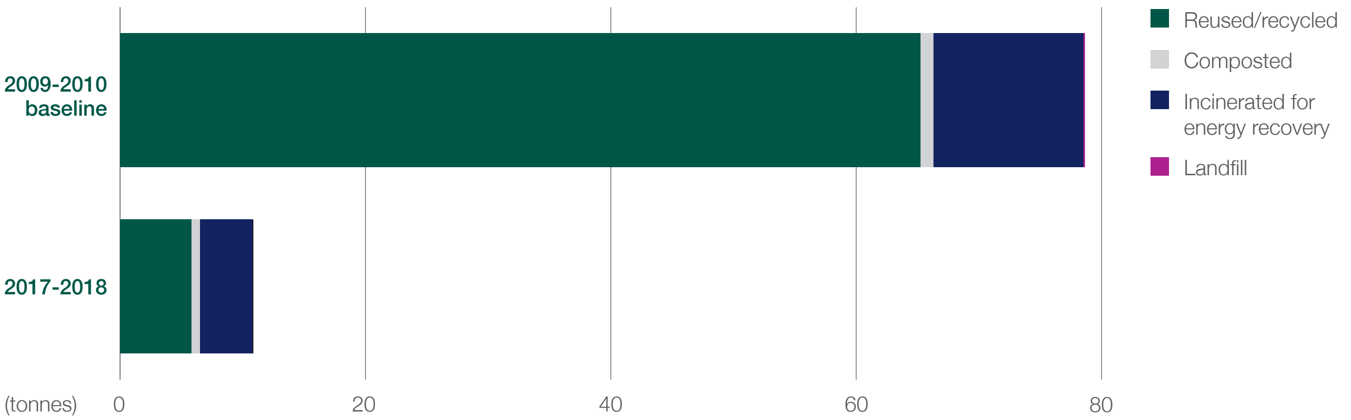


Emissions from air travel



Waste

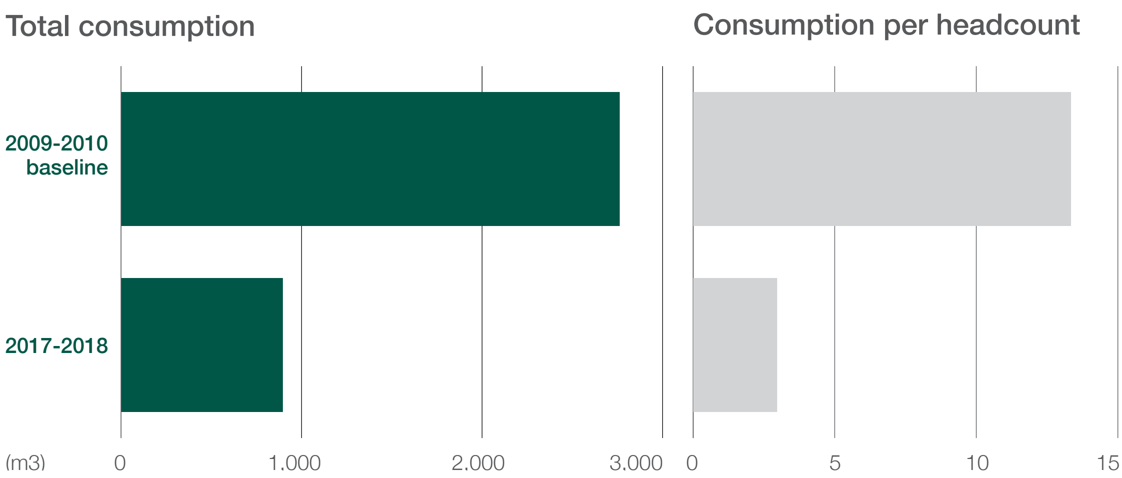
UKEF has a target to reduce waste sent to landfill to less than 10% of overall waste and continue to reduce the amount of waste generated and increase the proportion of waste which is recycled. UKEF has seen a reduction in waste generated by 86% against the 2009–10 baseline. None of UKEF's waste is sent to landfill.



UKEF has recycling points located strategically around the office. All information technology waste is either recycled or reused through UKEF's contract with the Disposal Services Agency. UKEF continues to improve processes and systems which will reduce the amount of paper consumed.

Water

The GGC target is to reduce water consumption from the 2009-10 baseline. UKEF's water is not measured separately from other tenants and UKEF reports water consumption as being a proportion for the whole building at 1HGR.



Sustainable procurement

UKEF uses existing framework agreements which have been centrally procured through Crown Commercial Services. Additionally, UKEF's key facilities management suppliers have sustainable objectives and environmental policies in place committing them to sustainable development.

Biodiversity and natural environment

UKEF's London office has no access to or control over external land. Therefore, UKEF does not have a biodiversity plan.

Notes:

- all 1HGR utility payments (including water, waste and energy) are included in the set annual lease payments. The figures used above have been apportioned to departmental costs based on floor occupancy of 7%
- business travel gross emissions do not include journeys made by bus or taxi

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