

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 contracts (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:

- Fair value through profit or loss and
- Loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

		Account 1 £'000	Account 2 £'000	2017-18 Total £'000	2016-17 Total £'000
Export Credit Guarantees and Insurance	Note				
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

		Account 4 £'000	Account 5 £'000	2017-18 Total £'000	2016-17 Total £'000
Export Finance Assistance	Note				
Amortised loans & receivables 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
		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	Currency equivalent to £1	
	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
Accommodation	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 utilisation 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	31 March 2017
	£'000	£'000
Interest rate derivatives in relation to Export Finance		
Loan Guarantees	1,917	4,174
Total	1,917	4,174
Falling due:		
- w ithin 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	31 March 2017
	£'000	£'000
Loans & receivables	422,377	331,434
Total	422,377	331,434
Falling due:		
- w ithin one year	47,604	50,758
- after more than one year	374,773	280,676

	Note	Account 4	Account 5	Total
		£'000	£'000	£'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:			
- w ithin 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	31 March 2017
	£'000	£'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	Account 2	Total
	£'000	£'000	£'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)
<i>Total Movements</i>	<i>16,020</i>
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)
<i>Total Movements</i>	<i>23,499</i>
Balance at 31 March 2018	371,715

Movements are summarised within Note 18.

12 Insurance and other receivables

	31 March 2018	31 March 2017
	£'000	£'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

	31 March 2018	31 March 2017
	£'000	£'000
Cash and cash equivalents comprise:		
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	2016-17
	£'000	£'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	31 March 2017
	£'000	£'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	Total
	£'000	£'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)
<i>Total Movements</i>	<i>51,658</i>	<i>51,658</i>
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)
<i>Total Movements</i>	<i>70,380</i>	<i>70,380</i>
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)
<i>Total Movements</i>	<i>35,638</i>	<i>35,638</i>
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)
<i>Total Movements</i>	<i>46,881</i>	<i>46,881</i>
Balance at 31 March 2018	629,341	629,341

	Account 2	Total
	£'000	£'000
Summary of movements:		
2016-17		
<i>Gross changes in insurance liabilities</i>	51,658	51,658
<i>Reinsurers' share of changes in insurance liabilities</i>	(16,020)	(16,020)
Changes in insurance liabilities (net of reinsurance)	35,638	35,638
2017-18		
<i>Gross changes in insurance liabilities</i>	70,380	70,380
<i>Reinsurers' share of changes in insurance liabilities</i>	(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	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	fund	fund	fund	fund	fund	fund	fund	fund	fund	fund
	year	year	year	year	year	year	year	year	year	year
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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
						funds	funds	funds	funds	funds
						2008-09	2008-09	2008-09	years	grand
						to	to	to	to	total
						2017-18	2017-18	2017-18	2007-8	
						open	closed	total	closed	
						£'000	£'000	£'000	£'000	£'000
Expected Loss Summary:										
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
<hr/>			
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
<hr/>					
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	Total
	£'000	£'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	31 March 2017
	£'000	£'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.