UK Export Finance

100 Years of Innovation

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Annual Report and Accounts 2018-19

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Export Credits Guarantee Department (UK Export Finance) Annual Report and Accounts 2018-19

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

Accounts presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000.

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

Ordered by the House of Commons to be printed on 20 June 2019.

This is part of a series of departmental publications which, along with the Main Estimates 2019–20, the document Public Expenditure: Statistical Analyses 2019, and the Supply Estimates 2018–19: Supplementary Budgetary Information, present the government's out turn for 2018–19 and planned expenditure for 2019–20.

HC 2282

This publication is available at www.gov.uk/official-documents.

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

ISBN 978-1-5286-1179-4

CCS0319930688 04/19

Printed on paper containing 75% recycled fibre content minimum. Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office.

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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, strategically and operationally aligned with the Department for International Trade.

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

Our mission

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

We help UK companies:

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

How we do it

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

Our work means that:

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

We seek to complement, not compete with, the commercial sector and work with around 100 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.

Performance

Minister's foreword

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

I am proud to present the UK Export Finance (UKEF) Annual Report and Accounts for 2018-19.

This year's report is a particularly significant one: it marks UKEF's centenary. When the UK government established the world's first export credit agency in 1919, few would have anticipated the pivotal role it would come to play supporting UK trade over the next 100 years. It is testament to the department's ability to innovate that its support continues to be vital to UK exports, evidenced by the industry awards UKEF has won this year.

The UK government's Export Strategy, published in August 2018, recognises the importance of UKEF's support as we make the UK a 21st century exporting superpower. The strategy outlines a streamlined and targeted offer from government for businesses of all sizes, and sets a new ambition to increase exports as a proportion of gross domestic product from 30% to 35%.

Rightly, finance – and UKEF's innovative and flexible support – sits at the heart of our offer. We commit to raising awareness of UKEF support more widely, deploying its supplier fair programme to connect UK businesses with international markets and identifying opportunities to enhance UKEF's product range.

To this end, this year we announced the addition of £2 billion to UKEF's direct lending capacity, a new General Export Facility, and a public consultation on proposals to increase flexibility in UKEF's foreign content policy.

As well as being its centenary, this has also been a record year for UKEF, with the largest amount of business underwritten in a single year for decades. This included support for the biggest transaction in its history, worth nearly £5 billion for the export of defence equipment to Qatar. As well as supporting BAE Systems, MBDA UK and their thousands of UK employees and suppliers, this contract will strengthen our own defence capabilities and those of an important strategic ally.

This year has also seen a number of other noteworthy transactions that are helping UK exporters realise their global ambitions and sharing the benefits of international trade around the world. These include the first projects UKEF has ever supported in Angola; delivering critical infrastructure as well as healthcare projects in Ghana; and building bridges to connect communities in Sri Lanka. UKEF has also supported its first transaction with EL AL Israel Airlines.

UKEF's 100th year has truly been one of landmark achievements. As UKEF enters its second century, we will continue to focus on its mandate: providing world-class export finance to help UK businesses succeed globally.

I would like to finish by thanking Baroness Fairhead, who stood down in May having served as Minister of State for Trade and Export Promotion with responsibility for UKEF for nearly 2 years. She oversaw the development, launch and implementation of the Export Strategy, and has been a committed advocate for UKEF. On behalf of the whole department, I would like to express my gratitude for her hard work in support of UK exporters and wish her all the best for the future.

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

12 June 2019

Chair's statement

2018-19 was a momentous year for UKEF. As well as marking its 100th year, UKEF underwrote more business than it has in decades. I am immensely proud of this achievement and, having come to the end of the second year of our Business Plan for 2017-20, I know there is much more to come as we work to fulfil our mission to ensure that no viable UK export fails for lack of finance or insurance.

Noël Harwerth
Chair

This year, UKEF was awarded the title of 'Best export credit agency' by Global Trade Review and Trade Finance Global. This recognises a year in which UKEF supported the biggest deal in its history but also boosted small and medium-sized enterprise (SME), with 79% of companies supported coming from the SME segment. This diverse backing has ensured that opportunities to export world-class goods and services are available to UK businesses no matter their size.

Next year, UKEF will go further. The new General Export Facility (GEF), due to be launched in 2019-20, will allow UKEF to support exporters' overall working capital requirements, rather than linking support only to specific export contracts. This will allow a wider range of exporters to access and benefit from UKEF support, notably SMEs and companies with shorter manufacturing cycles.

It is important that UKEF is championing diversity. We are a signatory to HM Treasury's Women in Finance Charter. After signing the Charter last year, UKEF set a target to treble female representation within the senior leadership team to 30% by 2020. At 29.4%, UKEF is very close to achieving this target, and I am hoping that we can increase the number of women in senior roles even further.

I would like to thank my fellow non-executive Board members for their dedication, energy and commitment this year. Taking the place of our long-serving Chief Risk Officer David Havelock CBE is his replacement Samir Parkash. The Board has also seen the additions this year of John Mahon, the Director General for Exports at the Department for International Trade, in an ex-officio capacity, and Kimberly Wiehl, the former Secretary General of the Berne Union. Welcome!

Most of all, I would like to thank Louis Taylor and all UKEF's staff for their hard work – none of the great successes outlined in this report would have been possible without them.

Noël Harwerth
Chair

12 June 2019

Chief Executive's report

In 1919, the UK government established the world's first export credit agency (ECA), then known as the Export Credits Department. Today known as UK Export Finance, we are marking our 100th year fulfilling the same core mission: to help UK businesses succeed in a global marketplace.

Louis Taylor
Chief Executive Officer

In August 2018, the government published its Export Strategy, which has UKEF at its heart as 1 of the 4 pillars of government support to deliver a national ambition of raising exports to 35% of gross domestic product. The Strategy recognises UKEF's strength – our innovation, flexibility and comprehensive product range – and commits to improving awareness and uptake, fully exploiting UKEF's convening power and financial capacity.

2018-19 has been a year of significant achievements for UKEF. As well as being our centenary, we have underwritten the largest amount of business since the privatisation of the Insurance Services Group in 1991, and there have been many other landmarks for the department.

In September, we supported our largest ever transaction: BAE Systems' and MBDA UK's contracts to provide military aircraft and related equipment and services to the State of Qatar. Our involvement was instrumental to the success of the deal, which will sustain thousands of jobs in a key UK industrial sector and generate significant revenue. We also broke new ground with EL AL, supporting its purchase of a Rolls-Royce powered Boeing 787 Dreamliner, our first deal with Israel's national carrier, and part of the biggest export contract the UK has had with Israel.

Our success continues to be acknowledged in the global export credit industry. We were named Best Export Credit Agency for 2018 by Global Trade Review and Trade Finance Global, and have once again been awarded 9/10 for our product range by the British Exporters Association in its latest benchmarking report – making us the highest-rated European ECA for the fifth year running.

The Export Strategy recognises that trade plays an important part in efforts to support countries out of poverty in a way that aid spending alone cannot, and UKEF plays a vital role helping UK businesses promote economic growth and development around the world, in many cases bridging the financing gap.

This year, we provided finance totalling £130 million in Ghana for the modernisation of a major regional market, airport expansion and construction of a hospital. In Sri Lanka, we helped Darlington-based Cleveland Bridge UK build 250 bridges to connect rural communities. With our support, British companies are improving access to power in Iraq and healthcare and electricity in Angola – the first time we've supported projects in this sub-Saharan African country.

We held 3 supplier fairs this year in support of projects in the Middle East and Africa. These events connected more than 300 UK suppliers, most of which were SMEs, with international buyers, incentivised to source from the UK by the offer of UKEF finance.

We have continued to support preparation for the UK's departure from the European Union. As part of this, the Chancellor of the Exchequer announced in the 2018 Budget an additional £2 billion for our direct lending facility, recognised as a 'gamechanger' by the British Exporters Association. This additional support will be available in 2020-21 and 2021-22 and will help ensure that exporters have the support they need to enter new markets following the UK's departure from the EU.

UKEF's mission – to ensure that no viable UK export fails for lack of finance or insurance – continues to be fit for all weathers, whether or not the UK is a member of the EU. Leaving the EU will not affect the credit-worthiness of overseas buyers, nor the long-term liquidity of the private market, so it is not expected to have a fundamental impact on the way we manage our business. We have considerable capacity to support new business and stand ready to do so flexibly and inventively, as we have for the last 100 years.

This year, we saw changes to the composition of our Board and the Export Guarantees Advisory Council (EGAC). Kimberley Wiehl has joined the Board as a new non-executive director, and Samir Parkash, our new Chief Risk Officer, has joined it as an executive director. I would like to welcome them both and extend my gratitude to David Havelock CBE, who retired from UKEF at the end of March 2018 after over a decade of distinguished service, including as Acting Chief Executive.

2019 will also see the retirement of 4 members of EGAC, including its chair, Andrew Wiseman, who has been with us for 13 years. Andrew's experience and dedication has been vital to the smooth running of UKEF over his time at EGAC and I would like to offer him my thanks and best wishes for his future endeavours. He has been replaced in his role by Alastair Clark, who takes on the position of Chair after having served on EGAC since 2009. I would also like to join the Secretary of State in thanking Baroness Fairhead for her fulsome leadership, support and counsel. I look forward to working with our new minister to continue her work in support of UK exports.

In March 2019, I appeared alongside Baroness Fairhead before Parliament's Environmental Audit Committee's inquiry into UKEF support for fossil fuel projects. We welcome the Committee's report and I am working with colleagues to consider our response.

UKEF's centenary: 100 years of innovation

UKEF's 100th anniversary is an opportunity to reflect on our track record of support for exports and look forward to our future.

Our origins lie in the aftermath of the First World War. The conflict saw a submarine blockade and our overseas buyers looking elsewhere for their manufactured goods. This led the UK government, seeking to kickstart UK exports, to establish the world's first ECA.

We began as a sub-department of the Department of Overseas Trade (DOT), employing just 13 people and permitted to support exports to 10 countries. We started offering guarantees and were renamed the Export Credits Guarantee Department in 1926, became an independent department in 1930 and have been known as UK Export Finance since 2011.

Today, UKEF is central to the government's support for exports, with more than 300 staff across the UK and around the world working hard to support and promote UK business interests abroad. We continue to work closely with colleagues at the Department of International Trade, the successor of DOT.

As the world's first ECA, we have been innovating since day 1. We were 1 of 3 founders of the Berne Union, now the leading global association for the export credit and investment insurance industry, in 1934, and an original member of the OECD's Working Group on Export Credits in 1963.

In recent years, we have continued our heritage of innovation; we were behind the first western ECA sukuk (sharia-compliant bond), the first hybrid reserve-based lending/project finance structure supported by an ECA, and the first ECA guarantee for a loan in Chinese Renminbi – now 1 of more than 60 international currencies in which UKEF can offer financing.

We have a century's experience supporting UK exports, with an ambition to do even more. In 1920, UKEF had a maximum total exposure of just £26 million (just under £1 billion today). Now, our maximum commitment stands at £50 billion. This reflects the scale of our ambition for UK exports.

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 finance and insurance 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 44 to 63 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 and 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 1 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.

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

Our achievements in 2018-19 against our Business Plan for 2017-20

Agile and adaptable

Continue to develop our digital services including our web presence and tools to improve user experience and support business development	**Implemented and ongoing** (see page 43)
Further improve UKEF's systems, processes and data to support robust, transparent and efficient decision making and reporting	**Implemented and ongoing** (see page 43)

Competitive offering

Complete a comprehensive review of all our products, working with a wide range of stakeholders, to identify improvements to help us use them more effectively and flexibly	**Partially implemented** (see page 35)
Continue to identify new product opportunities to take full advantage of UKEF's statutory powers in support of UK exports while protecting taxpayers' interests	**Implemented and ongoing** (see page 35)
Introduce new and revised products to deliver what our customers need	**Implemented and ongoing** (see page 35)

Customer service and awareness

Launch a UK and international marketing campaign under the GREAT banner to connect with new customers and increase understanding of UKEF support	**Implemented and ongoing** (see page 18)
Develop and roll out more widely our supplier fair programme to maximise the benefits of UKEF support for the UK supply chain	**Implemented and ongoing** (see page 40)
Appoint finance specialists in key international markets to lead engagement with local buyers and stakeholders	**Partially implemented** (see page 97)

Great place to work

Build on recent successes to diversify our workforce including meeting the targets set out in the Women in Finance Charter	**Partially implemented** (see page 100 to 101)
Embed the operating model we put in place following our transformation programme, supporting staff with a unique and comprehensive learning and development offer	**Implemented and ongoing** (see page 97 to 102)

'Over the course of the last 100 years, UK Export Finance has led the way in delivering innovative finance to help British companies achieve international success across a wide range of industries and countries. I am delighted that as UKEF marks its centenary year, it continues not only to support the UK's exporters but also those transformational projects that will have a direct impact on the lives of citizens across the globe.'

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

'Under this government, UK Export Finance has been transformed into a responsive, competitive and effective supporter of UK exports. The government's Export Strategy, published over the summer of 2018, puts UKEF at the heart of our offer to help British businesses succeed overseas.'

Baroness Fairhead CBE
Former Minister of State for Trade and Export Promotion

Businesses supported

In 2018-19, UKEF provided 147 applicants with finance and insurance and referred a further 34 exporters to a private sector provider; in addition, a further 81 UK companies secured business supplying goods and/or services to a project UKEF is supporting.

The maximum liability on all new business was £6.8 billion.[1] Our short-term trade finance products supported £620 million of export contracts won by UK businesses. UKEF earned net premium in the year of £332 million, more than the previous 3 years combined.

Value of business issued and committed

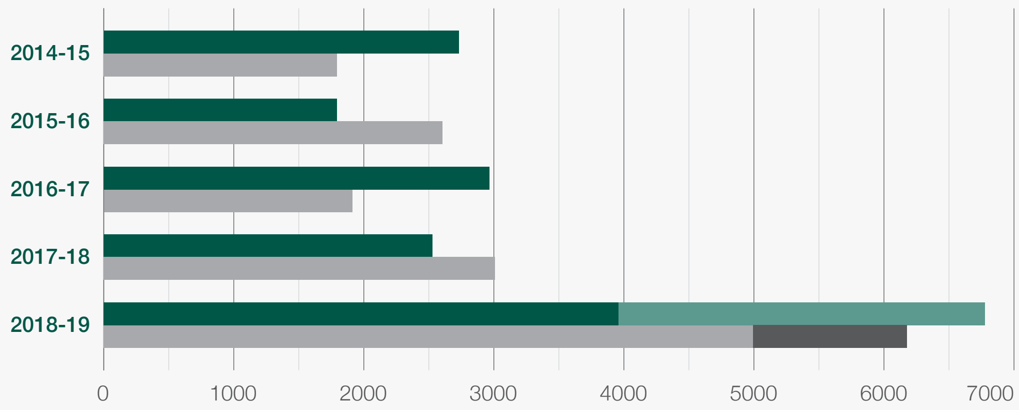


Figure 1

- Value of guarantees, insurance policies and direct loans issued and effective except Account 3
- From Account 3
- Value of commitments as at 31 March except Account 3
- From Account 3

Premium income earned

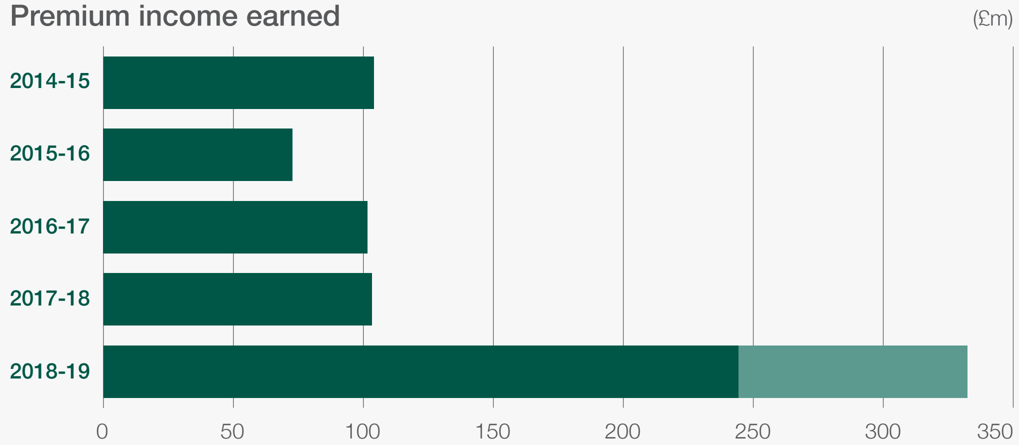
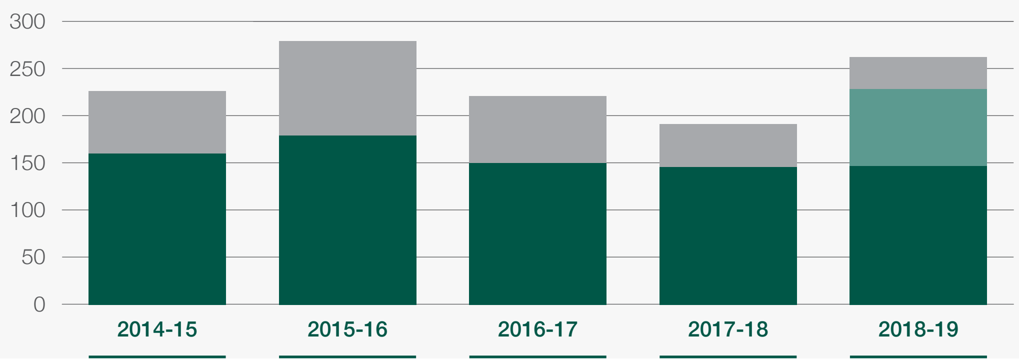


Figure 2

- Premium income - net of reinsurance except Account 3
- From Account 3

Number of UK companies directly supported

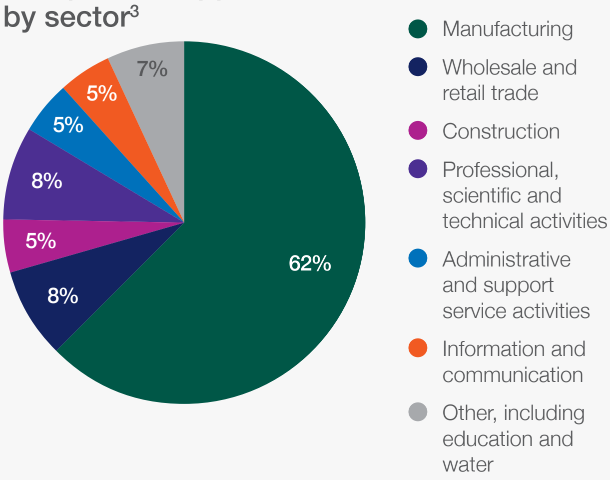


- Companies UKEF provided with finance and insurance
- Companies that have secured business supplying to a project UKEF is supporting[2]
- Export assists

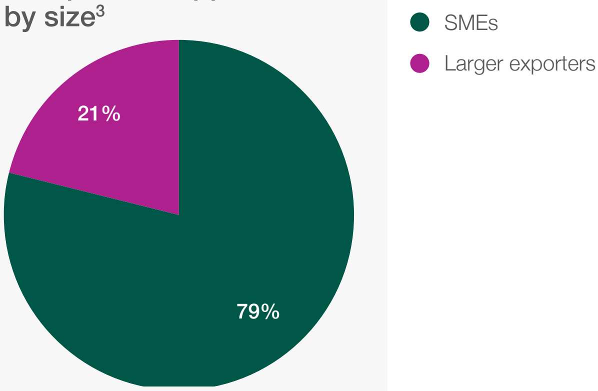
1 Where Figure 1 shows issued and effective business. It does not include amounts counter-guaranteed or reinsured by another official export credit agency where UKEF was acting as lead ECA on a jointly supported transaction. It does include business supported where the private reinsurance market was subsequently used to offset risk for active portfolio management purposes. It includes £587 million in the form of direct loans and scheduled interest, which is accounted for on a different basis.

2 This data was not measured in previous years and therefore cannot be reported.

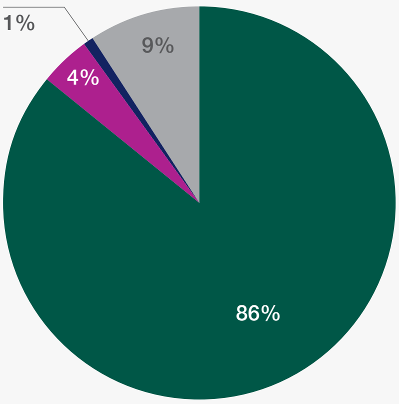
Companies supported by sector[3]



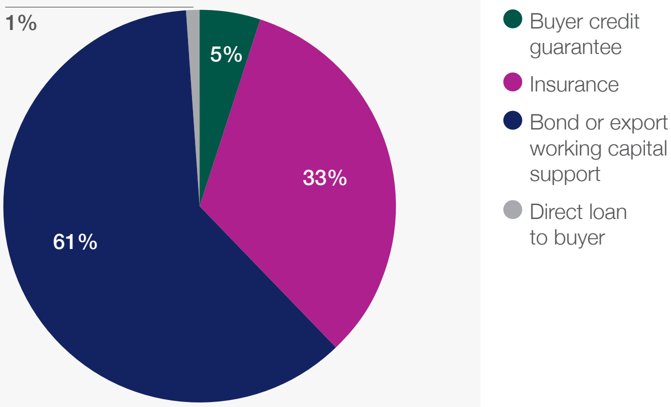
Companies supported by size[3]



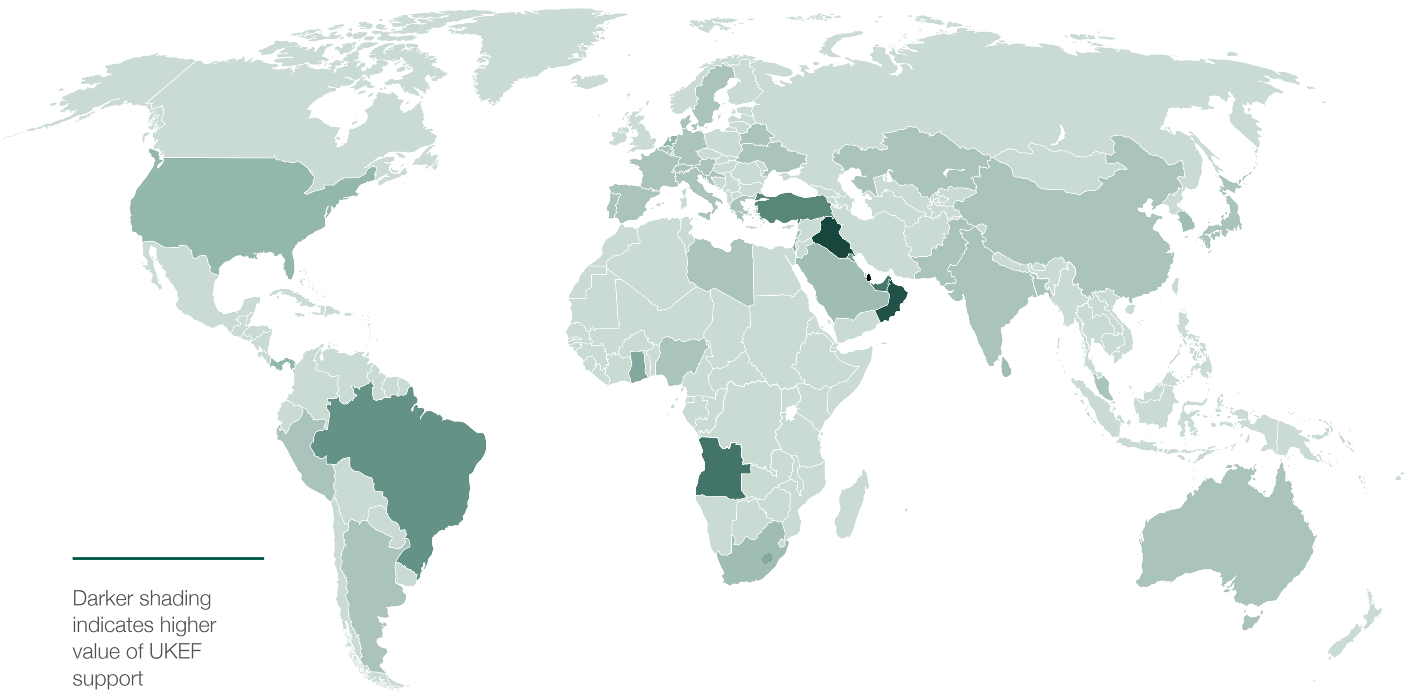
Product use by our maximum liability



Product use by number of facilities



Destination of exports supported in 2018-19



Darker shading indicates higher value of UKEF support

3 Based on number of companies UKEF directly supported with finance or insurance.

Highlights in 2018-19

We provided **a record amount of support**, **£6.8 billion**, for UK exports

We were named **best export credit agency for 2018** by Global Trade Review and Trade Finance Global

The government's **new Export Strategy was published in August 2018**, with finance – and UKEF – at its heart

We supported our **largest ever transaction**, providing a **£5 billion package** to support BAE Systems' and MBDA UK's contract with the State of Qatar

We provided our first ever support for Angola – **£419 million** to build **3 new hospitals** and **upgrade 2 electricity substations**

An additional **£2 billion** under our Direct Lending Facility will be available in 2020-21 and 2021-22

We connected **more than 300 UK suppliers** with opportunities on projects in Africa and the Middle East through our supplier fair programme

We achieved our **first delivery for EL AL**, Israel's national carrier, supporting its purchase of a Rolls-Royce powered Boeing 787 Dreamliner

We supported **181 companies' exports to 72 countries** — 79% of which were SMEs

We launched a **targeted marketing campaign** under the UK government's GREAT brand to increase awareness and uptake of UKEF support

In addition to the **181** we provided with finance and insurance or a referral to private sector support, **81 UK companies** secured business supplying goods and/or services to a project UKEF is supporting

30% of UKEF staff identify as Black, Asian and minority ethnic, 18 percentage points above the Civil Service average

Finances

UKEF achieved a net operating income of £128 million for the year ended 31 March 2019 compared with £5 million for the year to 31 March 2018.

We met all of our financial objectives, which are set for us by HM Treasury. Page 25 sets out our results against our financial objectives and pages 66 to 71 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 period of time. The only new claim that arose this year stemmed from business issued in 2017-18.

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 pages 44 to 63 for a more detailed commentary on how we have managed financial risk.

Performance assessment

An assessment our performance should take into account:

- the overall volume of our support (as reported on page 24)
- our ability to cover our operating costs and losses while providing this support
- 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 and insurance

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

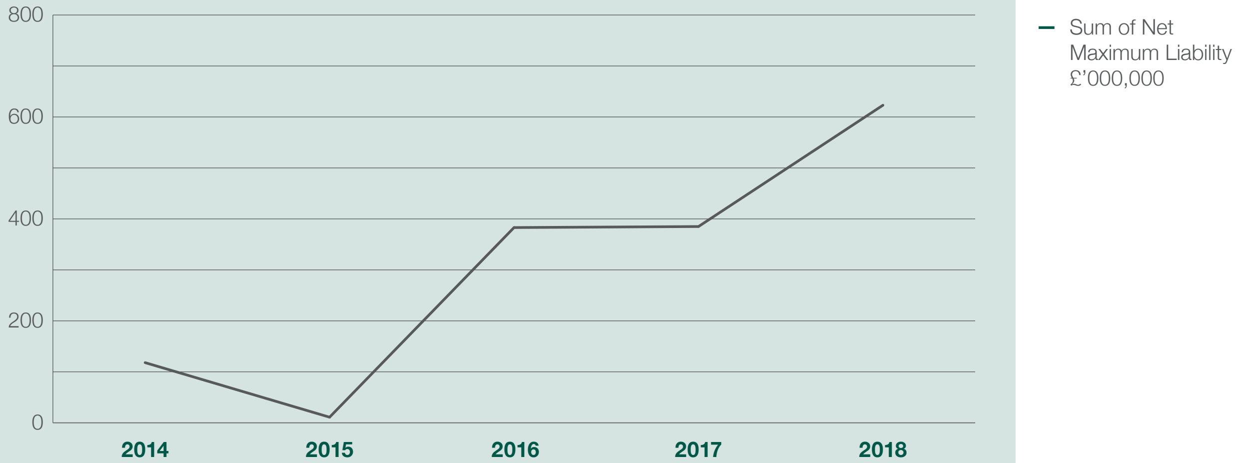
- awareness among exporters of UKEF's ability to help and the willingness of our commercial partners (for example, banks and brokers) to use and promote our services
- our pricing of risk, reflected in the premium and/or interest we charge
- whether we have the product range required to fill particular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

How UKEF complements the private market: exports to sub-Saharan Africa

During her visit to South Africa, Nigeria and Kenya in 2018, the Prime Minister set out an ambition for a partnership between the UK and African nations to deliver shared prosperity, but highlighted the gap in private sector liquidity.

As economies in sub-Saharan Africa grow, and demand for infrastructure increases, UKEF has seen significant growth in its support for UK exports to the region. In 2018-19, we supported a range of infrastructure projects in Angola and Ghana, building on increasing levels of support in previous years.

Increasing value of exports to sub-Saharan Africa



Awareness

In the UK, our ‘Exporters’ Edge’ GREAT campaign successfully engaged our target audience of small to medium exporters through PR, online advertising, social media, events, partnerships, direct marketing and re-marketing. The campaign was well received, increasing awareness and understanding of UKEF’s offer and generating over 6,000 new responses from UK businesses, exceeding our target by over 20%. Just 6 months after launch, the Exporters’ Edge proposition was already recognised by 5% of our target audience and we are seeking to increase this further as we continue our campaign in 2019-20.

The campaign continues to be supported by the award-winning Britain is GREAT campaign and is closely aligned with the Exporting is GREAT campaign run by the Department for International Trade.

UKEF have attended over 250 domestic events, engaging directly with UK SMEs to provide them with the Exporters’ Edge. In target markets overseas, we engaged high-value buyers with the potential to source significant volumes of new supplies from the UK to make them aware of UKEF’s capacity to support UK supply chains.

To make these connections, we participated in over 50 events, including regional conferences held with industry partners such as TXF and Global Trade Review, with our finance specialists in Brazil, Dubai, Indonesia, Ghana and Turkey leading 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.

Getting our support to the right companies, at the right time, will remain a significant focus, particularly for our trade finance products. In 2019-20, we will use the momentum of the 'Exporters' Edge' campaign to renew our work with partners and increase the volume of business introduced to UKEF by banks, insurance brokers and other private sector and government networks.

There is a review of our work with partners on page 42 to 43.

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 52 to 55.

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 at least 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.

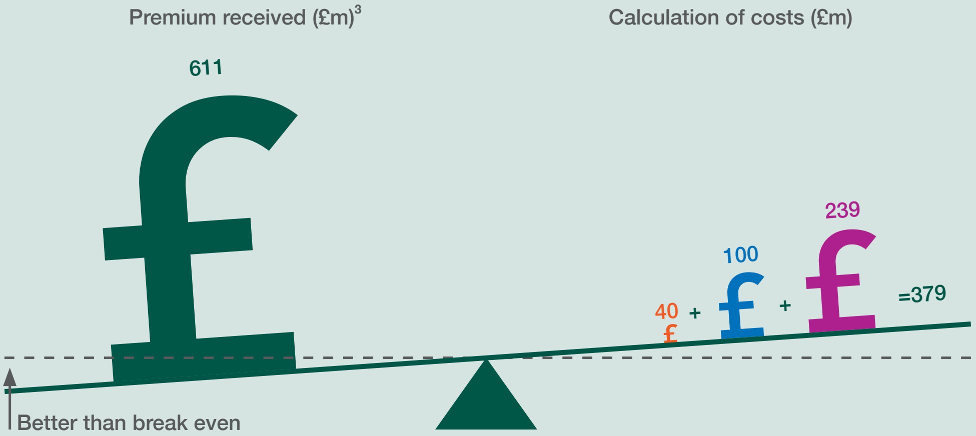
We measure this over different 3-year periods. The diagram below shows the result based on actuals for 2016-17 to 2018-19.

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

2016–19

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



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 Trade Finance Global recognises these advantages. 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 account for 2016–2019 applied to our pricing adequacy index differs from the accounted premium reported on page 120. 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)

As part of the Export Strategy commitment to consider the development of new products, in his 2019 Spring Statement the Chancellor of the Exchequer announced that UKEF will introduce a General Export Facility to support the overarching working capital requirements of exporting companies, and a public consultation on our foreign content policy. Both measures are designed to make UKEF's support for exports more flexible. Further detail can be found on page 35.

Comparing UKEF with other ECAs

We assess the strength of our support primarily through listening to our customers and comparing our capabilities against other leading ECAs from around the world. Every year we undertake a comparison exercise to review our offering against those of other ECAs.

We also benefit from external scrutiny provided by the ECA 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 our leading score of 9 out of 10 for the last 5 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 (for example, financial, operational, reputational, strategic and legal) from external and internal sources.

As an ECA, 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:

£1 for every £4,031 at risk, or 0.024%

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 44 to 63.

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 properly to 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.

There is a detailed description of our approach to strategic and operational risks facing our business and mitigating measures in the governance statement on pages 82 to 92.

Operational efficiency and effectiveness

We have a continuing programme of investment in digital technology and services to improve the efficiency and scalability of our case processing and customer relationship management, and to prepare for any 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 pages 43 and 97.

The next spending review is currently scheduled to take place later in 2019.

The year ahead

As we enter the final year of our 3-year business planning cycle, our aim is simple: to deliver on our mission by providing a high quality service for our customers while being a great place to work for our staff.

Agile and adaptable

Further developing digital services to meet our customers' and staff needs while ensuring appropriate assurance and control continues to be a core priority for UKEF, improving our operational effectiveness and transforming our users' experience.

In 2019-20 we will:

- appropriately embed compliance and risk management in all the business we do
- develop a target operating model to drive and inform UKEF's transformation plan
- continue to develop our digital services, data and technology to improve customer experience, increase efficiency and support robust decision-making

Competitive offering

Our Business Plan and the Export Strategy commit us to a continuing evolution of our products in line with market intelligence and industry best practice.

In 2019-20 we will:

- develop and deliver a product strategy in support of UK exports while protecting taxpayers' interests
- introduce the General Export Facility, consult the public on our foreign content policy and roll out new and enhanced products including supplier credit and supply chain invoice discounting

Customer service and awareness

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

In 2019-20 we will:

- deploy a marketing campaign with the aim of generating 5,000 new customer responses from UK businesses and an increase in awareness of UKEF among potential UK and overseas customers
- continue to roll out our supplier fair programme more widely to maximise the benefits of UKEF support for the UK supply chain
- further expand our international network of export finance specialists

Great place to work

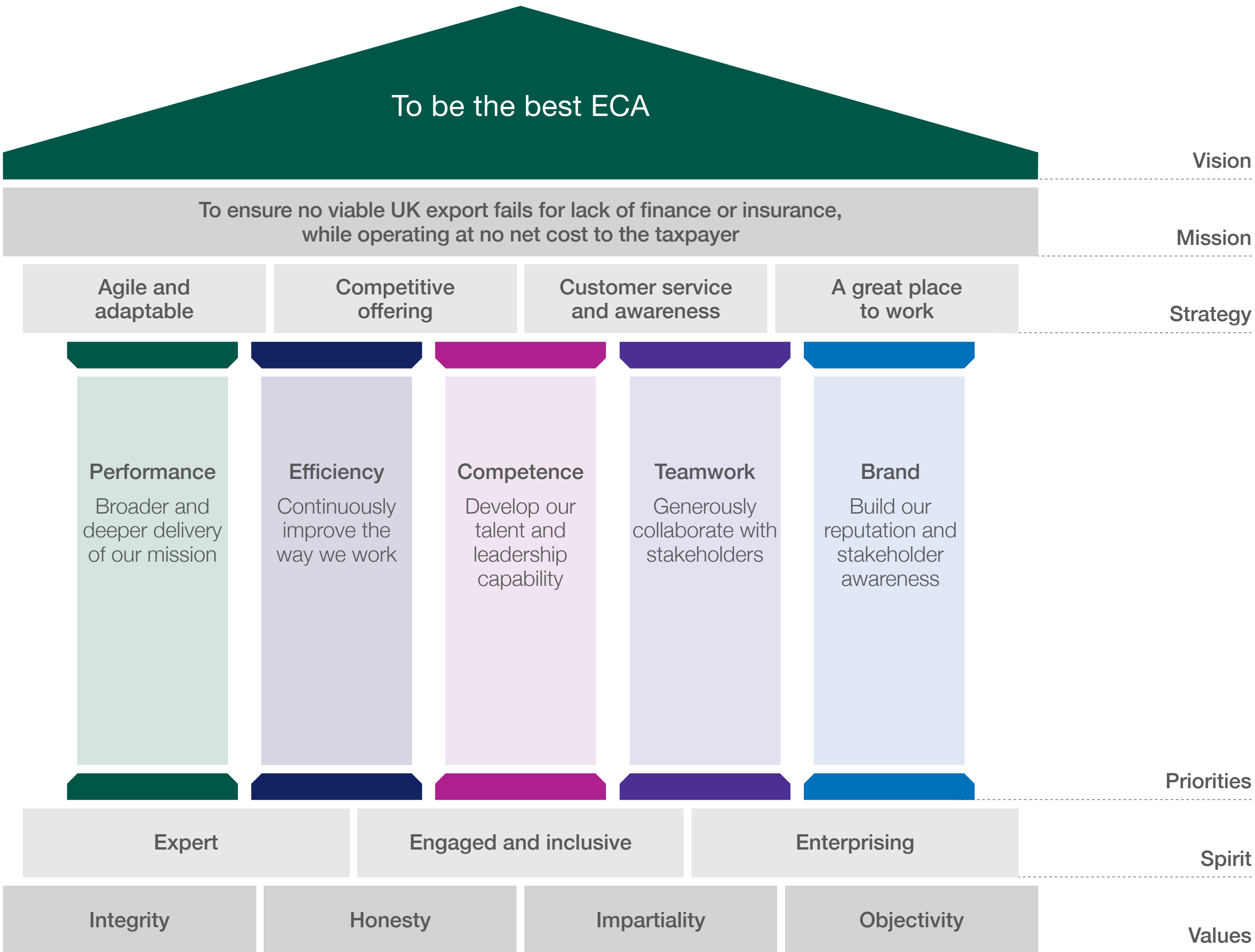
Our ambition is to have the most engaged workforce in the Civil Service, continuing to improve our employee engagement, build a diverse workforce and help our staff develop their careers.

In 2019-20 we will:

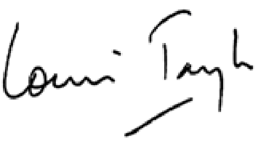
- reduce staff turnover and increase employee engagement to maintain a workforce with the right skills, knowledge and ability
- maintain our efforts to diversify our workforce by meeting the Public Sector Apprenticeship target, and by continuing to reduce the gender pay gap and ensuring that 30% of SCS roles are filled by female staff, meeting the commitments we made under the HM Treasury Women in Finance Charter

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 believe that this, and the performance reports that follow, are a fair, balanced and understandable account of our performance in the 2018-19 year.



Louis Taylor
Chief Executive and Accounting Officer
12 June 2019

HRH The Prince of Wales examines plans for the expansion of Kumasi Central Market in Ghana, which UKEF is supporting

Performance overview

Financial overview – 5 year summary

	2018-19 £m	2017-18 £m	2016-17 £m	2015-16 £m	2014-15 £m
Business supported	6,776	2,530	2,966	1,793	2,730
Premium income	332	103	102	73	104
Claims paid	0	2	8	5	6
Net operating income	128	5[1]	149	106	129

Non-financial indicators – 5 year summary

	2018-19	2017-18	2016-17	2015-16	2014-15
Total exporters supported, of which:	262	191	221	279	226
direct support under a UKEF product	142	145	148	176	160
companies that have secured business with a project UKEF is supporting[2]	81	-	-	-	-
exporter assist	34	45	71	100	66
direct support and private market assist	5	1	2	3	0
Facilities issued	733	580	483	593	588
Introductions to other sources of support	1,352	1,328	2,267	1,778	1,339

1 The fall in net operating income in 2017-18 was largely due to foreign exchange losses in that year. See page 63 for details of foreign exchange risk.
2 2018-19 is the first year UKEF has measured this.

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 £30.4 billion, against a maximum permissible level of £50 billion.
Risk appetite limit This limit places a constraint on UKEF's appetite for risk at the 99.1 percentile of UKEF's estimated portfolio loss distribution.	**Met** UKEF's 99.1 percentile of the portfolio loss distribution did not exceed £2.0 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 3.37 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 2019 was 1.61, against a target minimum of 1.00.
(ii) previous, present and next year.	**Met** This index did not fall below 1.55, against a monthly target minimum of 1.00.
(iii) present year and next 2 years.	**Met** This index did not fall below 1.52, against a monthly target minimum of 1.00.
Premium to risk ratio This measure ensures that each year UKEF charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to administrative costs.	**Met** This ratio did not fall below 1.96, against a target minimum of 1.35.

Pages 44 to 63 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

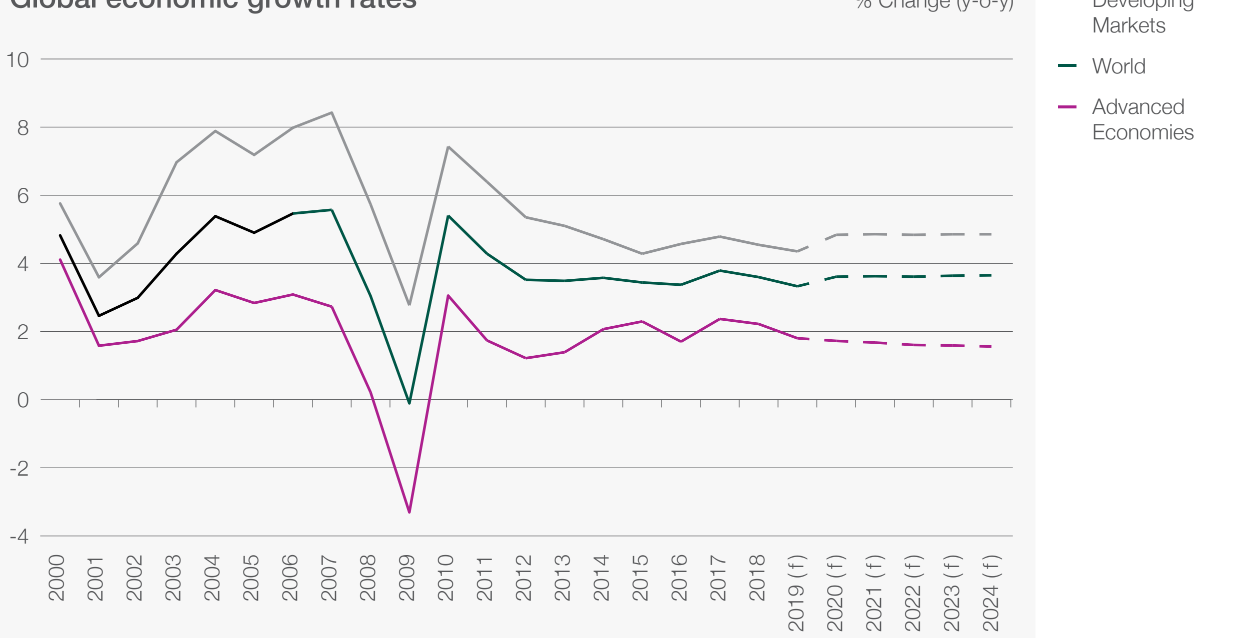
Slowing but sustained global growth

Global economic activity continues to expand, albeit at a decreasing rate. The IMF's April 2019 World Economic Outlook (WEO) suggests that the global economy is expected to slow from 3.6% in 2018 to 3.3% in 2019, before picking up pace in 2020 (3.6%). The OECD is also projecting the world economy growing by 3.3% in 2019 but has a slightly more conservative view for 2020 (3.4%) compared to the IMF.

Both the IMF and the OECD have revised down their outlook for the global economy. These revisions reflect a significant slowdown in global economic activity in the second half of last year due to weakening financial market sentiment in advanced and emerging economies, volatile commodity prices and falling industrial production outside the US.

Richard Smith-Morgan
Deputy Chief Risk Officer

Global economic growth rates



Source: IMF WEO – April 2019

While growth is weakening, leverage remains high. According to the IMF, total global public and private debt reached an all-time high of US$184 trillion at the end of 2017.

This expansion in debt — doubling in the decade since 2008 — could limit the space available to cushion a downturn or sufficiently manage economic shocks. Policy-makers may have less flexibility and may be required to take a more fragmented approach with fewer instruments at their disposal to direct the performance of the economy.

Advanced economies – slowing in growth

The IMF's WEO April 2019 projections suggest that the US is expected to grow at 2.3% this year, a notable slowdown from 2.9% in 2018 as the fiscal stimulus unwinds and consumer demand tapers off.

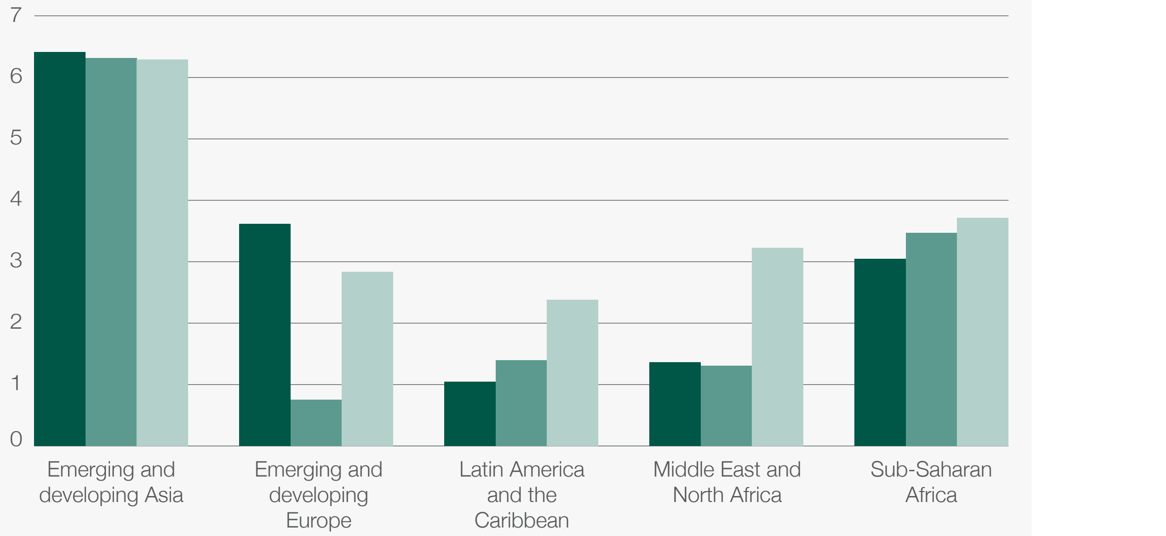
Political uncertainty in **Europe** has weakened the economic outlook for the continent. **France** and **Italy** in particular are expected to have lower growth rates. Italy has been affected by higher borrowing costs and France by protests and industrial action. **Germany's** economy meanwhile is expected to slow due to softer private consumption and weaker industrial production.

Emerging and developing markets – well-grounded growth

Output growth in emerging and developing markets is expected to slow to 4.4% in 2019 (from 4.5% in 2018) before increasing to 4.8% in 2020.

Regional growth rates

% change (year-on-year)



Source: IMF WEO – April 2019

Emerging and developing Asia remains the fastest growing region with GDP expected to expand by over 6% in both 2019 and 2020. **China's** economic growth is projected to continue to slow down from 6.6% in 2018 to 6.3% in 2019, due to trade tensions with the US and regulatory tightening. **India** is likely to remain the fastest growing Asian economy as GDP is expected to expand by 7.3% in 2019 (7.1% in 2018), supported by the government's spending ahead of the upcoming general elections and a more accommodative monetary policy.

Emerging and developing Europe faces the greatest downward revision for growth, to 0.8% in 2019 from 3.7% compared to the April 2018 WEO projections, despite several countries performing better than expected. The sizeable adjustment is attributed to a substantial projected contraction in **Turkey**, following the flight of capital in late 2018. Nevertheless, GDP for the region is expected to make a recovery and increase to 2.8% in 2020.

The IMF's projections suggest that sub-Saharan Africa's GDP could expand by 3.5% in 2019, the second highest regional growth rate. Nearly half of sub-Saharan African economies are expected to grow by over 5% in 2019-20. **Ghana's** economy is forecast to increase by 8.8% this year, 1 of the highest growth rates in the region, supported by recent oil discoveries. **South Africa's** growth is projected to recover to 1.2% in 2019 from 0.8% in 2018 under the new administration but continues to perform below expectations.

In Latin America and the Caribbean, the rise in growth (from 1% in 2018 to 1.4% in 2019 and 2.4% in 2020) primarily reflects the continued gradual recovery in **Brazil** following the 2015-16 recession.

Growth in the Middle East and North Africa is expected to remain rather weak in 2019 (1.3%), before picking up in 2020 (3.2%) as modest rises in 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.

Overall, there are vulnerabilities in the global economy, but for emerging markets – UKEF's primary focus – growth is likely to remain robust, which is a positive indicator for the department's business.

Commodity prices – oil and gas price volatility

Hydrocarbon prices; January 2013 – March 2019

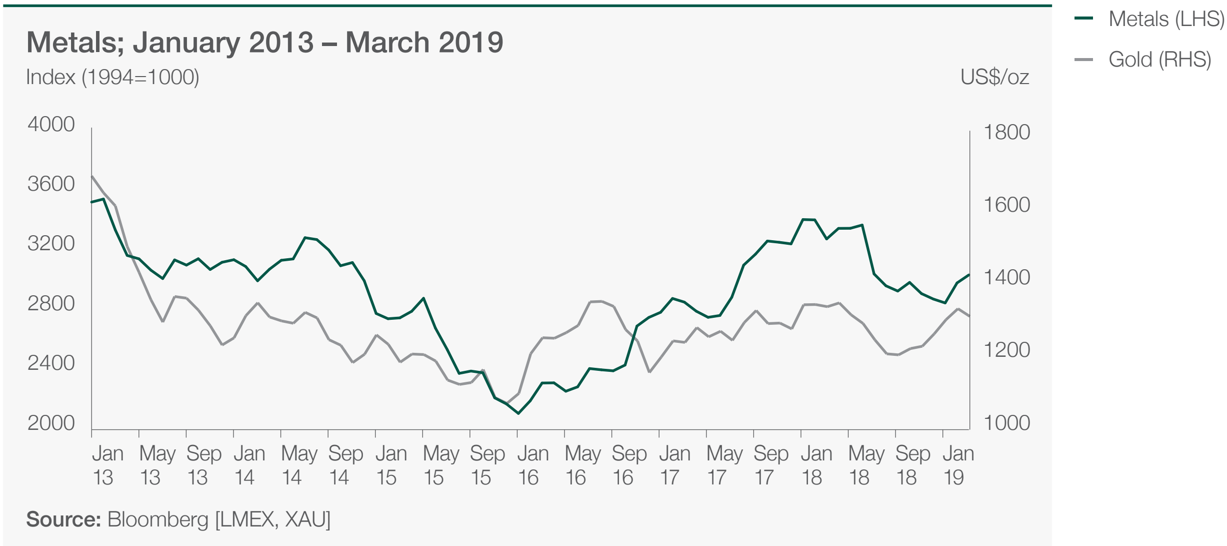
Source: Bloomberg [CO1, NG1]

Co-operation between members of the Organisation of the Petroleum Exporting Countries (OPEC) and key non-OPEC oil producers to restrict aggregate production, implemented in January 2017 and extended to June 2019, has seen oil prices rebound to over US$70 a barrel on average in 2018 (compared to an average of around US$55 a barrel in 2017).

Disciplined production cuts are leading to the long-awaited rebalancing of the market. However, oil prices have been volatile since mid-2018, reflecting supply influences arising from US sanctions on Iran and Venezuela and high levels of US shale production.

Growth in oil supply will remain dominated by the US, while oil demand should continue to increase on the back of the growing Asian economies. However, slower global economic growth and geopolitical factors such as trade tensions or political sanctions raise the risk of disruptions to demand and supply.

The natural gas market, in the form of Liquefied Natural Gas (LNG), is projected to grow in coming years, which could result in gas becoming a global energy commodity increasingly priced in its own right rather than with reference to the price of oil. Asia is expected to continue to play a key role in rapidly increasing demand for LNG. Despite natural gas prices being more localised to the country where it is extracted, there is some correlation with the price of oil, with natural gas prices sometimes following with a lag.



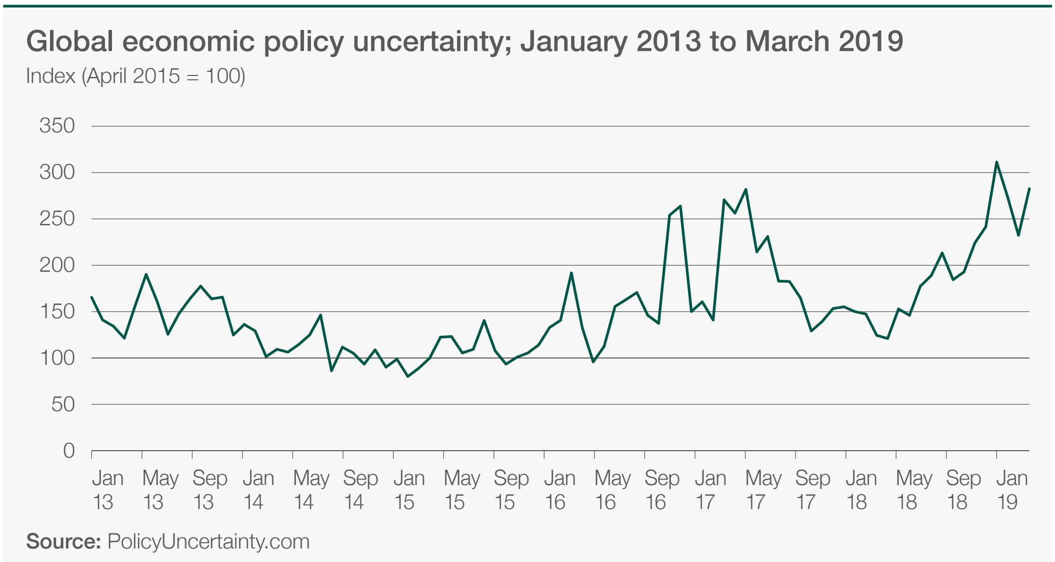
Source: Bloomberg [LMEX, XAU]

Metal prices, as measured by the London Metal Exchange Index (LMEX),[1] rose through the first half of 2018 in tandem with the global upswing. However, since June 2018, metal prices have fallen, which may be attributed to softer demand in China. Volatility is expected to remain as US-China trade negotiations continue thereby affecting supply and demand levels and subsequently prices.

Gold prices were on the decline in the first half of 2018, but persistent concerns about a global economic slowdown and financial market uncertainty have fuelled demand for safe-haven assets. Since August 2018, gold prices have performed well, rising from around US$1,200/oz to about US$1,300/oz in March 2019. However, a slight fall in gold prices was experienced in early 2019 as the US dollar and equity market strengthened with some political uncertainty abating.

Financial markets conditions

The escalation of trade tensions between the US and China resulted in uncertainty feeding through to the financial markets which fell on average during the second half of 2018. However, as the US-China trade talks resumed in early 2019, the risk of higher trade tariffs decreased, and the markets rebounded. Global economic policy uncertainty, shown in the chart below, followed a similar pattern, peaking in December 2018 before declining in early 2019. Although, with a number of upcoming elections as well as a worsening outlook for global growth, the Policy uncertainty index increased again in March 2019.



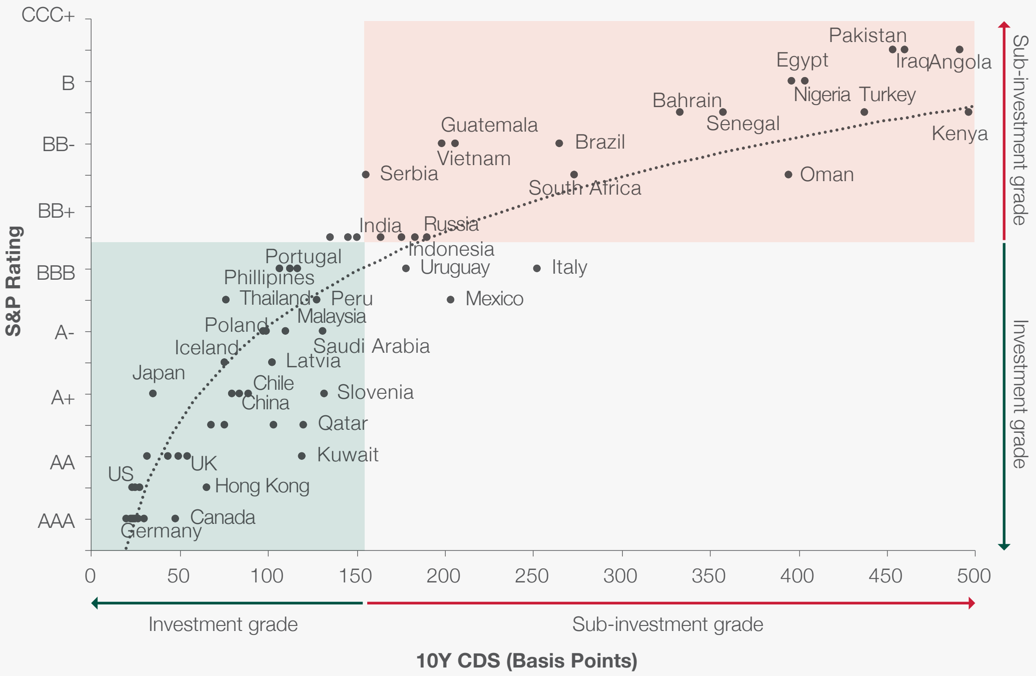
Source: PolicyUncertainty.com

1 Note: 'Metals' is based on the London Metal Exchange (LMEX) Index, which is calculated once a day on the basis of the closing prices of the 6 primary metals: copper, aluminium, lead, tin, zinc and nickel.

The rise in market uncertainty and a modest slowdown in US economic growth have reduced expectations of any further US monetary policy tightening in 2019. Central Banks in Europe, Japan and China are also signalling that monetary policy will be looser than had previously been expected. As a result, concerns over a potential reversal of capital flows from emerging markets in response to a sharp interest rate increase have also diminished for the time being.

This has been partly reflected in recent Credit Default Swap (CDS) spreads for certain countries. CDS spreads reflect market perceived riskiness of an entity, offering an alternative assessment of credit risk. Credit rating changes follow a methodical approach to avoid frequent rating changes, whereas CDS spreads are likely to react more quickly to changes in potential risk. The chart below plots S&P's sovereign ratings against 10-year CDS spreads, showing where opinions differ between traders and ratings agencies.

Standard & Poor's long-term foreign currency credit rating and 10-year credit default swap spread



Source: S&P Global Market Intelligence and Bloomberg. As at 29 March 2019

S&P Rating	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-
Average Spread	27	35	58	92	80	94	110	136	149	152	N/A	274	223	416	515	546

Many countries in the Middle East have higher CDS spreads than similarly rated countries in other parts of the world. This disparity is, in all likelihood, due to higher geopolitical tensions in the region and the economies being dependent on oil, which may have contributed to heightened market perceptions of risk.

Similarly, some European countries, for instance Italy (BBB) or Greece (B+), have higher credit ratings than emerging market countries such as Brazil (BB-) or Pakistan (B-) despite having only marginally lower CDS spreads. To an extent, this likely reflects the fact that European bonds are more actively traded than emerging market bonds, which potentially magnifies the impact of negative shocks. It is also possible that the CDS spreads are declining in response to the reform programmes attempted by the governments of some emerging economies. The rating agencies, that take a longer-term view, may attach less weight to these factors.

UK economy

According to the Office for National Statistics (ONS), the UK economy grew by 1.4% in 2018, compared to 1.8% in 2017. The Office for Budget Responsibility (OBR) anticipates growth of around 1.2% for this year and 1.4% in 2020. Modest global growth coupled with the competitive value of the pound has boosted UK exports over the last few years. Furthermore, labour market statistics from the ONS show that unemployment remains low at around 4%, while real income has increased by 1.2% in 2018, which is supporting household spending.

There has been a continued high level of job creation, with many firms choosing to grow their workforce rather than invest in capital, due to uncertainty related to the UK's exit from the EU. However, capital investment is forecast to start growing again from 2020.

The UK and the EU have agreed an extension to Article 50 until 31 October at the latest, with the option to leave earlier as soon as a deal has been ratified. Once ratified, the deal with the EU is anticipated to allow the UK to forge a new economic partnership that will protect existing trade links with the EU, while giving the UK new flexibility to open up trade and growth opportunities with the rest of the world. This would provide a positive backdrop to UKEF's growth plans.

Near-term outlook

Although the IMF and OECD predict global growth of around 3.5% in the near future, a number of downside risks persist, including: ongoing trade disputes, geopolitical tensions, political uncertainty and tighter liquidity. The global economy is slowing with growth projections trend, making it more vulnerable to shocks as policy responses become somewhat limited.

Export credit agencies are essential in addressing long-term funding gaps in support of global infrastructure requirements, especially where private sector provision may be deficient. If global liquidity tightens, it may pose a challenge for emerging markets and heighten the demand for UKEF support.

Furthermore, emerging markets are likely to remain the driver of global growth, with the effect of encouraging UK exports, and consequently boosting UKEF's business volumes. By positioning capital and funding capacity efficiently, there continues to be a powerful role for UKEF to help companies secure export opportunities worldwide.

How we operate

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

We do so principally by providing:

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

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

In doing this, our role is to complement the private market: we seek to support exports that might otherwise not happen, thereby supporting UK exporters and incentivising overseas buyers to source from the UK. 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 state aid restrictions on supporting short-term export credit insurance for exports to EU countries (currently excluding Greece) and rich OECD countries (for example, the US).

The financial liabilities we assume when supporting exports involve a transfer of risk from the private to public sector. Direct lending involves upfront public expenditure while other financial liabilities represent contingent public expenditure – that is, taxpayer funding is required only in the event of claims being made 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 page 44 to 63.

We also operate under international (principally OECD) agreements that seek to create a 'level playing field' by setting terms under which national credit agencies can support exports. However, not all export credit agencies (ECAs) are party to these international agreements and competition for UK exporters is increasingly from non-OECD countries whose ECAs 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 impacts, 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 between 5 and 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 (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

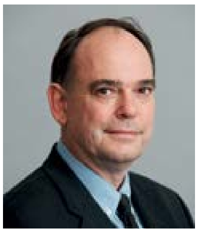
Access to UKEF's products and services can provide an incentive for companies to base their international business in UK, supporting foreign direct investment (FDI) in the UK.

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

Our support for exports

Business supported

Exporters directly supported	262[1]
Value of support provided	£6.8 billion
Destination countries	72
Largest single facility	£2.26 billion (buyer credit)
Smallest case	£157.50 (export insurance)
Most popular product	Bond support (73 companies)
Highest value product (total use)	Buyer credit (£4.31 billion)



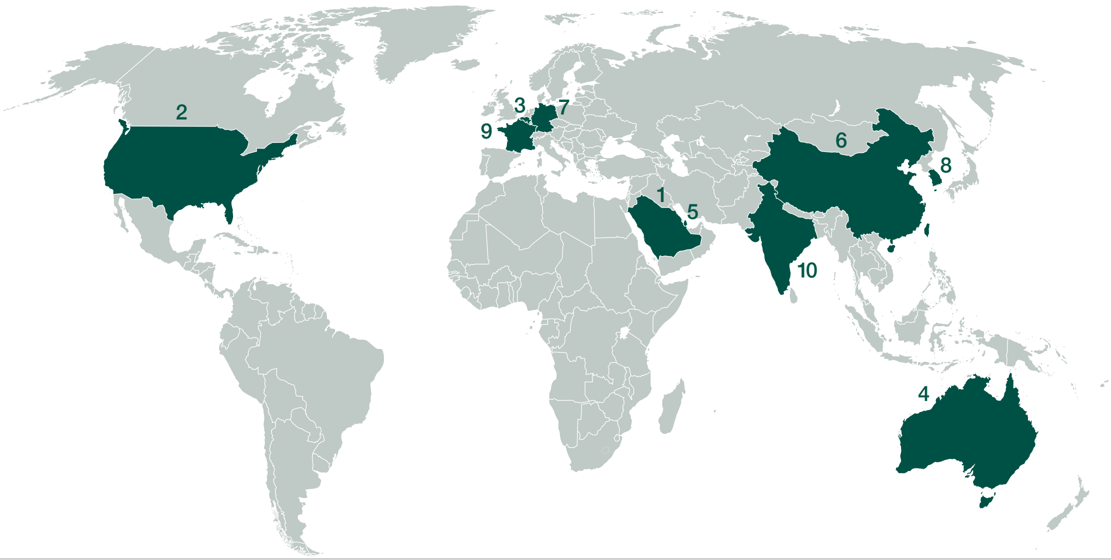
Gordon Welsh
Business Group
Director

Trade finance and export insurance: making exports happen

UKEF's short-term trade finance support allows exporters and direct suppliers to exporters to access finance from banks and other financial institutions to enable export activity where otherwise they may not be able to. Often, this support is a critical factor for a business in winning and then ensuring that they can fulfil a contract. Support is available in the form of guarantees under our bond support and export working capital schemes.

We also provide insurance for exporters, principally against the risk of non-payment by their buyer, where the commercial market is not able to provide the cover required.

Trade finance and export insurance: top 10 markets by value in 2018-19



1. Saudi Arabia
2. United States
3. Belgium
4. Australia
5. Qatar
6. China
7. Germany
8. Korea, Republic of
9. France
10. India

1 This includes UK companies that have secured business with a UKEF-supported project.

Since the launch of our trade finance products in 2011, we have supported £4.79 billion in contracts through these products. In 2018-19, UKEF supported contracts worth £620 million, an increase of 33% on 2017-18, as well as helping companies obtain the finance they needed from commercial providers through our referral service.

Enhancing our products and services

A significant factor in this growth was the continued enhancement of our bank delivery model and trade finance digital service, working with our 5 current partner banks, Barclays, HSBC, Lloyds/Bank of Scotland, RBS/NatWest/Ulster Bank and Santander (see our partners and operations, page 42). Approximately 60% of all transactions are now processed automatically. We have also extended our export working capital scheme to cover loans of up to 5 years (previously the maximum term was 2 years).

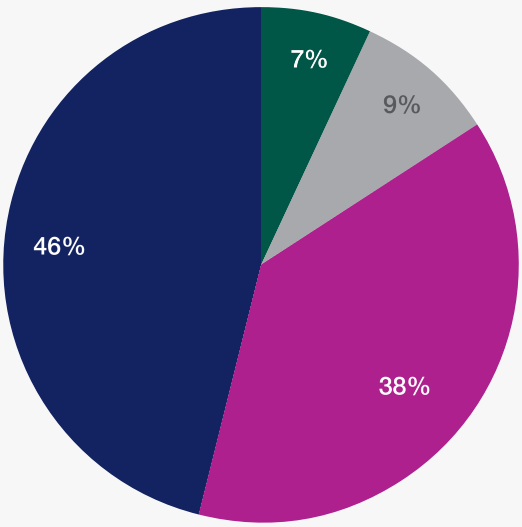
Further major steps to improve the accessibility of UKEF's trade finance products for exporters are planned with the launch of the General Export Facility, announced by the Chancellor of the Exchequer in his Spring Statement in March 2019. This new facility will mean UKEF can support exporters' overall working capital, rather than linking support to specific export contracts, better aligning with how exporters seek finance in practice. We will also extend our bank partnership model to a wider network of participating banks and non-bank financial institutions.

In January 2019, we began a pilot of a new product to support exporters' supply chains. Under the supply chain invoice discounting service, UKEF will guarantee a portion of a trade payables facility offered by a bank to a UK exporter; companies in the exporter's supply chain can then seek immediate payment from this facility for any goods or services they provide to that exporter. UKEF's involvement adds capacity, allowing more exporters and their suppliers to benefit.

In March 2019, UKEF launched a public consultation on its foreign content policy to ensure that UKEF is recognising the full contribution of the UK supply chain, increasing access to support for UK suppliers and enabling global buyers to purchase more from the UK. We expect to publish the government's response in the summer of 2019.

Export credits: helping UK businesses compete in the global marketplace

Export credit business supported (medium/long-term) 2018-19



Sector	UKEF maximum liability, £m
Aerospace	482
Civil - direct loans	587
Civil - guarantees	2,542
Defence	3,042

UKEF provides export credit support by guaranteeing commercial finance or providing direct loans to overseas buyers 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 which requires extra capacity to be provided alongside other financial resources

Sector support

Civil, infrastructure and energy

2018-19 was an active year for UKEF in the civil, infrastructure and energy sectors, with buyer financing support worth a total of £3.1 billion provided across 19 global markets.

In Angola, UKEF supported the design, construction and equipping of 3 hospitals in Luanda and Cabinda Province under ASGC UK's contract with Angola's Ministry of Health. Combined, they will deliver over 500 beds and provide specialist services including radiology and intensive care.

UKEF also supported IQA Group's contract to upgrade 2 power substations in Viana and Gabela, significantly reducing north west Angola's dependence on oil-generated power, and reinsured Danish export credit agency (ECA) EKF's financing for the Lauca–Luanda transmission line project, in recognition of its significant UK content. This latter project will bring renewable energy from the Lauca hydropower dam to the people and businesses of Luanda. These are the first projects UKEF has ever supported in Angola, and with further transactions likely to follow, UKEF is playing an important role supporting Angola's infrastructure development and growing UK supply to this market.

Baroness Northover, the Prime Minister's Trade Envoy for Angola and Zambia, at a signing ceremony for the Viana Gabela power project with Archer Mangueira, Angola's Minister of Finance.

There have been other notable projects in sub-Saharan Africa, with Ghana remaining an important market for UK exporters. UKEF supported Contracta Construction UK's contract to develop and modernise Kumasi Central Market which is used by over 800,000 people daily. Other projects including the construction of a hospital in Bekwai by Ellipse UK and QG Construction UK's modernisation of Tamale Airport, which will open up transport links in the north of the country saw support signed but not yet effective by the end of the financial year.

UKEF also supported its third contract with Cleveland Bridge this year to develop rural infrastructure in Sri Lanka. This transaction, which will see 250 new bridges being built, will bring the total number of UKEF-backed bridges in the country to over 1,000.

In Iraq, UKEF has continued to support the Government of Iraq's nation-building efforts. This has included £590 million of financing for 2 contracts between GE and Iraq's Ministry of Electricity to build power stations in Samawa and Dhi Qar, in southern Iraq, as well as £244 million of support for GE's Grid Solutions project, which will develop 14 sub-stations across the country. Together these projects will help to increase the quantity and reliability of power supply to the people of Iraq.

In these projects, UKEF support is playing a critical role in helping to deliver vital national infrastructure, with significant positive social impacts including:

- enhanced health and well-being within communities where new hospitals have been supported
- improved availability of clean water from the development of water supply and treatment projects
- jobs, training and economic growth from direct and indirect employment opportunities resulting from UKEF supported projects overseas

A further landmark transaction was support worth £328 million for Airbus Defence & Space Ltd's (ADS Ltd) contract to supply 2 geostationary satellites and ground station to the Turkish state communications company, Turksat. UKEF acted as lead ECA with reinsurance support from its French and German counterparts. Airbus has contracted for this project through its UK subsidiary, ADS Ltd, securing significant UK content and positioning ADS Ltd to secure future export contracts with UKEF support.

Our largest single deal in the infrastructure and energy space was the support for the Duqm refinery project in Oman, which will deliver refined product that meets the latest international standards. Through its support for this project, UKEF was instrumental in securing significant export contracts for suppliers in the UK's world-leading oil and gas sector, which employs over 300,000 people. This transaction, that involved multiple ECAs, was named as the best ECA finance deal of 2018 by TXF.

At the other end of the size spectrum, our dedicated Small Deals team provided £289,000 buyer financing support for Northern Ireland's Tesab Engineering's contract to supply its rock-crushing equipment into Argentina. This was the smallest buyer-financing both of the year and in over a decade, as well as our first since reintroducing support for exports to Argentina, and shows the range of companies UKEF supports.

Direct lending

UKEF's Direct Lending Facility provides a source of highly efficient long-term fixed rate financing, which can give UK exporters a competitive edge. This can be particularly important for exporters and their customers in lower income countries where international competitors may be using concessional financing schemes not offered by the UK government, including tied aid. Our £3 billion of available direct lending capacity continued to see high levels of demand in 2018-19, with a total of £587 million deployed to support projects including the Kumasi market modernisation in Ghana, the Angolan hospitals, as well as the power projects in Iraq.

In response to the continued importance of direct lending to UK exporters, the Chancellor announced in the 2018 Budget an additional £2 billion of lending capacity for UKEF, to be deployed in the 2020-21 and 2021-22 financial years.

‘The aerospace industry is a major driver of the UK economy and I am delighted that as we launch the government’s Export Strategy, UKEF is backing this significant contract, which will support the continued international success of Rolls-Royce.

This delivery is part of Rolls-Royce’s contract to supply engines for 16 Boeing 787 Dreamliner aircraft for EL AL Israel Airlines – the largest single export deal the UK has won in Israel, and a marker of the strength of the trade relationship between our 2 countries.

British goods remain in global demand – this is the first time that UKEF has supported an aircraft delivery to EL AL and clearly shows the value of support from the UK’s award-winning export credit agency to the UK’s aerospace engineering sector.’

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

UKEF supported the delivery of a Rolls-Royce powered Boeing 787 Dreamliner to EL AL Israel Airlines

Aerospace and defence

With buyer financing support worth a total of £450 million, the total volume of support provided for aerospace transactions reflected the continuing appetite of the commercial market for asset-backed lending to airlines. Support was lower than in 2017-18 (£1.05 billion), with relatively low support for the major manufacturers compared with historical levels. However, the year saw UKEF continue to support a wider range of aerospace business.

Demand for UKEF-supported financing for Rolls-Royce-powered Boeing 787 aircraft continued in 2018-19 with a further 3 new customers: Aercap, Avianca and EL AL Israel Airlines. This takes the total number of Rolls-Royce-powered Boeing 787 aircraft supported to 16 to date.

Following on, support for 2 Airbus A330 aircraft that were delivered to Rwandair in 2017-18 – the first Airbus aircraft supported since the start of the ongoing Serious Fraud Office (SFO) investigation – UKEF and its French and German counterparts provided support for 2 Airbus A380 deliveries to Emirates Airlines. As with the Rwandair deliveries, the 3 ECAs applied the extended due diligence framework developed to assess applications from Airbus for export credit support. Together with colleagues in France and Germany we continue to monitor Airbus' progress in strengthening its internal compliance processes.

We continued to support the Airbus A220 programme,[2] the wings and fuselage assembly of which are produced at the Short Brothers facilities in Belfast. Alongside the Canadian ECA, Export Development Canada, UKEF supported a further 6 aircraft deliveries to Korean Airlines, taking the total number of A220-300s supported to 10.

2018-19 saw us support a further 12 engine overhauls undertaken by GE Caledonian in Prestwick in Scotland, taking support for GE Aviation overhaul in the UK well over the $100 million mark. Our assistance, delivered in partnership with the Export-Import Bank of the United States, is supporting specialist engineering jobs in the UK, and we continue to work with GE Aviation to identify further opportunities to secure contracts for GE Caledonian.

Defence sector business contributed significantly to UKEF's business supported figures in 2018-19, principally in relation to a package of guarantees and insurance provided in respect of the sale of 24 Typhoon and 9 Hawk aircraft and associated goods and services by UK defence companies BAE Systems and MBDA UK to the State of Qatar. This combined package of support, with a value of around £5 billion (before reinsurance from partner ECAs in respect of their own national content), was critical to ensuring the success of the transaction, which will have significant benefits for lead contractor BAE Systems, its nearly 35,000 employees and the 9,000 companies in its supply chain, and will similarly support MBDA's operations and suppliers. It will also help sustain the UK's defence industrial capability into the future.

2 Formerly the Bombardier C-Series, this aircraft was renamed the Airbus A220 following the acquisition of a majority share of the programme by Airbus.

Bringing business to the UK

In 2018-19, UKEF has enhanced and expanded the 'leading with finance' approach to bringing business to the UK.

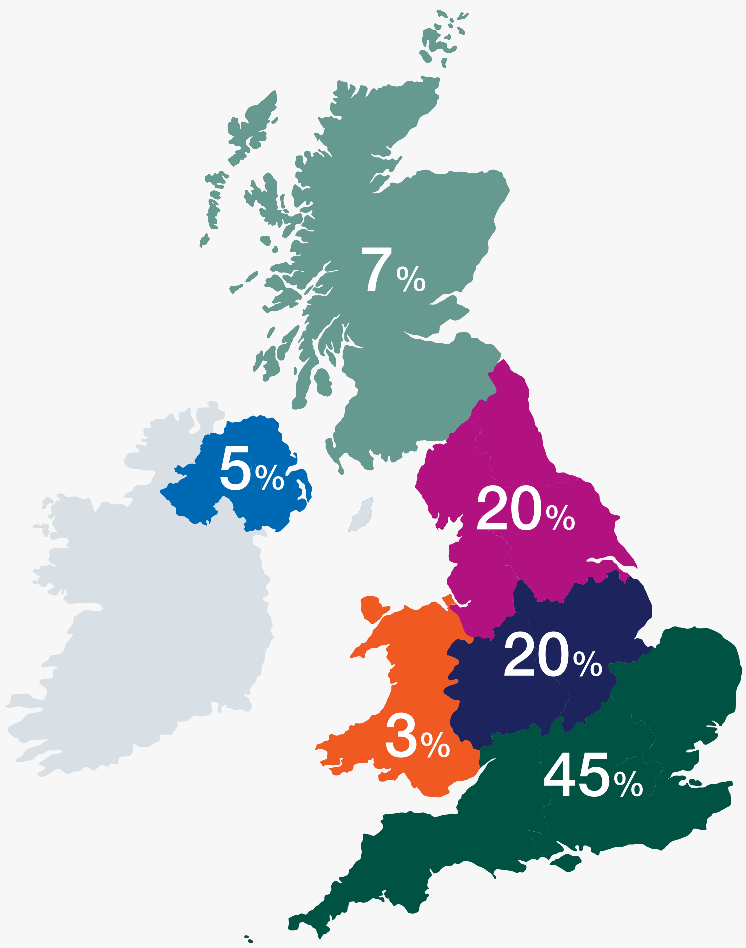
UKEF's supplier fair model is an ambitious programme to help increase UK content in overseas projects UKEF is supporting through procurement-focused events, working with trade associations and the Department for International Trade to activate the UK supply chain. These day-long matchmaking events connect relevant UK suppliers with international buyers who are actively looking for British products and services for their overseas project or projects; this helps the buyer make successful commercial decisions and the UK supplier win overseas contracts. For each supplier fair, UKEF requires a contribution of £12,000 from the sponsor, which goes towards the cost of the event.

UKEF held 3 supplier fairs in 2018-19, connecting over 300 exporters with opportunities potentially worth hundreds of millions of pounds in sectors as diverse as healthcare, construction and energy, with more to come in the future.

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.

Proportion of companies benefiting from trade finance or insurance by region in 2018-19

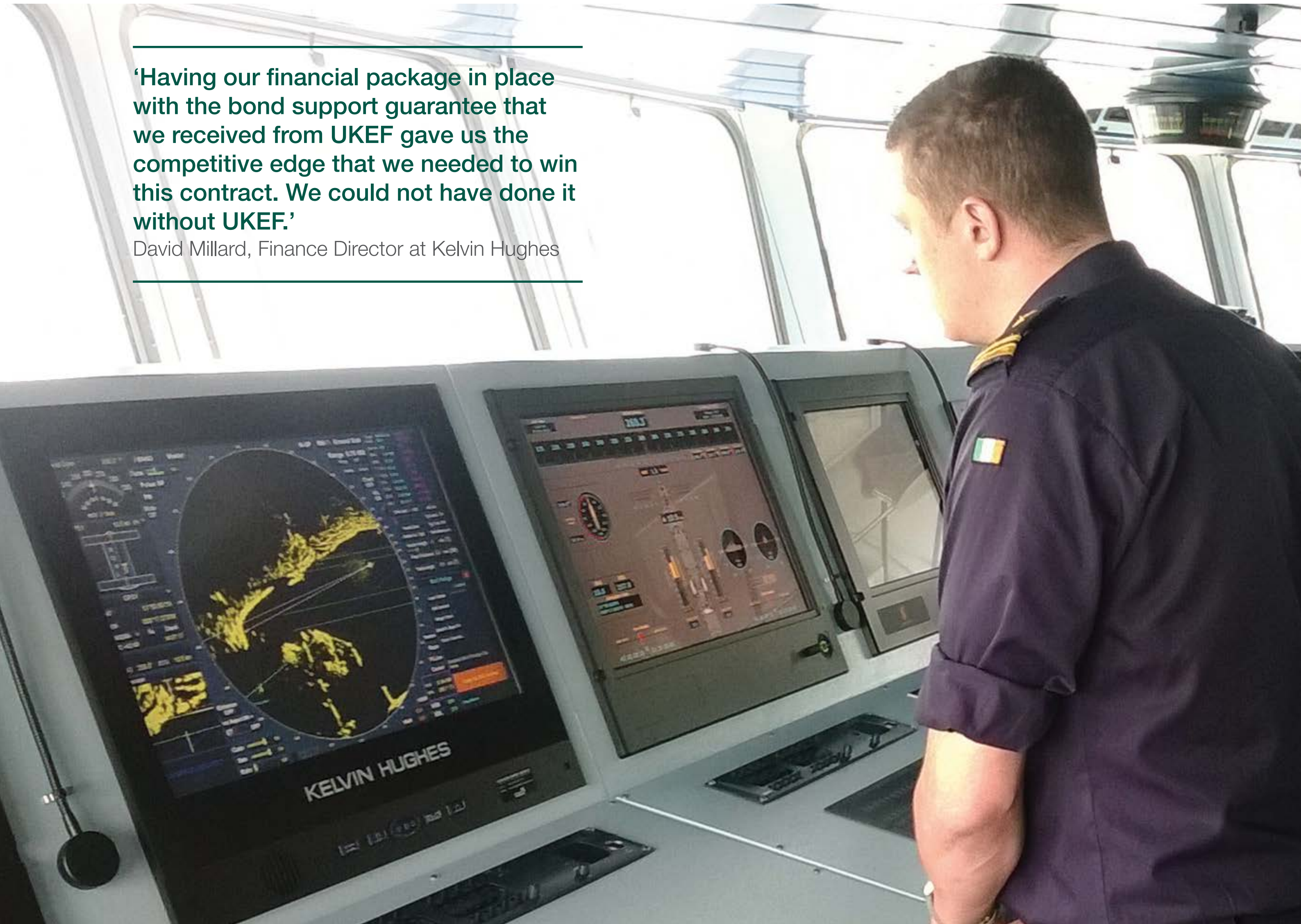


This presence across the UK makes a significant contribution to our drive to increase awareness and uptake of UKEF products among small and medium-sized exporters all over the country. EFMs develop relationships on a local basis, providing on-the-ground support for exporters across the UK. This year, EFMs held nearly 2,041 meetings with businesses, providing face-to-face guidance on trade finance options to support their exports, and a further 352 with intermediaries including banks and brokers.

In addition to helping companies access UKEF products, EFMs deliver 'exporter 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 1,352 referrals to third-party sources of support.

There were 145 referrals from our EFMs to services provided by the Department for International Trade, Scottish Enterprise, Business Wales and Invest Northern Ireland. In addition to the outward EFM referrals, UKEF has received 303 referrals from the International Trade Advisors (ITAs), demonstrating the close linkages between the government's export promotion and export finance support.

'Having our financial package in place with the bond support guarantee that we received from UKEF gave us the competitive edge that we needed to win this contract. We could not have done it without UKEF.'
David Millard, Finance Director at Kelvin Hughes



Our partners and operations

UKEF collaborates generously and purposefully with stakeholder groups within and outside of government to improve understanding of UKEF's relevance to UK businesses and their overseas buyers and support the UK's trade aspirations. Our partners provide valuable insight into our customers' needs as we develop and enhance our products and services to support the finance and insurance gaps in the market.

Our partners

Other government departments (OGDs): UKEF's offer of finance is at the heart of the government's Export Strategy (see page 8). UKEF works closely with departments including the Department for International Trade, Foreign and Commonwealth Office, Department for Business, Energy and Industrial Strategy and the Department for International Development to support UK exporters and overseas buyers. We work with HM Treasury, the Department for Transport and the Infrastructure Projects Authority, to extend an integrated offer of UKEF products and support to their stakeholders.

To support and educate business-facing colleagues in other departments, UKEF offers the Award in Trade Finance, an accredited online training course developed with the Institute of Export and International Trade.

Commercial finance (lenders) and insurance partners (brokers and insurers): UKEF's role is to complement the commercial sector, and its guarantees, loans and insurance products are delivered in partnership with over 100 private sector partners.

Building on the bank partnership delivery model for our short-term trade finance support, introduced in 2017, this year we have worked with our partner banks to improve turnaround times and make the process clearer, simpler and more efficient for the applicant, bank and UKEF. The changes were agreed and introduced in May 2019. We have also expanded the range of non-bank financial institutions with which we work.

This year, UKEF offered banking partners the opportunity to sponsor the UK Trade & Export Finance Forum held in May 2018. Barclays provided £5,000 in sponsorship to support the event, highlighting the close collaboration between public and private sector to deliver finance for exports.

Export credit agencies: UKEF works with other national ECAs to jointly deliver export credit support where transactions include content from multiple countries. To do so, it has reinsurance and co-operation agreements in place with 40 ECAs, this year adding Etihad Export Credit Insurance (UAE), Uzbekinvest National Export-Import Insurance Company and Corporacion Andina de Fomento (Latin America's multilateral development bank). In 2018-19, UKEF worked with Banque Publique D'Investissement (France), Euler Hermes (Germany), Oesterreichische Kontrollbank (Austria), the Export Credit Bank of Turkey, Export Development Canada, the Export-Import Bank of the United States, EKF (Denmark's ECA) and Nippon Export and Investment Insurance (Japan).

Industry bodies: UKEF engages industry bodies to seek market intelligence to support the development of its products and services and to market its support to their members. Key relationships include:

- the British Exporters Association, which evaluates UKEF against other national ECAs (see page 20)
- the Confederation of British Industry, which provides feedback from industry and supports UKEF's business outreach
- the Institute of Exports and International Trade, which partners with UKEF to increase knowledge of export and trade finance and insurance throughout the business community
- the Federation of Small Businesses, to understand challenges faced by small businesses in financing export activity
- UK Finance, on new product development
- the British Chambers of Commerce, which, through its regional network of accredited chambers, works with UKEF's Export Finance Managers to promote exports

UKEF also works with sector-focused trade associations, such as Make UK (formerly known as EEF), to understand emerging trends within their sectors, and to target awareness-raising and marketing activities at their memberships, including supplier fair opportunities (see page 40).

Professional services providers: We continue to build our strategic engagement with accountancy, consultancy and legal firms as an important referral channel. A number of leading companies in these sectors, including PwC, KPMG, BDO and EY, have committed to support the delivery of the Export Strategy by jointly collaborating with DIT and UKEF, deploying their UK and overseas networks to improve awareness of the support on offer.

Our operations

In 2018-19, our Change and Transformation Plan has aimed to equip UKEF with the necessary infrastructure and resources to become more user-focused and increasingly operate 'digitally by default,' delivering on our strategic aims to be agile and adaptable and provide high levels of customer service. This builds on significant investments in 2016-17 and 2017-18 to improve underlying IT infrastructure.

In 2018-19, improvements were made to numerous systems to enhance efficiency, resilience and scalability in UKEF's operations, including:

1. continuing improvements to the bespoke digital service for trade finance products that supports UKEF's bank partnership delivery model
2. further enhancements to our customer relationship management system to improve customer engagement and efficiency
3. an enhanced 'change lab' process to encourage employees to share ideas on how UKEF products, systems and processes could be improved
4. upgrades to core systems that will ultimately enable more 'straight through' processing of transactions and therefore scalability
5. initiating work to enhance UKEF's external web presence, to improve awareness of our offering, and intranet, to support staff engagement and collaboration

We have also invested in technology, assets, processes and people to support greater automation and ways of working to improve efficiency across UKEF.

Chief Risk Officer’s Report

Samir Parkash
Chief Risk Officer

The principal risks to which UKEF is exposed are credit, market, liquidity, operational, environmental, social and reputational.[1]

UKEF's financial risks

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

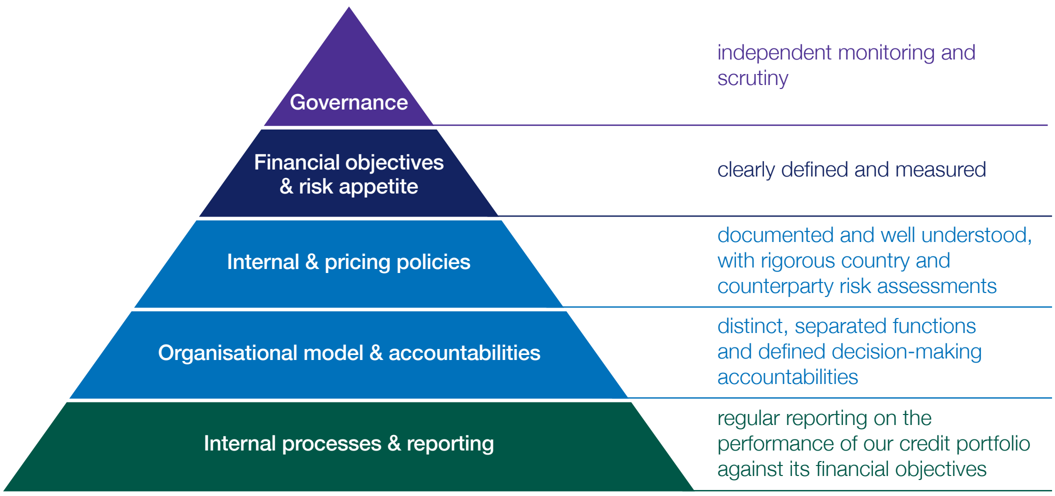
Market risk: the risk of losses due to changing market prices, such as fluctuations in foreign exchange rates and, to a lesser extent, interest rates.

Liquidity risk: the risk that we are not able 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 access the Consolidated Fund.

All our risk management operations aim to at least match the financial services industry’s best practice standards. However, given our role as a government-backed export credit agency (ECA), 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 risk management framework



1 A description of the most significant operational risks facing our business and mitigating measures are discussed in the governance statement on pages 82 to 92. Environmental, social and human rights risks are discussed in the head of environment and social risk’s report on pages 72 to 75.

Risk management

Context

Parliament sets an overall limit of SDR67.7 billion[2] 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 ECA, our role, mandate and risk appetite differs from the private sector. So, while we do compare our risk management framework 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 focus on emerging market risks
- longer risk horizons
- greater risk concentrations (on counterparties, sectors and geographic regions for example)

Risk governance

The ultimate responsibility for risk management within UKEF lies with the Chief Executive who, as Principal Accounting Officer, is answerable to ministers and Parliament for all aspects of the department's operations. 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 advises 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:

- managing and monitoring credit risk exposures at transaction and portfolio level, and approving credit risk exposures above the level of authority delegated by the Chief Executive to senior risk executives
- 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 (CRO)
3. Chief Finance & Operating Officer (CFOO)
4. Business Group Director
5. Deputy Chief Risk Officer
6. Head of Pricing and Portfolio Risk Unit

The Director of Legal and Compliance or a nominee will also attend to provide advice on legal matters.

For a meeting to take place, at least 3 standing members of the committee must be present, including either the CRO or the Deputy CRO and either the Chief Executive or CFOO. In the

2 This limit is expressed in special drawing rights (SDR), an international reserve asset created by the IMF. SDR67.7 billion corresponds to approximately £71.7 billion.

absence of the Chief Executive, a unanimous decision of standing members, including the CFOO, must be obtained for any approvals.

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 potential conflicts of interest and to provide vital and appropriate checks and balances in the business origination, credit approval and risk management processes.

Within the Risk Management 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

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 makes adequate returns 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 5 financial measures:

1. **Maximum commitment:** the total amount of nominal credit risk exposure that the department may incur. Set at £50 billion[3]
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 any individual market, with reducing capacity as the risk profile increases (detailed further on page 48)
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 portfolio loss distribution[4]
5. **Pricing Adequacy Index and Premium to Risk Ratio:** detailed under pricing policies on pages 52 to 55

A Risk Approval Division meeting, discussing the global risk outlook

3 The Maximum Commitment and Risk Appetite Limit are no longer subject to adjustments due to exchange rate movements.

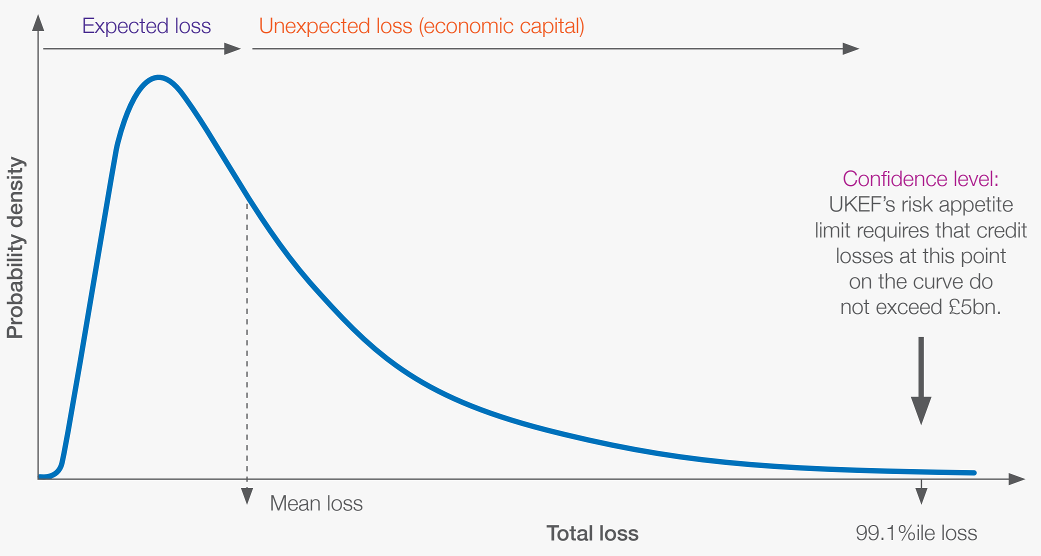
4 The reserve index means the ratio of (a) cumulative reserves plus associated provisions to (b) the aggregate of the value of the 77.5 percentile point on UKEF's portfolio loss distribution plus provisions. At the end of each month, the index must be at least 1.

The 2018-19 outturn against all our financial objectives is presented on page 25.

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 a calculation of anticipated average loss over a defined time period based on historical experience. 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.

Unexpected loss accounts for the potential for actual losses to exceed expected losses, reflecting the uncertainty inherent in the calculation 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, will not (with a 99.1% degree of certainty) exceed £5 billion. In other words, at no time should portfolio expected loss, plus provisions against claims already paid, plus portfolio unexpected loss, exceed £5 billion.

The credit risk policy, the pricing methodology and the exposure management framework are the main policies that apply to the management of credit risk within UKEF. All policies are reviewed at least annually by the Credit Committee and subsequently 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.[5] A series of more detailed risk management policies, frameworks and individual risk methodologies sits underneath the credit risk policy.

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, assessed through individual country reviews using 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 unless UKEF has been instructed otherwise by a ministerial direction

The Credit Committee regularly reviews UKEF's country limits and cover policy. In addition, it sets individual controls on a case-by-case basis within each country limit. Risk and cover policy is assessed and decided for around 200 markets, prioritising based on 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 a range of external materials, as well as cross-Whitehall forums, local UK diplomatic representatives, quarterly OECD[6] 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. In all instances, credit ratings will be reviewed and approved (as appropriate) by the Credit Committee.

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, operating lessors, banks and project finance). These are updated annually and approved by the Credit Committee.

For our trade finance business, which typically involves small and medium-sized enterprises (SMEs) and relatively small individual credit risk exposures, we have purpose-built a number of credit assessment methodologies with shorter turnaround times for certain categories of risk. For example, we have adopted a specific credit assessment and approval process 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 2019 as we agreed greater delegated authority for financial institutions to apply our guarantee more quickly and flexibly within agreed eligibility criteria.

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

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5 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.

6 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 2 years or more.

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 Supplier credit facility Lines of credit	Guarantees medium/long-term finance from lenders or capital market investors provided to overseas buyers of UK goods/services	Overseas buyer	Bespoke UKEF methodology
	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 and 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

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.[7] Our credit risk assessments are used to indicate the 3 components of expected loss:

Expected Loss

Probability of default (%) × Loss given default (%) × Exposure at default (£) = Expected loss (£)

Through credit risk assessment, we 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 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 47).

Risk concentration and correlation

Given UKEF's role, it is almost inevitable that our credit portfolio will have risk concentrations. Consequently, portfolio modelling (particularly the impact on unexpected loss) plays an important role in helping to determine 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 1 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

7 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.

1 practical means of reducing risk concentration at the transaction initiation stage is through reinsurance or counter-guarantees from the market or, more often, 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 reinsurance market and successfully closed a number of reinsurance transactions.

Stress testing and scenario analysis

UKEF's policy is 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 in each exercise 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 particularly considers 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.

To complement existing stress testing and scenario analysis, in 2018-19 UKEF introduced the concept of reverse stress testing with the aim to identify and assess events and circumstances that would cause our business model to become unviable and to design strategies to mitigate the risk of such business failure.

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.

Credit processes and reporting

All material credit risks must be approved by the Credit Committee or a designated member of the Risk Management 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 6 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, track 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. This exercise is discussed in detail and agreed with UKEF's external auditors.

Sovereign defaults that lead to debt renegotiations through the Paris Club[8] are managed by a team within the CFOO'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 protracted; a number of still active reschedulings relate to exposure principally incurred prior to 1991.[9]

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'.

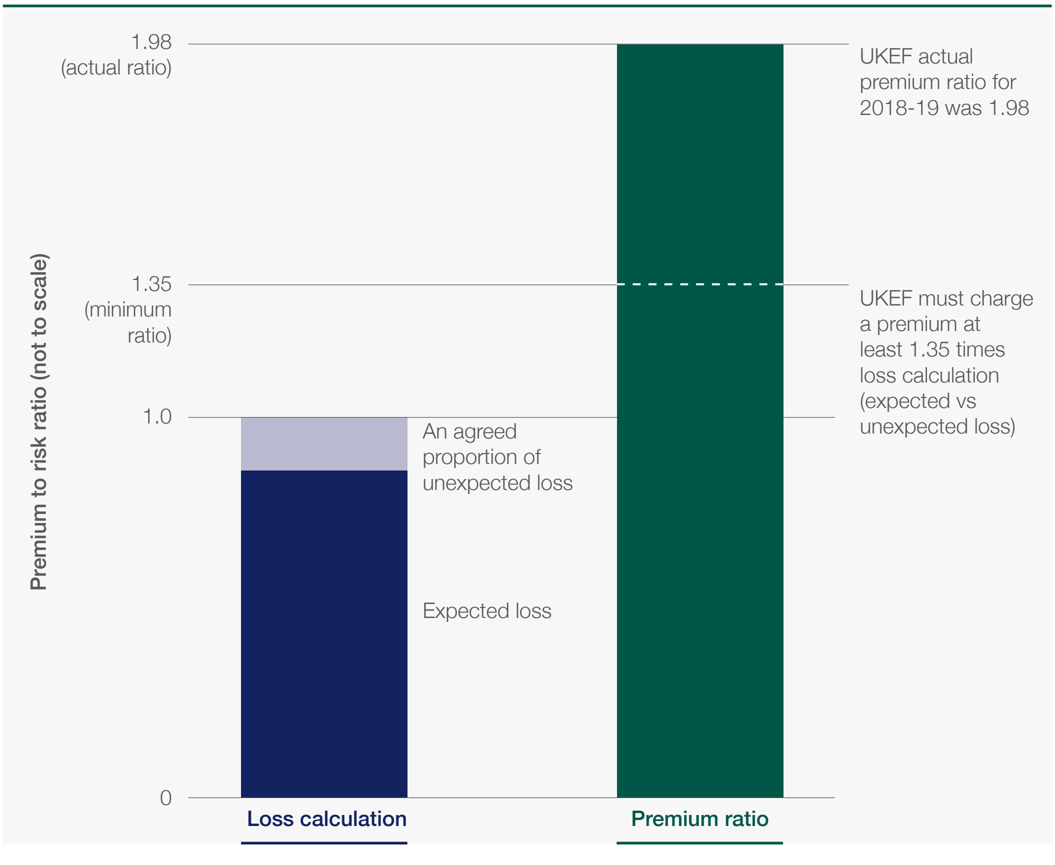
Financial objectives

Consistent with these principles, HMT has set UKEF 2 financial objectives designed to ensure, as far as practicable, 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 expected and unexpected loss corresponding to those transactions as measured at the time of pricing.

The ratio at 31 March 2019 was 1.98 against the 1.35 ratio minimum.



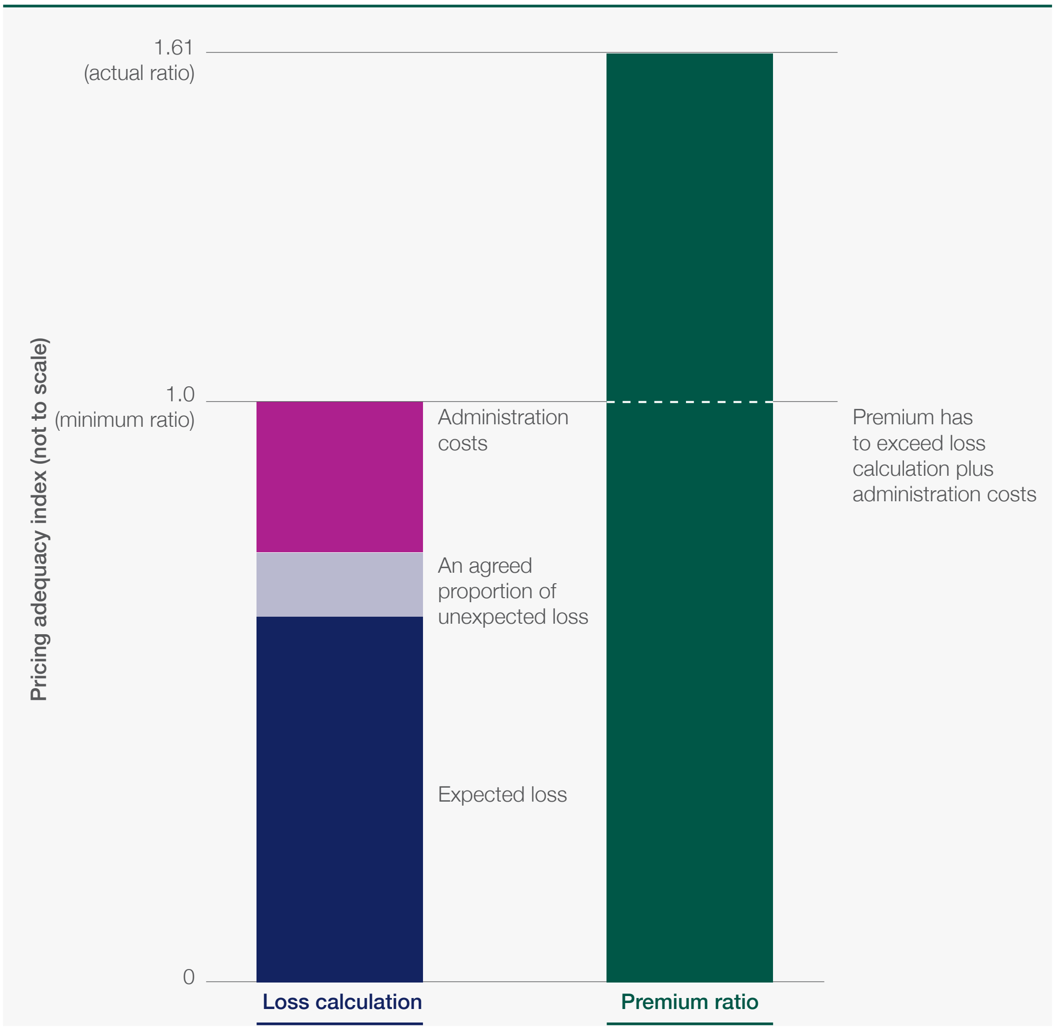
8 The Paris Club is the informal group of official creditors that seeks to establish coordinated and sustainable solutions to debt service difficulties experienced by debtor countries.
9 This was the year in which the Insurance Services Group was privatised.

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 1.61 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.

Our 'Exporters' Edge' GREAT campaign generated over 6,000 leads in 2018-19, exceeding our target by 20%

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 (where applicable) and must comply with our international obligations, including state aid rules
- 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

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

Support for BAE Systems' and MBDA's contracts in Qatar

This year, UKEF supported the largest single transaction in its history, with potential maximum liability approaching £5 billion. UKEF's package of support for the export of Typhoon and Hawk aircraft to Qatar was vital to securing the deal for BAE Systems and MBDA UK. Support in the form of guarantees for 2 buyer credits to finance the BAE Systems and MBDA UK contracts respectively was provided and an option to draw on UKEF direct lending to supplement the buyer credits was also granted to the State of Qatar as part of the financing package. However, this option is not exercisable until the 2020-21 financial year and is therefore not included in this year's business figures (other than as a commitment). In addition to the support provided in respect of the financing of the contract, a package of insurances was also provided to both exporters. Given the overall scale of support required, the transaction did not fit within UKEF's normal risk management framework described in this section.

The Accounting Officer wrote to the Secretary of State for International Trade, setting out the ways in which the financing elements of the transaction were outside UKEF's normal underwriting criteria and could therefore not be approved by UKEF's Credit Committee when all these factors were taken together. The amount of cover and lending required exceeded the country limit for Qatar (described in the exposure management framework section). Although the risk of loss under the transaction is low, and the level of premium received is consistent with achieving the relevant targets, the concentration would have a significant impact on UKEF's performance against its financial objectives (in particular the risk appetite limit). Scenario and stress testing indicated that the significant portfolio impact of the large transaction, and related correlations, could create imbalances in the portfolio.

A Ministerial Direction[9] was issued to proceed with the financing on the basis that it was in the national interest, and UKEF provided buyer credits and direct lending under a separate financial account ('Account 3'), to segregate the exposure from UKEF's normal reporting framework. Since providing support, UKEF has successfully mitigated some of the risk by obtaining reinsurance from partner ECAs in respect of their own shares of national content and successfully transferred a portion of the risk to private market insurers. The smaller insurance elements of the transaction were within UKEF's normal underwriting criteria and were therefore underwritten in Account 2.

9 A Ministerial Direction is a formal instruction from the Secretary of State to an Accounting Officer to proceed with a spending proposal. Under a Ministerial Direction, the Secretary of State, not the Accounting Officer, is accountable to Parliament for the decision. See pages 87 to 88 for further detail.

Product	Account	Maximum liability
BAE Systems		
Buyer credit	3	£2,256 million
Direct loan	3	£1,183 million
Bond and export insurance	2	£534 million
MBDA UK		
Buyer credit	3	£560 million
Bond and export insurance	2	£203 million
Total Maximum Liability in Account 2		**£737 million**
Total Maximum Liability in Account 3		**£3,999 million**
Total Maximum Liability in Accounts 2 and 3 (see note 1 below)		**£4,225 million**

Notes to the table:

1. The business supported in Account 2 (insurance) and Account 3 (buyer credits and direct lending) cover some risks which are duplicative, and which cannot both materialise at the same time. The total maximum liability for the 2 Accounts combined is therefore less than the sum of the business supported in these 2 accounts individually to eliminate double-counting
2. Figures do not include amounts reinsured by other ECAs
3. The direct lending option is to be exercised in future years so is not included in this year's business issued figures

The information that follows (unless described otherwise) therefore excludes the elements of the Qatar transaction that were placed into Account 3. Due to the size of the exposure, its inclusion would make it more difficult to observe trends in the portfolio underwritten within the normal criteria.

Taking each item reported, it is possible to summarise the impact that would arise from including this transaction: amount at risk (AAR) would increase by £3,397 million, with the associated rise in run-off; the value of reinsurance provided by partner ECAs would rise; the value of exposure for buyer credit (non-aerospace) and direct lending would increase; sector concentrations in other industries would reduce, but the concentration for defence would become 25% of the portfolio; geographical concentration in the Middle East would become more significant (to 65%); and the proportion of the portfolio in the best credit quality category would rise (to 53%).

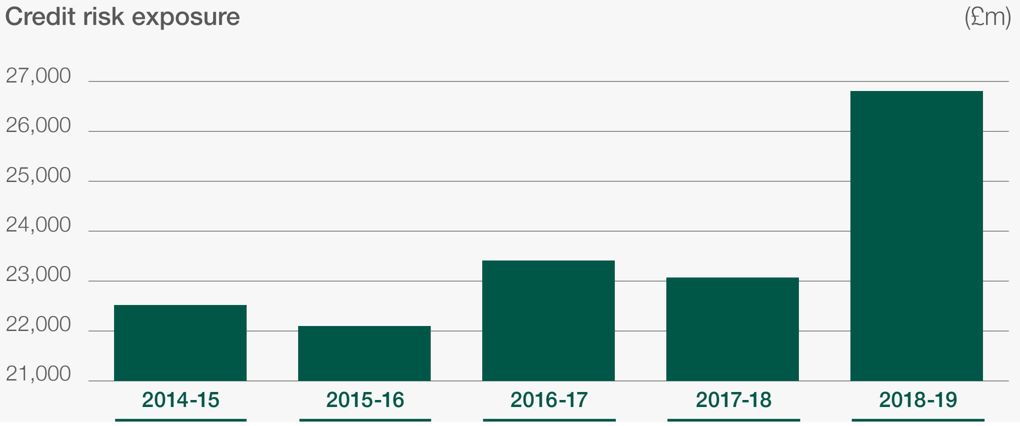
Credit risk performance 2018-19

In 2018-19, we were again fully compliant with all our financial objectives relevant to the credit portfolio. A full summary of performance against financial objectives is reported on page 25.

- Total exposure including commitments and legacy Account 1 exposure increased from £23.1 billion to £26.8 billion[10] – the increase being due to the new business written and foreign exchange movements exceeding run-offs
- UKEF's increased portfolio of risks remained stable in terms of sector concentrations, while regional concentrations increased in the Middle East and the overall credit quality decreased slightly. However, the portfolio remains well within the maximum commitment limit and risk appetite limit
- Stress testing and scenario analysis shows that UKEF's portfolio remains resilient and should continue to meet its financial objectives even in a number of extreme economic scenarios
- UKEF's active portfolio management programme successfully placed 2 tranches in the private reinsurance market, addressing portfolio concentrations in the Middle East.
- Expected and unexpected loss rates increased but we continue to experience a very low level of claims paid

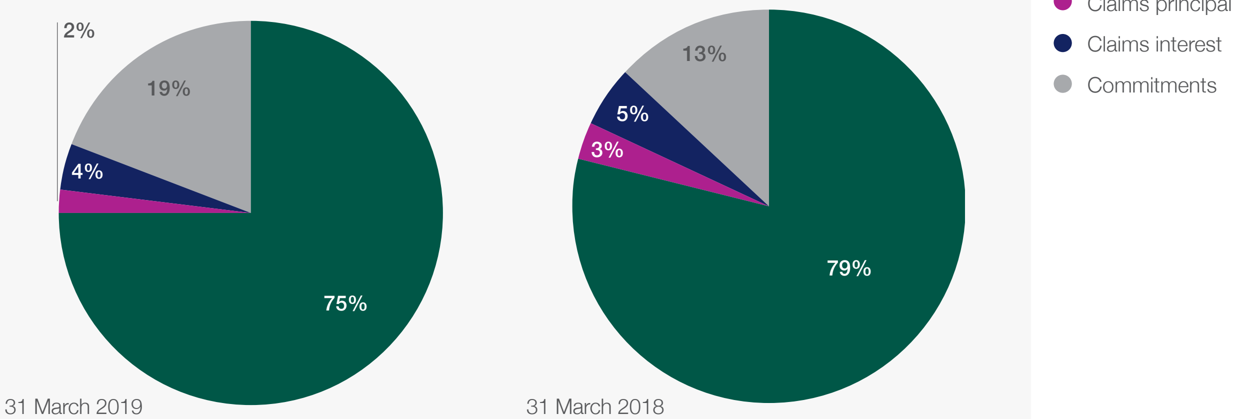
10 This, and all data that follows in this section is net of Account 3.

Credit risk exposure



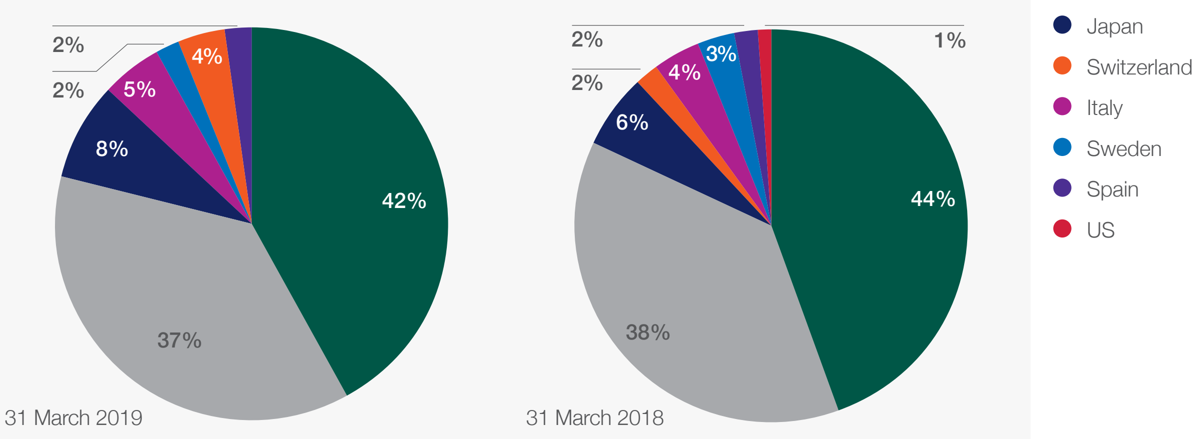
The charts below show the breakdown of this exposure between AAR, claims (principal and interest) and commitments.[11]

Breakdown of total exposure



At 31 March 2019, total AAR amounted to £20.0 billion (£18.2 billion in 2018). This figure includes £3.8 billion of counter-guarantees provided to UKEF by other European ECAs (£4.7 billion in 2018), principally related to Airbus business, and £0.9 billion of private reinsurance used to manage risk concentrations in our portfolio (£0.4 billion in 2018).

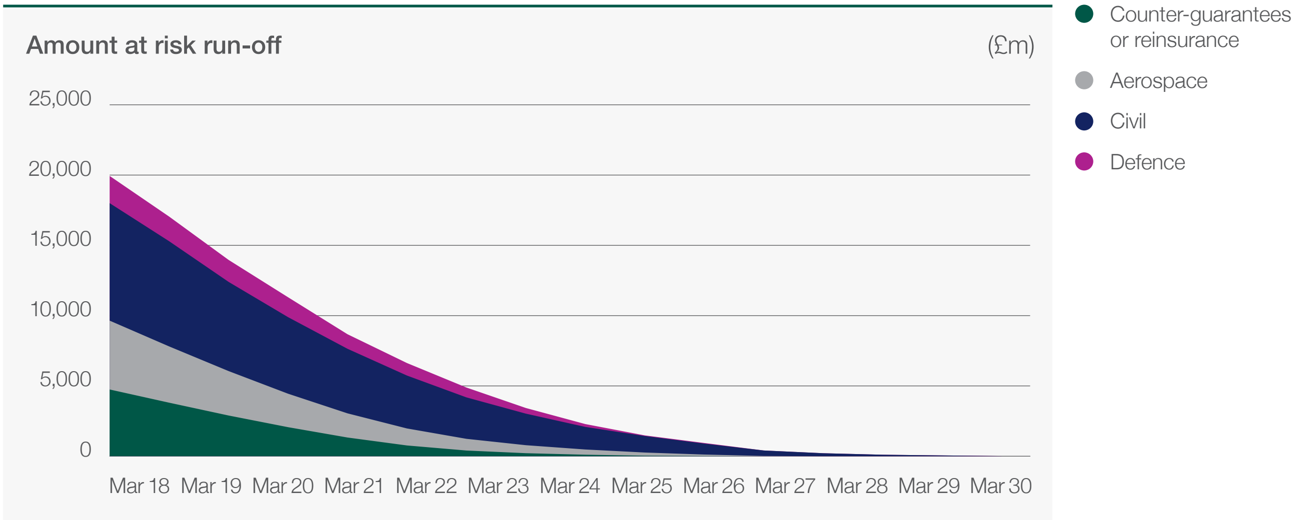
Breakdown of export credit agency counter-guarantees by exposure



11 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 of medium to long-term finance. The chart below illustrates how our current portfolio is expected to run off over time in terms of overall AAR. Over the next 12 months, around 14% will run off, with around 56% of the current portfolio expiring within 4 years.



Risk concentrations

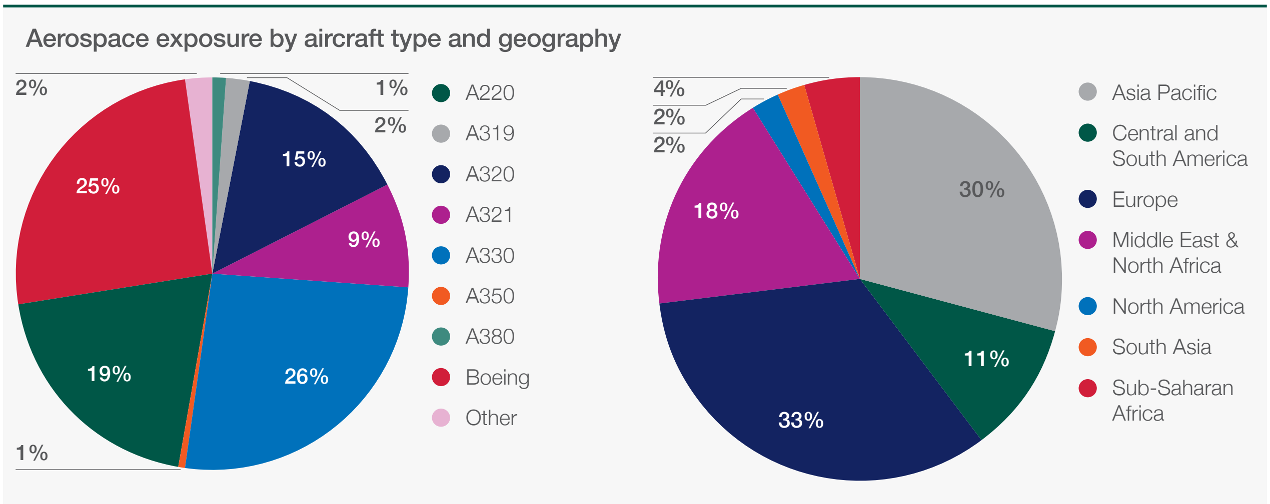
Context

Our credit portfolio is dominated by long-dated emerging market risk, consistent with our role as the UK's official ECA. 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 in the pursuit of a well-balanced portfolio.

Sectors

UKEF's largest risk concentration remains in aerospace, accounting for 32% of the AAR (net of ECA reinsurance/counter-guarantees) as at 31 March 2019 (41% for 2018). 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.

The majority of aerospace exposure is secured on the underlying aircraft.[12]



12 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 a minimisation of losses both to the airline industry and UK taxpayer during this difficult period.

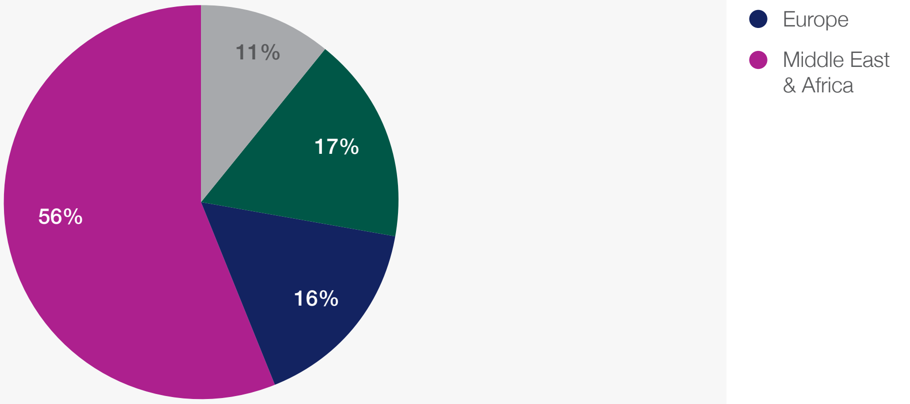
At 31 March 2019, UKEF had £2.6 billion credit exposure to commercial real estate, representing 17% of our overall AAR (net of export credit agency reinsurance/counter-guarantees), mainly in the Middle East. Other sector concentrations were to the oil and gas industry (£2.4 billion AAR) and the chemicals industry (£1.2 billion AAR), spread across the Middle East, Asia and South America.

Geography

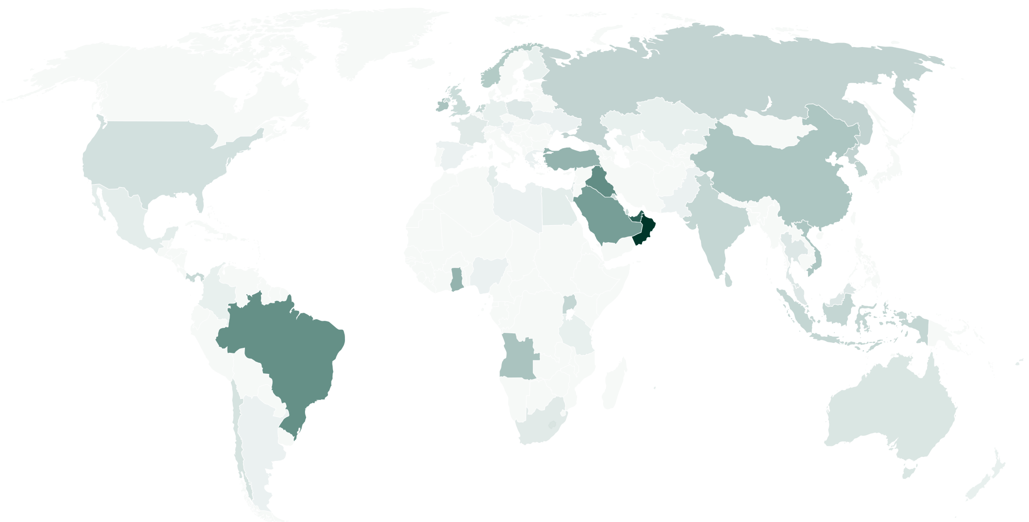
As of 31 March 2019, the Middle East and Africa accounted for 56% of our net AAR portfolio. The majority of this resulted from support of UK exports to Oman, Dubai, Iraq and Saudi Arabia.

Asia accounted for 17% of net AAR, with around £1.6 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 2019



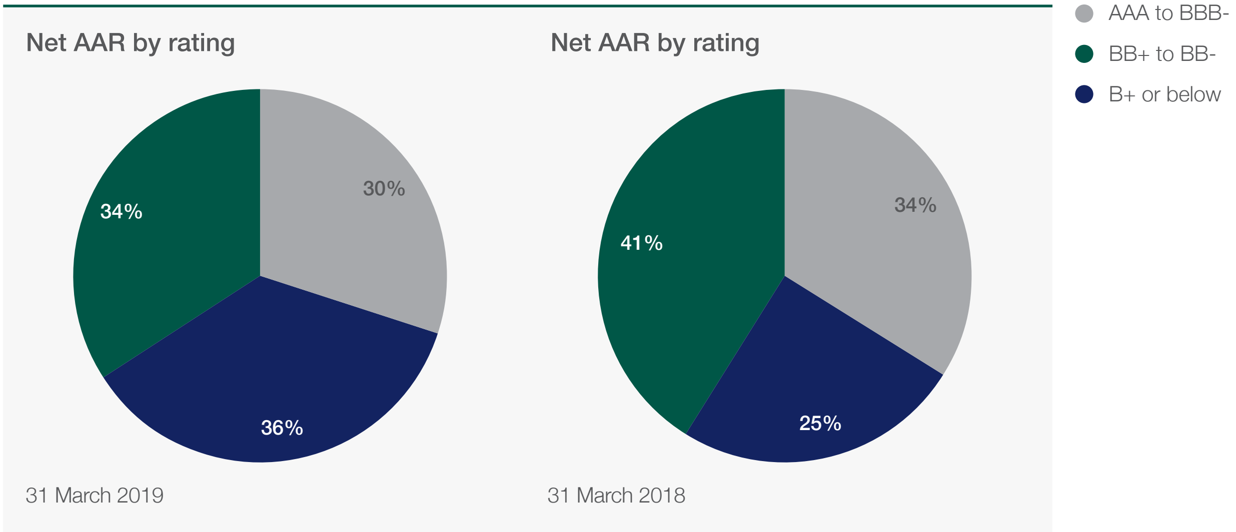
Darker shading indicates higher AAR

Active portfolio management

UKEF's risk management strategy aims to reduce concentrations of risk in UKEF's portfolio in order to decrease the likelihood of idiosyncratic losses, and/or free up headroom in country limits to support more UK exporters. Under our active portfolio management (APM) programme, we buy facultative reinsurance from the private market, subject to cost-benefit analysis and positive value for money. During 2018-19, UKEF successfully placed 2 tranches in the private reinsurance market, primarily aimed at addressing portfolio concentrations in the Middle East region and in the oil and defence sectors, diversifying around £1.22 billion of risk.

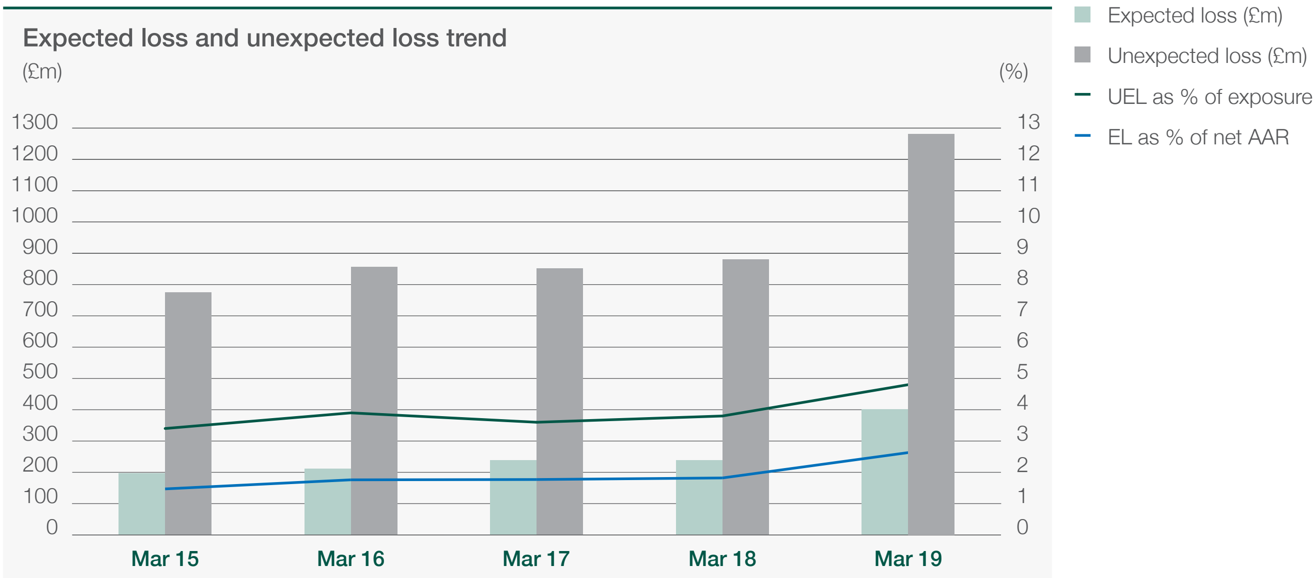
Credit quality

The credit risk quality of our portfolio remained fairly stable in 2018-19. The most notable change concerns the increase in the B+ or below segment. As at 31 March 2019, 36% of AAR (net of reinsurance) was rated B+ or below by UKEF (compared to 25% in 2018). This increase was in part due to new business issued in the year and in part due to a few rating downgrades in relation to existing transactions. While other credit quality segments remained stable in AAR terms, they decreased slightly in terms of the overall proportion of the portfolio.



Portfolio expected loss increased significantly, from £238 million to £402 million, representing 2.6% of AAR (net of reinsurance). This movement is consistent with an increased AAR and is also, in part, a reflection of the increase of AAR rated B+ or below by UKEF.

Portfolio unexpected loss increased to £1.3 billion as of 31 March 2019, from £0.9 billion in 2018, representing 7.3% of total exposure (5.4% in 2018).



New claims paid in the year

UKEF continued to experience very low levels of claims paid. The low level of new claims is the result of rigorous credit risk assessments, thorough underwriting and structuring of transactions, and risk management standards more generally. The degree of concentration by counterparty in UKEF's portfolio can lead to lumpiness in the timing and amount of claims being realised. The level of claims is expected to be cyclical.

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 £1.44 billion (down from £1.46 billion in 2018) of outstanding claims paid on this business refers to sovereign exposure that is subject to Paris Club rescheduling, the most significant part of which is for Sudan (including a substantial amount due to accrued interest). The overall provision amount for this business increased slightly on 31 March 2019 to £1.17 billion (up from £1.15 billion in 2017-18), mainly due to the additional interest accrued on Sudan in year, which is deemed unrecoverable.

Outstanding claims paid on Account 2 from business issued after 1991 has reduced slightly in the year, at £361 million at 31 March 2019 (down from £377 million in 2017-18), 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 £100 million as at 31 March 2019 (£103 million in 2017-18), reducing total recoverable claims (excluding interest on unrecovered claims) to £647 million (£701 million in 2017-18). The majority of recoveries (£91 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

The projected portfolio loss to the 99.1%ile has increased to £1.96 billion but is still comfortably below the 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 2019 portfolio)[13]

(£m)	Across the board ratings downgrade	Reduced recovery rates	Ratings downgrade and reduced recovery rates
	3 notches	- 30%	3 notches & -30%
Increase in expected loss	619	238	1211
Increase in projected portfolio loss to the 99.1percentile point	1191	1076	2965

13 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 2 main areas:

- **transaction risk:** the risk of changes in the value of foreign currency interest receipts on conversion into sterling
- **translation risk:** 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 makeup' 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 CFOO and the Credit Committee for appropriate action. No such excess movements occurred in 2018-19.

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 US dollars). 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 Comprehensive Net Income) stem from the currency movements applicable to our non-sterling insurance assets (recoverable claims).

HMT does not permit UKEF to hedge 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
- UKEF's FX exposures potentially being offset elsewhere in government, allowing HMT to hedge centrally its overall net exposures more efficiently

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.

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.

Statutory limits

The Export and Investment Guarantees Act 1991 sets limits on our commitments and requires us to report our commitments against these limits annually. The table below shows the statutory limits at 31 March 2019 and 31 March 2018 and the outstanding commitments against them.

	At 31 Mar 2019				At 31 Mar 2018			
	Sterling	Foreign Currency	Sterling Equivalent in SDRs	SDR Total	Sterling	Foreign Currency	Sterling Equivalent in SDRs	SDR Total
	£m	SDRm	SDRm	SDRm	£m	SDRm	SDRm	SDRm
Section 6(1) amounts								
Statutory Limit	0	67,700	0	67,700	0	67,700	0	67,700
Total Commitments	1,734	26,154	1,637	27,791	403	20,146	390	20,536
Section 6(3) amounts								
Statutory Limit	0	26,200	0	26,200	0	26,200	0	26,200
Total Commitments	0	0	0	0	0	1	0	1
	Sterling	Foreign Currency	Sterling Equivalent in SDRs	SDR Total	Sterling	Foreign Currency	Sterling Equivalent in SDRs	SDR Total
	£m	SDRm	£m	£m	£m	SDRm	£m	£m
Section 6(1) amounts								
Assets	0	1	0	1	0	2	0	2
Section 6(3) amounts								
Assets	10	-	10	10	15	-	14	14

UKEF Board members

Chief Finance and Operating Officer's report

This report summarises and highlights the department's financial performance for the year ended 31 March 2019. Given the importance of the management of UKEF's portfolio, this report should be read alongside the Chief Risk Officer's Report. The detailed financial performance commentary (see below) for the year has been divided into operating segments (lines of business) and there is also a summary of UKEF's overall performance against resources voted by Parliament.

Cameron Fox
Chief Finance and Operating Officer

Overall results

UKEF achieved a net operating income of £128 million for the year ended 31 March 2019 compared with £5 million for the year ended 31 March 2018. The change in net operating income for the year was primarily a result of foreign exchange (FX) gains in 2018-19. On an FX-adjusted basis the net operating income for 2018-19 was £82 million compared with £70 million for the year to 31 March 2018.

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 Chief Risk Officer's Report on pages 44 to 63). During the year, sterling depreciated by approximately 7% against the US dollar (see Note 6 and 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 2018-19, at £37 million compared with £34 million in 2017-18. This increase was largely due to a planned increase in staff (see our people: staff and remuneration report on page 97 to 110). UKEF however continued to deliver on a number of efficiencies related to our Spending Review 2015 saving commitments.

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 £292 million in 2017-18 to £246 million during the year. Gross claims reduced from £0.7 billion to £0.6 billion as recoveries were made.

Reserving for insurance liabilities

UKEF applies the fund basis of accounting (see the financial statements from page 119 for a fuller explanation) for its medium and long-term business. At the end of the year the (net) underwriting funds stood at £896 million compared with £629 million at the end of 2017-18. The increase in the fund was as a result of new business written in year. Releases from the funds during the year (being business written in 2009 and 2015) was some £35 million in 2018-19. 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 2009 and 2015.

Accounts 1 to 5

UKEF operates 5 accounts (business segments):

- **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, and that UKEF's Accounting Officer advised did not meet permitted 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)

Members of the Finance Control Division meet to discuss the 2019-20 operational plan

Management commentary — 5-year summary

	2018-19 £m	2017-18 £m	2016-17 £m	2015-16 £m	2014-15 £m
Overall value of guarantees and insurance policies issued and effective:					
New business supported – net of reinsurance – A/c 2	3,372	1,865	2,178	1,507	2,685
New business supported – net of reinsurance – A/c 3	2,139	-	-	-	-
Total new business supported – net of reinsurance	**5,511**	**1,865**	**2,178**	**1,507**	**2,685**
Amounts at risk – gross of reinsurance	21,538	16,988	18,859	17,111	18,672
Statement of comprehensive net income:					
Premium income net of reinsurance	332	103	102	73	104
Staff, other administration and operating costs	37	34	30	30	31
Foreign exchange gain/(loss)	46	(65)	57	13	34
Net operating income – total	**128**	**5**	**149**	**106**	**129**
Account 1	35	9	63	33	41
Account 2	45	22	70	64	81
Account 3	-	-	-	-	-
Account 4	1	2	4	6	7
Account 5	47	(28)	12	3	-
Net operating income – foreign exchange adjusted	82	70	92	93	95
Statement of cash flows:					
Claims recoveries – total	**69**	**76**	**120**	**133**	**115**
Account 1	39	34	47	49	44
Account 2	30	42	73	84	71
Interest recoveries in the year – total	**31**	**27**	**31**	**28**	**25**
Account 1	30	26	28	24	22
Account 2	1	1	3	4	3
Claims paid – total	-	**2**	**8**	**5**	**6**
Account 2	-	2	8	5	6
Net cash flow from operating activities - total	**484**	**225**	**272**	**199**	**237**
Account 1	69	60	74	73	65
Account 2	241	114	158	109	165
Account 3	95	-	-	-	-
Account 4	1	2	3	5	6
Account 5	78	49	37	12	1
Statement of financial position:					
Recoverable claims before provisioning	**647**	**701**	**800**	**876**	**996**
Account 1	433	463	515	539	583
Account 2	214	238	285	337	413
Recoverable claims after provisioning	**247**	**292**	**368**	**429**	**531**
Account 1	168	190	223	234	264
Account 2	79	102	145	195	267
Interest on unrecovered claims after provisioning	**106**	**116**	**134**	**134**	**143**
Account 1	105	115	133	133	142
Account 2	1	1	1	1	1
Underwriting funds – net of reinsurance	**896**	**629**	**582**	**547**	**553**
Account 2	811	629	582	547	553
Account 3	85	-	-	-	-
Recoverable capital loans before provisioning	**967**	**505**	**381**	**119**	**82**
Account 4	10	15	32	51	75
Account 5	957	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 £35 million compared with £9 million in 2017-18. The increase in net operating income was due to a foreign exchange gain of £11 million in 2018-19 compared with a loss of £20 million in 2017-18
- recoveries of claims paid were £39 million compared with £34 million in 2017-18
- recoveries of interest on claims paid were £30 million compared with £26 million in 2017-18
- the balances for gross claims decreased from £463 million in 2017-18 to £433 million during the year, while those for net claims decreased from £190 million in 2017-18 to £168 million during the year
- interest on net unrecovered claims decreased from £115 million in 2017-18 to £105 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 £3,372 million compared with £1,865 million at 31 March 2018. Of the new business supported in 2018-19 £737 millions (net of ECA re-insurance) related to insurances for BAE Systems and MBDA UK in relation to the provision of military aircraft and related equipment to the State of Qatar
- net premium income was £244 million compared with £103 million in 2017-18
- net operating income was £45 million compared with £22 million in 2017-18. The increase in net operating income was mainly due to a foreign exchange gain of £3 million in 2018-19 compared with a loss of £7 million in 2017-18. In addition, the release from the funds was £35 million in 2018-19 compared with £26 million in 2017-18
- claim recoveries for the year were £30 million compared with £42 million in 2017-18
- gross claims balances were £214 million compared with £238 million in 2017-18
- net claims balances were £79 million compared with £102 million in 2017-18

Account 3

As outlined in detail in the Chief Risk Officer's Report and Governance Statement, UKEF entered in Account 3 business for the first time in over 30 years with support provided for BAE Systems and MBDA UK in relation to the provision of military aircraft and related equipment to the State of Qatar. This support was in 2 major components with the financing aspect being included in Account 3 (direct lending tranche not exercisable and therefore recognisable until 2020–21 onwards) and the insurances aspect included in Account 2.

This support comprised some £2,139 million in the form of buyer credit guarantees (net of any re-insurance both to ECAs and into the private market).

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 £10 million from £15 million in 2017-18, as regular instalments were made
- net operating income was £1 million in 2018-19 compared with £2 million in 2017-18

Account 5

This account relates to direct lending activity.

- during the year 6 new loans (not including facility increases) were originated (7 loans were originated in 2017-18). There are now 20 loans drawn or drawing
- 1 loan was fully repaid during the year and 1 loan has been assessed and impaired (see Note 1 of the financial statements for details of the relevant accounting policy)
- there was a net operating gain of £47 million in 2018-19 compared with net operating loss of £28 million in 2017-18. This increase was largely as a result of a foreign exchange gain of £32 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 at www.gov.uk/uk-export-finance.

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

UKEF supports export credit loans denominated in foreign currency and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Almost all of UKEF's premium income arises in currencies other than sterling (mostly US dollars) and net assets are denominated in a variety of currencies, of which the largest is US dollars. As UKEF is not authorised by 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	2018-19 Estimate £'000	2018-19 Outturn £'000	2018-19 Variance £'000
Budget spending				
Departmental Expenditure Limit (DEL)	SOPS1(a)	1,301	1,288	13
Annually Managed Expenditure (AME)	SOPS1(a)	133,374	(128,993)	262,367
Resource Total & Net Operating Cost / (Income)		**134,675**	**(127,705)**	**262,380**
Non Budget / Resource total	SOPS1(a)	-	-	-
Net Resource Outturn & Net Operating Cost / (Income)		**134,675**	**(127,705)**	**262,380**
Budget spending				
Departmental Expenditure Limit (DEL)	SOPS1(b)	300	79	221
Annually Managed Expenditure (AME)	SOPS1(b)	725,368	426,448	298,920
Capital Total Payments / (Receipts)		**725,668**	**426,527**	**299,141**

Significant highlights:

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

Resource – Note SoPS1(a):

AME £262 million – This variance is largely due to provision and foreign exchange movements (in particular in relation to a weakening of sterling against the US dollar of some 7% during the year) which cannot be forecast with certainty and are unhedged. A more detailed explanation of UKEF's foreign exchange risk can be found in the Chief Risk Officer's Report on page 44 and Note 20 of the financial statements.

Capital – Note SoPS1(b):

AME £299 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 while it is necessary to ensure there are sufficient voted funds, and therefore headroom to meet potential demand in year, it is not possible to predict actual demand (and therefore the associated drawings). Many deals may not close for reasons beyond the control of the department or the timing of loan origination changes. More details of UKEF's risks, including foreign currency and liquidity risk, can be found in the Chief Risk Officer's Report in the Performance section and Note 20 of the financial statements.

Louis Taylor, UKEF's Chief Executive, gives a speech at the Institute of Export and International Trade's flagship World Trade Summit event, discussing UKEF's offer to UK business

Head of Environmental and Social Risk's report

UKEF examines the environmental, social and human rights (ESHR) risks and potential impacts of projects it is asked to support and monitors their ESHR performance in line with our ESHR policy.[1] In addition, we collaborate with other export credit agencies (ECAs) and financial institutions regarding ESHR matters with the aim of establishing a 'level playing field' in respect of ESHR risk management across these institutions.

Max Griffin
Head of Environmental and Social Risk Management

In 2018-19, UKEF was re-appointed for a second term onto the Steering Committee of the Equator Principles, a voluntary environmental and social risk management framework followed by 95 international financial institutions,[2] having first adopted them on 31 March 2016.

During 2018-19, UKEF screened 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 (the 'OECD Common Approaches') and/or the Equator Principles for ESHR risks. Where we identified significant risks, we carried out an ESHR review of these transactions and, where applicable, categorised them as either A (high risk) or B (medium risk).

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 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 practice, mitigating negative impacts and enabling positive impacts where possible. UKEF's benchmark ESHR standards are typically the International Financial Corporation's (IFC) Performance Standards on Environmental and Social Sustainability, covering the 8 ESHR topics indicated below:

Source: IFC Performance Standards

UKEF's professionally qualified and experienced Environmental and Social (E&S) team carries out our ESHR due diligence and monitoring. This is supported by external ESHR consultants where appropriate.

1 This is published on our website: 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
2 http://equator-principles.com/

ESHR due diligence

In 2018-19, 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[3] 7 category B and 6 category A projects that fell within the scope of the OECD Common Approaches, the Equator Principles or both.

UKEF had a positive impact on projects through ESHR risk management in the Category A and Category B projects supported in 2018-19. For example:

Power stations, Iraq (Category A)
This project involves the construction of 2 greenfield gas-fired power stations in southern Iraq. UKEF's involvement led to the development of comprehensive ESHR impact assessments for each station, including modelling of emissions to air. The modelling revealed that the planned emissions would not meet international standards.

This will lead to the installation of a low-NOx technology solution from GE that will further restrict emissions to within limits set by the latest international standards, improving air quality for surrounding communities for the life of the power stations.[4]

Kumasi central market, Ghana (Category B)
UKEF is supporting Phase 2 of the redevelopment and modernisation of Kumasi Central Market. The redevelopment will alleviate congestion in the immediate area, and greatly improve the environmental, health, safety and security conditions of the market, benefiting both traders and visitors.

To allow project construction, the market's traders (which total over 22,000) need to be temporarily relocated from their current trading spots to a nearby temporary market or to the market's redeveloped Phase 1 building. With the E&S team's support and guidance, the exporter and project sponsor developed a decanting management plan to guide the movement of traders in a manner consistent with international best practice, to minimise disruption to traders and buyers.

In addition, the E&S team noted that documented fire safety procedures for the temporary market did not exist. The E&S team therefore guided the project sponsor to develop these so that market staff have a clear set of procedures to follow in the case of a fire.

Details of the ESHR risk and impact categorisation of all civil (non-aerospace) cases UKEF supported during 2018-19 and that fall within the scope of the OCED Common Approaches and/or Equator Principles are available on UKEF's website.[5]

3 '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 April 2018-March 2019 period.
4 The World Bank Group EHS Guidelines for Thermal Power Plants
5 https://www.gov.uk/government/publications/eshr-risk-and-impact-categorisations-2018-to-2019

ESHR monitoring

UKEF conducts ESHR monitoring of all category A and B projects where support has been issued for the duration of UKEF's involvement. This allows us to track the implementation of ESHR commitments and ensure that 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 to monitor projects on our behalf, and UKEF carrying out site visits. The level and frequency of our monitoring varies relative to the ESHR risks involved.

UKEF seeks to positively influence the application of standards throughout the monitoring process to improve and attain positive, ESHR outcomes. This includes 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

The following are examples of our ongoing monitoring commitments for 2018-19 across both Category A and Category B projects.

Sadara Petrochemicals Project, Saudi Arabia (Category A)
Commissioning of the mixed feed cracker and all associated petrochemical units took place throughout 2016-18, and the lenders' reliability test was successfully passed in February 2019. During monitoring visits conducted by the lenders' independent E&S consultant, example labour contracts are periodically reviewed against the requirements of the IFC Performance Standards. In the case of an employee's early resignation prior to the end of their employment term, Sadara would enforce the rights afforded to it under the Saudi Labor Law. In such circumstance, the Saudi Labor Law entitles the aggrieved party the right to claim amounts which would vary depending on whether the contract is for a definite or indefinite term. UKEF and our co-lenders discussed the alignment of these conditions against good international industry practice with respect to worker rights. Following these discussions, Sadara amended its employment contracts such that an employee, whether Saudi or expatriate, may resign by serving a 2-month notice period. Furthermore, Sadara has continued to improve contract workforce living conditions following completion of construction through the monitoring and reporting of maintenance and repair sub-contractor worker accommodation.

Dubai World Trade Center II, United Arab Emirates (Category B)
UKEF's E&S team reviewed a draft Operational Phase Environmental and Social Management Plan (OESMP) in January 2018. After discussions with DWTC, there were further updates and revisions to the OESMP and the same was accepted with a self-declaration from DWTC within their monitoring report that they continue to align with environmental and social law and the environmental and social standards. These additional actions provide further reassurance that international standards, based on good international industry practice and over and above actions required by local law, will be applied on the project.

A summary of cases that fall within the scope of the OECD Common Approaches and/or Equator Principles where we are undertaking ongoing ESHR post-issue monitoring can be found on our website.[6]

6 https://www.gov.uk/government/publications/eshr-risk-and-impact-categorisations-2018-to-2019

International ESHR cooperation

In support of UKEF's aim 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 May 2018, UKEF was re-elected by the Equator Principles Financial Institutions (EPFI) for a second term on the Equator Principles Steering Committee in a management support role. UKEF also leads a 10-member working group to explore further development of the Equator Principles (EPs). The E&S team were actively involved in the Equator Principles Annual General Meeting (AGM) held in Washington DC in October 2018, sharing experience and engaging and collaborating with EPFI colleagues.

UKEF also participates in ESHR practitioner meetings of several multilateral financial institutions, including the International Financial Corporation's (IFC) Community of Learning, as well as meetings of other financial institutions and ECAs and wider industry events.

ESHR Policy review

In December 2018, UKEF began a review of its Environmental and Social Policy and Practice Statement, as we committed to do when the policy was published in 2016. In the same month, the parliamentary Environmental Audit Committee (EAC) began an inquiry into UKEF's support for fossil fuels in developing countries. HM Government has worked with the Committee on its inquiry and welcome its findings. We welcome the Committee's report and are currently considering our response.

UKEF has supported all 4 phases of the construction of the Dubai World Trade Centre

Export Guarantees Advisory Council report

The Export Guarantees Advisory Council (EGAC) is an expert committee that advises the Secretary of State for International Trade and Minister of State for Trade and Export Promotion on the policies applied by UK Export Finance when doing business, particularly those related to ethical matters.

Andrew Wiseman
Chair, Export Guarantees Advisory Council

These policies are largely established by international agreements that relate to export credit agencies (ECAs). In practice, the Council primarily concerns itself with providing advice on the ethical policies applied by UKEF in the conduct of its business related to bribery and corruption, the environmental, social and human rights risks and impacts of the projects it supports, sustainable lending and transparency (including freedom of information).

The Council members are appointed by the minister responsible for UKEF. It is an unpaid body of experts who have a wide range of skills and experience in the areas of commerce, international trade and academia, with experience of the practical application of ethical policies.

The Council's members at 31 March 2019 were:

Chair
- **Andrew Wiseman**, General Counsel, Historic England

Members
- **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, Institute for Human Rights and Business
- **John Newgas**, who has over 20 years' experience in the manufacturing industry
- **Stephen Prior**, Partner, Prinia Consulting LLP and an experienced sales director in emerging markets
- **Anna Soulsby**, Associate Professor of Organisational Behaviour, Nottingham University Business School
- **Dr Roseline Wanjiru**, Senior Lecturer and Programme Leader, Newcastle Business School

The Council provides its advice to the Secretary of State through UKEF officials, usually at meetings attended by senior officials, including UKEF's Chief Executive. It can also give its views directly to Ministers on any subject it deems appropriate.

The Council reviews past decisions UKEF has made to support export transactions and provides advice on UKEF's decision-making and the application of its ethical policies. We do not comment on cases which are currently under consideration by UKEF for a decision. The Council also provides advice to UKEF on developments related to relevant international agreements that apply to ECAs.

The Council met 4 times in 2018-19 and met separately with the Minister for Trade and Export Promotion in March 2019 to discuss issues the Council has considered over the last year. The Council also highlighted some of the issues it plans to consider in the next year.

Environmental Audit Committee

In January 2019, the Council submitted evidence to the parliamentary Environmental Audit Select Committee inquiry into UKEF. In March, I then appeared before the Select Committee as a witness to give evidence on behalf of the Council. A transcript of the hearing and the evidence submitted by the Council is available on the Parliament website.[1]

The inquiry was discussed when the Council met with the Minister for Trade and Export Promotion in March 2019. The Council is reviewing its findings and will provide advice to UKEF in considering and implementing any of its recommendations.

Environmental and social risk management and the OECD Common Approaches

UKEF's environmental, social and human rights (ESHR) policy is implemented by the Environmental and Social Risk Management team (E&S team). The role of the E&S team 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.

Part of the Council's role is ensuring that UKEF is properly equipped to carry out the necessary ESHR reviews, and in 2018-19 the Council welcomed UKEF's recruitment of a number of experienced professionals into the E&S team.

To ensure UKEF's ESHR policies are properly applied, the Council examines a number of cases that have been supported by UKEF each year. The Council can examine any project which UKEF supports and will review at least 1 project classified as higher ESHR risk or 'Category A' each year.

The Equator Principles

The Council welcomed UKEF's re-election to the Equator Principles (EP) Steering Committee, which demonstrates UKEF's positive approach to promoting good ESHR standards in decision-making. In 2018-19, the Council advised UKEF on its approach to the Equator Principles Association AGM and agreed that UKEF should continue to press for policies to be developed to increase the scope of inclusion of projects and banks in the Equator Principles. The Council noted that this is an area where UKEF could provide leadership in the financing community and is doing so.

Sustainable Development Goals

At the July 2018 meeting, the Council looked at how UKEF maps its existing cases to the UN Sustainable Development Goals (SDGs). The Council welcomed the fact that some of the types of projects supported by UKEF already contribute to some SDGs, while noting that UKEF's statutory role is to support exports. The Council suggested that UKEF could make more of the positive impacts of projects supported, including jobs supported in the UK and abroad.

Modern Slavery Act

In December 2018, at the Council's request, officials provided an update on the application of the Modern Slavery Act 2015. UKEF provided information on the background to the Act and its requirements for the Department. The Council advised that the most appropriate approach for UKEF would be to consider the risks of sectors and countries and apply due diligence proportionately. We took comfort that UKEF was considering these issues and will continue to receive updates on progress on this issue.

1 https://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/inquiries/parliament-2017/uk-export-finance-17-19/

Anti-bribery and corruption

The Council was kept fully informed on discussions taking place in the OECD Export Credits Group (ECG) to review and update the 2006 OECD Recommendation on Bribery and Officially Supported Export Credits. The Council supported UKEF's approach to strengthening the Recommendation, recognised that UKEF had continued to take a leadership role among like-minded countries in the discussions and welcomed the publication of the revised Recommendation in March 2019. The Council will request that UKEF continue to provide feedback on the implementation of the 2019 Recommendation for us to advise on accordingly.

In December, the Council carried out its annual consideration the application of UKEF's anti-bribery policies and practices. These are derived principally from 2 sources: the OECD Recommendation and UKEF's policies that came out of the government's public consultations on UKEF's anti-bribery policies and practices in 2005-6 and subsequently.

Serious Fraud Office cases

UKEF advised the Council that following due diligence, in March 2018 it had provided support for the first Airbus aircraft since it was notified by the company in January 2016 of issues with disclosures regarding the use of overseas agents in some of its previous applications for support. In 2018-19, the Council has continued to provide scrutiny of the strengthened processes being put in place for Airbus transactions as they evolve over time.

A number of other aerospace transactions involving Rolls-Royce as an engine supplier have been supported under the extended due diligence process implemented following the Deferred Prosecution Agreement with the Serious Fraud Office and Department of Justice in 2017. The Council received regular updates from UKEF and reviewed UKEF's monitoring of improvements to Rolls Royce's compliance systems and processes.

Other

The Council conducted its annual review of UKEF's handling of information requests made under the Freedom of Information Act (FOIA) and the Environmental Information Regulations (EIR). The Council commended the very high proportion of requests answered within statutory deadlines, with 99% of FOIA requests being answered on time (94% within 20 days, 5% within a permitted extension).

The Council will undergo some significant changes in 2019. The range of skills that the Council members bring will be strengthened with the recruitment of 3 new members. In July 2018 Gillian Arthur stepped down after serving as a Council member for 9 years, and in March 2019 John Newgas and Anna Soulsby reached the maximum terms for their appointment. All 3 were valued members of the Council who invested a large amount of their time to provide advice based on their extensive experience. I know the ministers and UKEF share my gratitude to them.

I will also be leaving the Council after almost 13 years as a member including 10 as chair. I would like to recognise the hard work that has been put in by my fellow members over the years. I would also like to record my thanks to all the members of staff in UKEF who have provided a very effective secretariat service for the Council and made my job so much easier. I would also like to thank the numerous members of staff who over the years have been so open to advice from the Council and been willing to provide their time to assist us in our deliberations. I wish the new Chair, Alastair Clark, all the best and look forward to seeing both the Council and department go from strength to strength.

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/exportguarantees-advisory-council

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

Accountability

UKEF ministers and Board members

UKEF ministers

**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
Stood down on 7 May 2019

Members of the UKEF Board and its sub-committees

Noël Harwerth
Chair of the UKEF Board
Member of the Remuneration Committee

Louis Taylor
Chief Executive Officer

Cameron Fox
Chief Finance and Operating Officer

Samir Parkash
Chief Risk Officer
Joined UKEF on 14 June 2018

Members of the UKEF Board and its sub-committees (continued)

Shalini Khemka
Member of UKEF Board
Member of Audit and Remuneration committees

John Mahon
Ex-officio member of UKEF Board, Director General for Exports at the Department for International Trade
Joined the Department for International Trade on 23 April 2018

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

Amin Mawji OBE
Member of UKEF Board
Chair of Audit Committee
Member of Remuneration Committee

Oliver Peterken
Member of UKEF Board
Chair of Risk Committee
Member of Audit and Remuneration Committees

Lawrence M. Weiss
Member of UKEF Board
Member of Audit, Risk and Remuneration Committees

Kimberley Wiehl
Member of UKEF Board
Member of Risk and Remuneration Committees
Joined the Board on 3 October 2018

Register of interests

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.

A register of non-executive directors directorships and shareholdings is available here: https://www.gov.uk/government/organisations/uk-export-finance/about/our-governance

Personal data-related incidents

UKEF reported 1 personal data incident to the Information Commissioner's Office in November 2018. An email containing basic personal data was inadvertently sent to a civil servant in another government department. The error was identified by the recipient of the email who reported the email to UKEF and immediately deleted it. The ICO required no further action to be taken.

Governance statement

Introduction

Louis Taylor
Chief Executive Officer

As Accounting Officer for UK Export Finance (UKEF), I am responsible to ministers and Parliament for the management of UKEF's operations, including the stewardship of financial resources and assets. This Governance Statement sets out how I have discharged this responsibility for the period 1 April 2018 to 31 March 2019.

The areas covered below are:

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

Background

Our mission is to ensure that no viable UK export fails for lack of finance or insurance while operating at no net cost to the taxpayer. We 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 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 statutory purpose
- maintain the confidence of ministers, Parliament and customers
- effectively communicate what we do to interested parties

We have completed the second 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 business plan will ensure we are better equipped to manage risk while better meeting the needs of our customers.

Corporate governance framework

UKEF was set up in 1919, with its statute introduced in 1920, and now has the legal name the Export Credits Guarantee Department. It is a department of the Secretary of State under the Export and Investments Guarantees Act 1991 (EIGA).

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'). HM Treasury (HMT) sets a financial framework, comprising financial objectives and reporting requirements, within which UKEF operates.

Department for International Trade

The Department for International Trade (DIT) promotes UK exports, maximises opportunities for inward investment and outward direct investment, and develops trade policy. While they are separate departments for governance and accounting purposes, UKEF and DIT are strategically and operationally aligned, and I am 1 of DIT's 5 directors general. I am also a member of the DIT Board and Executive Committee.

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, development of business opportunities, anti-bribery and corruption due diligence, and new and prospective support for UK exporters.

HM Treasury

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

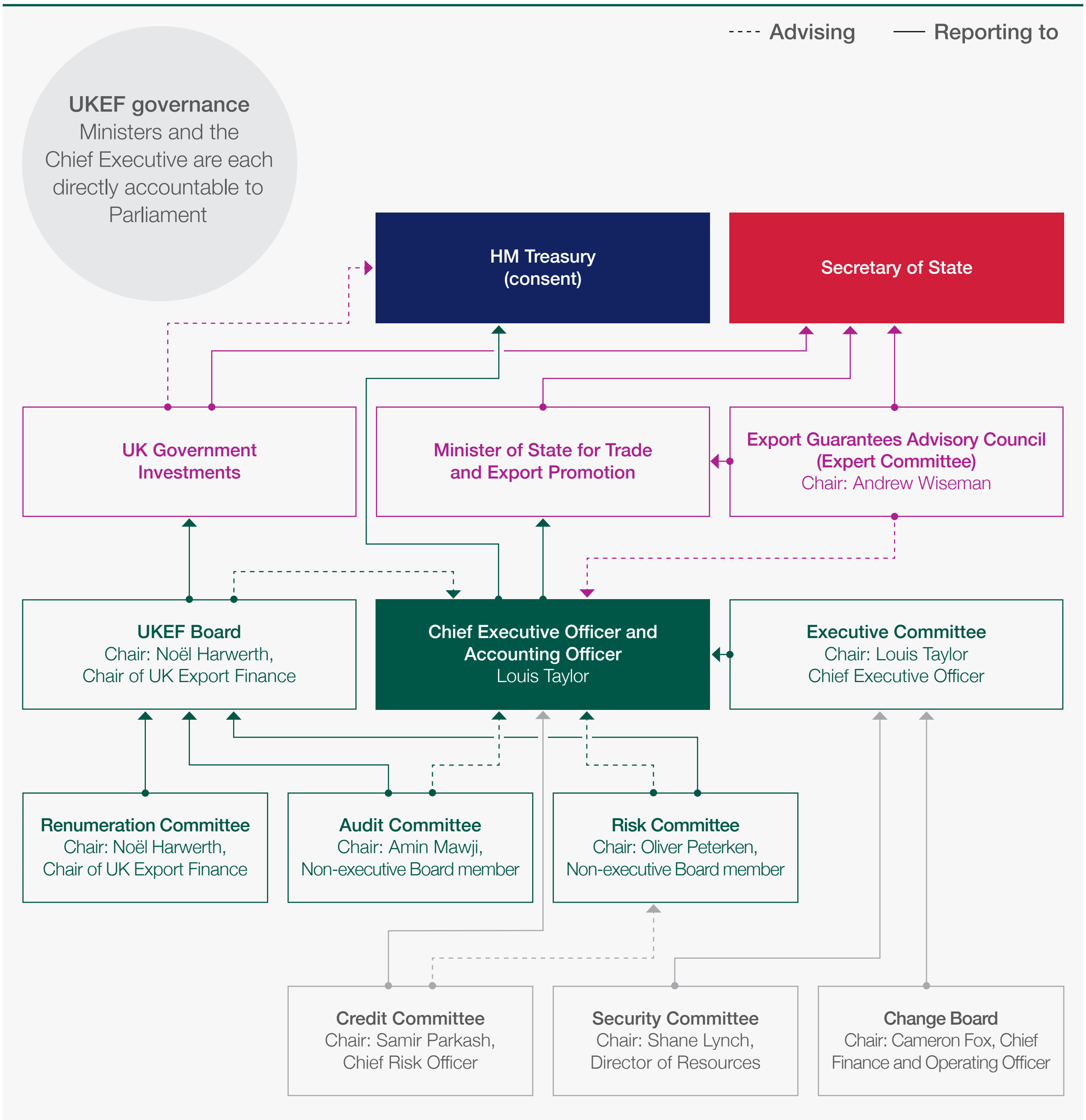
HMT seeks to protect the taxpayer from excessive loss resulting from our lending or our contingent liabilities, and the UK economy from economic disbenefit. It exercises this role primarily by monitoring our performance against the ministerially-agreed financial objectives and policy restrictions they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

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 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
- risk management and assurance functions and processes
- business planning and strategic direction

UKEF's governance structure



Export Guarantees Advisory Council (EGAC)

EGAC is a body required under the Export and Investment Guarantees Act 1991. It was designated as an Expert Committee in 2016 and its role is to advise the Secretary of State for International Trade on the ethical 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 76 to 78 and also from the Council's website.[1]

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

1 www.gov.uk/government/organisations/export-guarantees-advisory-council

UKEF Board

In discharging my responsibilities, I am advised by the UKEF Board, of which I am a member. The Board is led by a non-executive Chair to whom I report. Its membership consists of 3 executive directors (the Chief Executive, the Chief Risk Officer and the Chief Finance and Operating Officer) and 8 non-executive Board members including ex-officio representatives from the Department for International Trade and UKGI. There is also an observer from HMT. Its terms of reference require there to be a majority of non-executive and ex-officio members.

The Board's role is advisory, 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 based on relevant expertise and merit. They provide me with an independent source of scrutiny and guidance on strategic and operational issues, UKEF's financial performance and our arrangements for financial reporting, risk management and control.

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 ex-officio Board members agreed by the UKEF Board.

UKEF is committed to ensuring that the Board and its committees operate effectively and are continually improving. In Spring 2018, an externally facilitated Board evaluation was conducted following a formal procurement process. It noted that the Board was led by an energetic and skilled Chair, and benefited from a group of committed non-executive directors who all contributed well, bringing a range of relevant and complementary experience to the table.

The review suggested that the Board would benefit from a slight shift in emphasis, away from reviewing operational and financial performance towards a more forward-looking perspective. A report detailing findings and suggested improvements was accepted by the Board and an action plan established for implementing key recommendations during 2018-19 and beyond. Overall the review concluded that the Board and its committees operate effectively.

Recognising the need to ensure the department's Board and committees receive sound advice and information, Board papers highlight risks and resource implications to ensure sufficient engagement and challenge during discussions. The structure and information contained in regular agenda items (including business performance updates and the transformation programme report) are quality-assured on a monthly basis by the Executive Committee, and have continued to be reviewed, improved and updated over the course of the year.

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

Audit Committee

The Audit Committee annual report can be found on page 94. The Committee Chair formally reports on the Committee's activities to the Board.

Risk Committee

The Risk Committee annual report can be found on page 95. The Committee Chair formally reports the outcome of Risk Committee meetings to the Board.

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 on 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 (see page 104). 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 executives who are all members of the SCS:

- Gordon Welsh, Business Group Director: responsible for our support for exporters and business development
- Cameron Fox, Chief Finance and Operating Officer: responsible for finance and accounting, business insight and analytics, middle office operations, operational planning, change management and information technology
- Davinder Mann, Director of Legal and Compliance: responsible for legal and compliance matters and supporting the Department in managing legal risk
- Samir Parkash, Chief Risk Officer: responsible for managing enterprise, financial and credit risk, country risk, operational risk, and related management systems and practices
- Shane Lynch, Director of Resources: responsible for all people-related issues, staff administrative functions, strategic workforce planning, commercial, facilities and security

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 Finance and Operating Officer, advises on whether UKEF's investment in maintaining and improving its infrastructure, systems and processes is appropriately and effectively targeted and managed, and represents value for money
- Security Committee, chaired by the Director of Resources, advises on the security of the people and assets – including information 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 2018–19

As Accounting Officer, I state that in the financial year:

- all instructions given to me by ministers were in accordance with the EIGA, the Consent and applicable international agreements
- UKEF met all its financial objectives
- UKEF suffered no material operational losses
- UKEF had no major security breaches, data thefts or losses
- 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

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

Name of Board member	Role	UKEF Board	Audit Committee	Risk Committee	Remuneration Committee
Cameron Fox	Executive Board member	7/8	5/5**	4/4**	-
Noël Harwerth	Non-executive Chair	8/8	5/5**	4/4**	2/2
Shalini Khemka	Non-executive Board member	6/8	3/5	-	2/2
John Mahon	Ex-officio Board member, Department for International Trade	5/8	-	-	-
Justin Manson	Ex-officio Board member, UK Government Investments	6/8	4/5	4/4	2/2
Amin Mawji	Non-executive Board member and Chair of Audit Committee	6/8	5/5	-	2/2
Samir Parkash* (from 14 June 2018)	Executive Board member	6/6	2/2**	3/3**	-
Oliver Peterken	Non-executive Board member and Chair of Risk Committee	8/8	4/5	4/4	2/2
Louis Taylor	Executive Board member	8/8	5/5**	4/4**	2/2**
Lawrence Weiss	Non-executive Board member	8/8	5/5	4/4	2/2
Kimberly Wiehl (from 1 October 2018)*	Non-executive Board member	4/4	-	2/2	1/1

* Meetings took place before appointees joined the organisation

**Not a member of the committee but attends its meetings

Ministerial Directions

During 2018-19, there was 1 Ministerial Direction, on 5 July 2018.[2] This related to UKEF support for the export of Typhoon aircraft and associated equipment and services to Qatar (pages 55 to 56). Due to the size, final maturity and nature of the transaction, it was not possible for UKEF to support the financing package within its normal underwriting criteria. UKEF's underwriting criteria are agreed as part of the HM Treasury Consent, and transactions outside of these would be considered 'irregular' under the terms of Managing Public Money.

In such circumstances, ministers can instruct UKEF to support transactions outside its normal underwriting criteria (see pages 44 to 63) but which are judged by ministers to be in the national interest.

The Secretary of State for International Trade consulted with ministerial colleagues including the Chancellor of the Exchequer, who all concluded that the instruction was in the national interest. Accordingly, the Secretary of State for International Trade instructed me, with the consent for HM Treasury to facilitate the transaction. There were a number of associated conditions; some of which were required prior to the deal being agreed and others afterwards. HM Treasury confirmed

2 https://www.gov.uk/government/publications/uk-export-finance-support-for-export-of-typhoon-aircraft-to-qatar

that UKEF had met the pre-deal conditions. As a result, HM Treasury affirmed that the Qatar transaction was 'regular', i.e. that it was within UKEF's powers under the Export and Investment Guarantees Act and within the HMT Consent required under that Act.

Separately on 15 April 2019, (after the end of the 2018-19 financial year), a further direction was given by the Secretary of State to increase UKEF's country limit for Iraq by £1 billion to enable further priority projects to be supported in this market. Again, the Secretary of State for International Trade consulted ministerial colleagues including the Chancellor of the Exchequer, who all concluded that an increase in UKEF's limits for Iraq would be in the national interest. Accordingly, the Secretary of State for International Trade instructed me (with the consent of HM Treasury) to increase the country limit, subject to a number of conditions. The direction confirmed that UKEF's established risk standards were to be employed when considering the use of the increased limits. All business underwritten under this direction will be reported in future annual reports.

UKEF has written to the Comptroller and Auditor General (C&AG) about both Ministerial Directions and the C&AG has briefed the Chair of the Public Accounts Committee (PAC). UKEF has received no further requests for information from the PAC about either the Qatar transaction or the increase to UKEF's Iraq country limit.

Environmental Audit Committee inquiry into UKEF

The remit of the parliamentary Environmental Audit Committee is to consider the extent to which the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development, and to audit their performance against sustainable development and environmental protection targets. In November, the Committee began an investigation into the scale and impact of UKEF's financing of fossil fuels in developing countries. In March 2019, Baroness Fairhead and I gave evidence to the Committee. A transcript of these and other oral and written submissions to the hearing can be found on the Parliament website.[3]

We welcome the Committee's report and I am working with colleagues to consider our response.

Third-party delivery partners

UKEF works with a network of partners, including commercial finance lenders, commercial insurance brokers, other ECAs, other government departments, industry bodies and intermediaries. More information about our partners and operations can be found on pages 42 to 43.

Looking forward, UKEF will continue to extend and enhance its delivery partner relationships in order to improve levels of support to its customers.

Risk management and assurance

UKEF is committed to following best practice and public sector standards in areas of governance, accountability, transparency and risk management. Our risk management is described in detail in the Chief Risk Officer's report on pages 44 to 63.

3 https://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/inquiries/parliament-2017/uk-export-finance-17-19/

The '3 lines of defence' framework

UKEF has adopted a '3 lines of defence' framework to structure its risk management and assurance activities.

First line of defence	Second line of defence	Third line of defence
Day to day management and risk ownership	Risk policies, methodologies and independent oversight and challenge	Independent assurance

Strategic and operational risk

The Department has a strategic risk register that contains the key strategic risks it faces and identifies a Senior Civil Servant who is responsible for UKEF's response to each recorded strategic risk. Strategic risks are reviewed periodically by the Executive Committee, and by the Risk Committee acting on behalf of the Board.

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

- breach of our reporting requirements to HMT
- poor procurement practice leading to a breach of Managing Public Money
- credit decisions made on the basis of incorrect data

Self-identified incidents are reported to operational risk team, which reports to the Chief Risk Officer. The Risk Committee oversees the team's activities and the operational risk management framework. The operational risk team maintains the operational risk framework and risk register, reporting significant operational risk matters to the Executive Committee, Risk Committee and Audit Committee.

UKEF's current operational risk management framework is designed to:

- identify risks
- assess the likelihood of risks materialising and the severity of their impacts
- evaluate and provide regular assurance to the Accounting Officer, Board and Executive Committee 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 our goal is to manage risks and mitigate them to an acceptable level.

Operational risk works with the other second-line and third-line assurance functions and heads of division across UKEF to reinforce ownership and accountability for risks, and the design, implementation and operation of effective controls.

UKEF continued to develop the second line of defence capability in 2018-19. During 2019-20, UKEF will focus on embedding enhanced frameworks which will provide greater robustness and give more complete assurance. A new enterprise risk management division was created in 2018-19, with additional resourcing to help drive improvements. These will include comprehensive risk appetite statements, thematic management information and an increase in reporting of incidents and near misses (from which lessons can be learned and preventative action taken) in 2019-20.

Governance assurance processes

Throughout the year I meet with selected risk owners to review their operational risk registers and to discuss matters of concern and proposed remedial actions.

At year-end, heads of division within UKEF completed Letters of Assurance (LoA) in which they provided me with an assessment of the effectiveness of governance, risk management and control within their area of responsibility.

In addition, at year-end, supported by a non-executive member of the Board, I chaired a panel which challenged directors on their control and assurance responsibilities, informed by the operational risk register and LoAs from areas within their remits, and any known incidents.

Financial crime compliance

UKEF faces risks of financial loss and damage to its integrity and reputation from providing support for transactions involving financial crime, including sanctions breaches, fraud, bribery and corruption. Given its role and remit, UKEF cannot fully guarantee that it will never inadvertently support such a transaction but is committed to having in place and operating appropriate processes, systems and controls to mitigate the risk of supporting such transactions. The Compliance Division is responsible for ensuring that these risks are identified and appropriately managed, and reports to the Director of Legal and Compliance.

In 2018-19, the Compliance Division, Legal Division, Business Group and others have worked with external consultants to understand better the evolving nature of UKEF's financial crime risks, codify a risk appetite statement, and design processes and procedures to support the Compliance function. This work is iterative, and the framework and associated controls, systems and management information are expected to evolve further during 2019-20.

During 2019-20, Compliance Division will implement a strengthened compliance framework, underpinned by a comprehensive risk appetite statement.

Previously, responsibility for undertaking financial crime due diligence on transactions and parties lay within Business Group, but this due diligence function is being transferred to a dedicated and specialist unit within Operations Division, supervised and monitored by the Compliance Division. This appropriately creates separation between origination, investigation and monitoring.

The level of financial crime due diligence undertaken on transactions will be informed by the specific circumstances of each transaction and the level of inherent risk posed by factors such as the industrial sector or the use of an Agent, and the jurisdictions concerned. This will ensure that the due diligence is reasonable and proportionate to the circumstances of each transaction.

There will be a focus on providing improved appropriate training in issues related to financial crime for all staff, including on the operation of the new processes and instilling vigilance about compliance in the front line.

Some UKEF customers and transactions remain challenging from a compliance perspective, either as a result of ongoing law enforcement investigations or as a result of issues that have been brought to light by UKEF's own due diligence. UKEF deals with such customers with appropriate rigour and is applying enhanced and proportionate due diligence processes designed to ensure that the risk of supporting a transaction tainted by financial crime is properly managed.

Cyber security & information risks

The Senior Information Risk Owner (SIRO) has Executive Committee-level responsibility for information risks, including cyber security risks. The Director of Resources is the SIRO, and also chairs the Security Committee. Our security policies and procedures are managed by our Security function, which reports to the Director of Resources. The IT Division plays a key role in the operational delivery of cyber-security services.

During 2018-19, UKEF engaged specialists to undertake a review of cyber security controls and procedures. An improvement plan was developed and is being delivered with oversight from UKEF's Security Committee. UKEF also took part in a Cabinet Office-led cross-government assessment of security culture and was rated as 'silver', which recognises that there are areas of strength and also made recommendations to further enhance the culture. The Department has benefited from developing closer working relationships with key government stakeholders including the Centre for Protection of National Infrastructure and the National Cyber Security Centre to improve the control environment.

Information risk is not limited just to security concerns. UKEF is working to ensure that its data are accurate and reliable. New controls to mitigate further the risks relating to poor data management are in progress and formalised information assurance mechanisms will be implemented during 2019-20.

Designated Information Asset Owners (IAOs) are responsible for the identification of information assets and their location, use and protection. An information asset register is in place to record these assets.

Procedures are in place to administer responses to requests for information from the public under information legislation that gives the public rights of access. During 2019-20, procedures and training will be enhanced and improved to ensure compliance with relevant legislation, such as the Data Protection Act 2018 and the General Data Protection Regulation and with central government requirements, such as the Security Policy Framework and the National Cyber Security Strategy.

Cabinet Office requires public bodies to have a Data Protection Officer. For a period of just over a month during 2018-19, UKEF was not in compliance with this requirement, due to staff changes, but this non-compliance has been remedied.

Internal audit

Internal Audit and Assurance Division (IAAD) provides UKEF's internal audit function. IAAD's purpose, authority, and responsibilities are defined by an internal audit charter which:

- establishes IAAD's position within UKEF
- authorises access to records, personnel and physical properties relevant to the performance of engagements
- defines the scope of internal audit activities

The Audit Committee, acting on behalf of the Board, approves the internal audit charter.

On the basis of IAAD's continued engagement throughout 2018–19, the Head of Internal Audit's opinion in relation to the adequacy and effectiveness of the framework of governance, risk management and control was 'Moderate'. This opinion raised thematic issues which are consistent with the contents of this governance statement including requirements for a more formally documented and evidenced first line of defence, a strengthened second line of defence, enhanced medium-term planning, and clarity on the requirements of a Data Protection Officer.

I meet regularly with the Head of Internal Audit. The Head of Internal Audit also has a direct communication channel to the Chair of the Audit Committee.

Whistleblowing policy

We have a whistleblowing and raising-a-concern policy in place. This policy is based on guidance provided by the Civil Service employee policy, 1 of the expert services for the Civil Service. This was last updated in November 2017.

No disclosures were made under the policy in 2018-19.

Significant risks and mitigating measures

Medium to long-term planning

Organisational transformation continued through 2018-19 and there was progress in ensuring that the changes are being properly embedded. More work will be required to achieve fully the ambitious objectives outlined in our Business Plan, but we are on track to deliver.

I am grateful to our Internal Audit team for identifying areas where more multi-year planning was necessary to deliver the organisational transformation in an efficient and effective manner.

UKEF has started work on developing a Target Operating Model (TOM). The TOM will describe how we will need to operate differently in the future if the strategy is successfully delivered and will be a key part of our upcoming Spending Review submission, with a change programme designed using the available funding. We have also improved our planning of change to make sure that projects deliver their benefits by planning on a rolling 18-month basis, rather than a static 12-month plan.

First line of defence controls

As a small department, UKEF historically relied upon controls vested in its key officers rather than developing a broader, formal control environment. As the department has grown, management has acknowledged the need for change, in particular around formalising the documentation of processes, increasing the understanding of control objectives and improving the monitoring of controls effectiveness.

This year we have established a new Enterprise Risk Management function reporting to the Chief Risk Officer, which will ensure during 2019-20 that progress is being made towards evidence-based reporting and assurances, and a formalised controls environment. However, this will take longer than a year to deliver fully.

Data and records management

There has been improvement in recent years on records and data management through the introduction of new systems and records management policies.

However, more work is required to ensure 'right first time' data without manual intervention within corporate reporting. This impacts on the ability to provide timely and error-free information for a multitude of uses across the organisation.

UKEF acknowledges that data and records management requires strengthening. A long term organisation-wide strategic solution is needed to effectively manage and mitigate these risks. During 2018-19 a tactical solution was used; members of the Executive Committee are currently assessing a longer-term strategic solution.

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 2019

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
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable

HM Treasury has appointed the Chief Executive as 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 the HM Treasury.

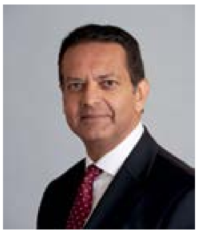
As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that UKEF's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

I believe that this annual report and accounts is a fair, balanced and understandable account of our performance in the year, and I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Louis Taylor
Chief Executive and Accounting Officer

12 June 2019

Audit Committee report



Amin Mawji
Chair, Audit Committee

The Audit Committee report should be read in conjunction with the governance statement which can be found on page 82 to 92.

UK Export Finance's Audit Committee Terms of Reference require membership of the Audit Committee to comprise at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board. I currently serve as its chair, alongside Oliver Peterken, Lawrence Weiss and Shalini Khemka, all of whom meet the relevant requirements for independence. Justin Manson is also a member of the Committee, representing UK Government Investments on behalf of the Secretary of State.

Although not members of the Audit Committee, the Chair of the UKEF Board, Accounting Officer, Chief Finance and Operating Officer, Chief Risk Officer, Head of Internal Audit, and a representative of external audit normally attend meetings. The Audit 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 Audit Committee Terms of Reference also provide that at least 1 member of the Committee should have significant, recent and relevant financial experience and is a member of the Risk Committee to help facilitate coordination between the Risk and Audit Committees.

The attendees discuss auditors' reports, review and assess the auditing concept and examination process, and assess the activities of both external and internal auditors. Private sessions with external and internal auditors take place at Audit Committee meetings when necessary to enable discussion without the presence of management.

Primary tasks and responsibilities

In general, the Audit Committee:

- serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial practice, 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, including on whistleblowing
- reviews the draft Annual Report and Accounts

Activities during 2018-19

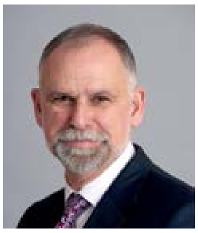
During 2018-19, the following topics were discussed:

- financial crime compliance
- 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
- compliance processes in relation to bank delegation
- changes to accounting policies relating to new products, details of the supplementary estimate, and the deferment of the application of IFRS 9 until 2021, and the preparations being made for the application of IFRS standards 9 and 17
- UKEF's incident reporting, and the year-end Letters of Assurance from Heads of Division

The Audit Committee meets at least 4 times in each year. In 2018-19, it met 5 times.

Risk Committee report

The Risk Committee report should be read in conjunction with the governance statement which can be found on page 82 to 92.



Oliver Peterken
Chair, Risk Committee

UK Export Finance's Risk Committee Terms of Reference require the Committee to comprise at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board. I currently serve as its chair, alongside Lawrence Weiss and Kimberly Wiehl, all of whom meet the relevant requirements for independence. Justin Manson is also a member of the Committee, representing UK Government Investments on behalf of the Secretary of State. Kimberly Wiehl was appointed as a new non-executive member of the Risk Committee in October 2018.

Although not members of the Risk Committee, the Chair of the UKEF Board, Accounting Officer, Chief Finance and 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 1 member of the Risk Committee will also be a member of the Audit Committee to help facilitate coordination between the Risk and Audit Committees.

Primary tasks and responsibilities

In general, the Risk Committee:

- Examines and reviews any material changes to UKEF's key strategic, operational, compliance, credit, country 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 identify and evaluate potential emerging or new risk issues facing the organisation as a whole
- Considers the key risk indicators, as set out by the Chief Risk Officer
- Considers risk reports from the Chief Risk Officer
- Considers management assurances on operational risk, compliance and information assurance
- Reviews reports on the management of major incidents, and lessons learned in the areas relevant to the Committee's scope

Activities during 2018-19

During 2018-19, the following topics were discussed:

- risk governance improvements
- operational and strategic risks
- a new operational risk framework
- revised country risk methodology
- the portfolio risk simulation model
- the credit risk policy statement
- information assurance
- loan impairment and lessons learned
- the pricing methodology statement
- a review of delegated authorities

The Risk Committee meets at least 4 times in each year. In 2018-19, it met 4 times.

UKEF achieved its second highest ever score of 63% in the People Survey in 2018-19

Our people: staff and remuneration report

Shane Lynch
Resources Director

This has been a record-breaking year for UKEF and none of this would have been possible without the commitment and expertise of our staff.

In 2018-19, UKEF's headcount reached a 10-year high, evidence of the growing demand for UKEF's products and services. Our transformation programme, which began in 2016, has led to a reorganisation of our front and middle office functions, a model that is now fully embedded and has enabled this year's strong performance as well as supporting a significant pipeline for the year ahead. Further improvements were achieved by consolidating teams responsible for a range of our operational and support services from 3 groups into 2.

We will continue to enhance the operating model in 2019-20 with an increased focus on business development, and growing our newly-established global network of export finance specialists from 6 to 10. The new posts will be based in India, Kenya, Mexico and Saudi Arabia. This network was created in partnership with the Department for International Trade and is an example of the joined-up government approach to supporting UK exporters set out in the Export Strategy.

The increase in headcount has had a significant impact on teams that provide support through the employee lifecycle, leading to increased activity across resourcing (125 campaigns), learning and development (17% increase in training hours) and wider employee support functions. We also exceeded our aspiration of offering each staff member 5 days of development per year for the first time with the average being 5.1 days.

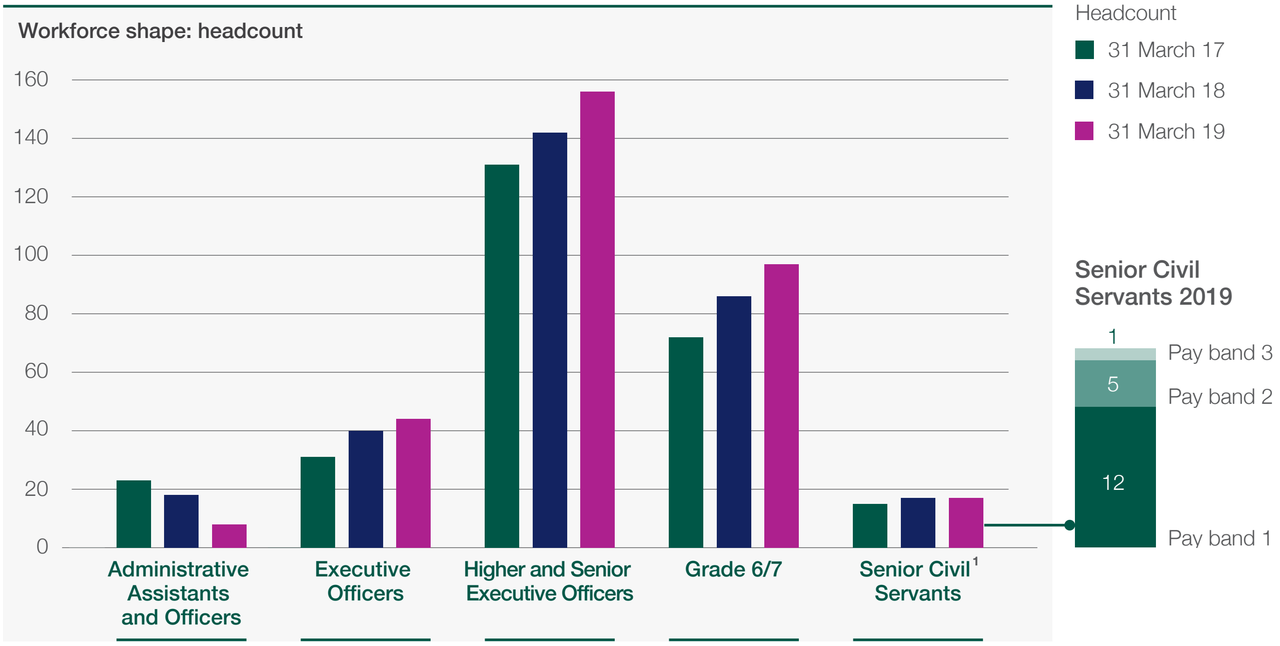
We continue to strive to improve diversity within our workforce and meet the commitments we made under the HM Treasury Women in Finance Charter and Level 3 of the national Disability Confident Employer Scheme. The progress we have made in this area is particularly encouraging with our current workforce being the most diverse in our history. As of 31 March 2019, 30.1% of colleagues were from Black, Asian and minority ethnic groups and 39.4% were female. The increase in gender diversity was particularly evident across our Senior Civil Servant cohort, with 57% of hires during 2018-19 being female and 42% from BAME groups. We have also seen a significant reduction in the median gender pay gap but recognise that more work is needed in this area.

Our ambition is to have the most engaged workforce in the Civil Service, so we were proud to have achieved our second-highest ever staff engagement score of 63% in the annual Civil Service People Survey, an impressive achievement considering it was against a backdrop of a very challenging workload as the business ran at close to full capacity. Employee wellbeing remains a priority and sickness absence at 2.98 days is significantly below public and private sector averages.

In our centenary year, we continue to aspire to recruit and retain staff with the skills, knowledge and motivation to ensure we can continue to help exporters succeed into our second century.

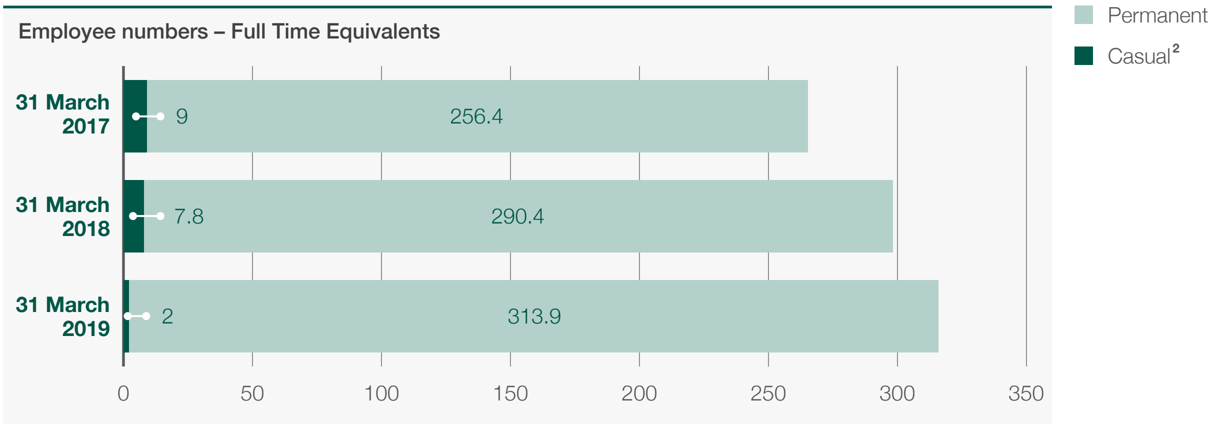
Workforce snapshot

As at 31 March 2019, the directly-employed workforce stood at 322 (315.9 FTE). This represents an increase of 6.3% over the previous 12 months and 30.4% over the last 4 years.

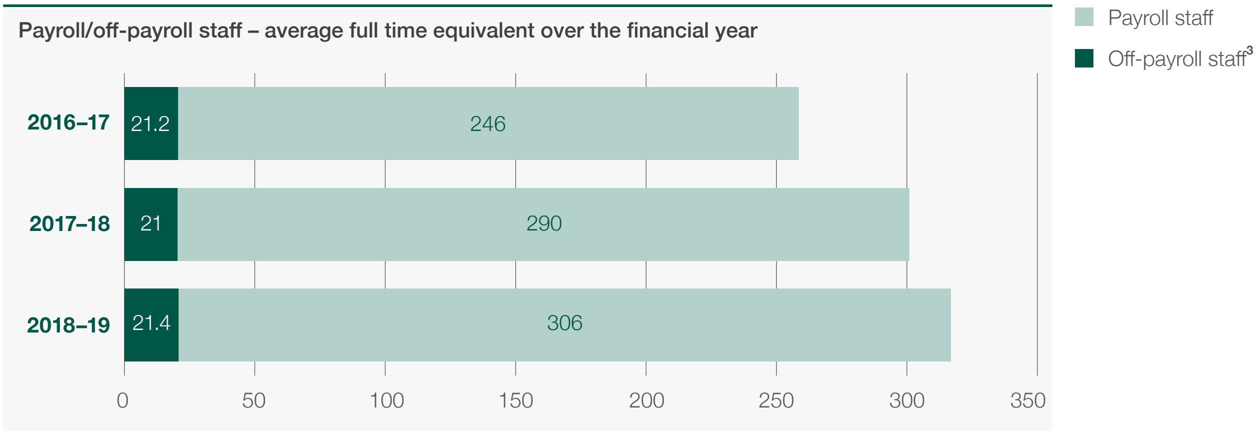


UKEF's total staff costs for 2018-19 were £21.4 million (2017-18 £19.9m) as detailed in Note 7 to the accounts. These costs relate to staff with a permanent contract and a small number of staff on other contracts, as disclosed in this report. The employment costs relating to UKEF's ministers and special advisers are disclosed in the Department of International Trade's annual report and accounts.

In addition to the 322 staff disclosed in the graph above, a further 21 off-payroll staff were engaged on average per month, predominately supporting our IT and Transformation, Change & Innovation divisions. UKEF has reduced its reliance on contingent labour significantly since 2015 and has reduced contingent labour costs by a total of more than £1.3 million over the period. These disclosures have been subject to external audit.



1 18 Senior Civil Servants as at 31 March 2019: SCS3: 1; SCS2: 5; SCS1: 12
2 Casual defined as fixed-term contracts for less than 12 months.



Our recognised trade union is the Public and Commercial Services Union (PCS). Union representatives meet Human Resources (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 27 hours of facility time for 3 staff (less than 1% of their time), with an estimated cost of £3,289, during 2018-19.

In 2018-19, UKEF engaged in a consultation exercise with staff regarding proposed changes to the current operating model. The changes were necessary to ensure that UKEF's teams were structured in a way that best facilitated the delivery of the department's business objectives. The consultation exercise was successful, with inputs from staff and representative groups helping to shape the final structure which was subsequently implemented.

'UKEF is very commercial in its approach to building a business and I get a sense of pride in the transactions we undertake and how it is helping build the British economy. It never ceases to amaze me the depth of UKEF's knowledge and how we can influence globally.'
Feedback from UKEF staff member in the 2018 People Survey

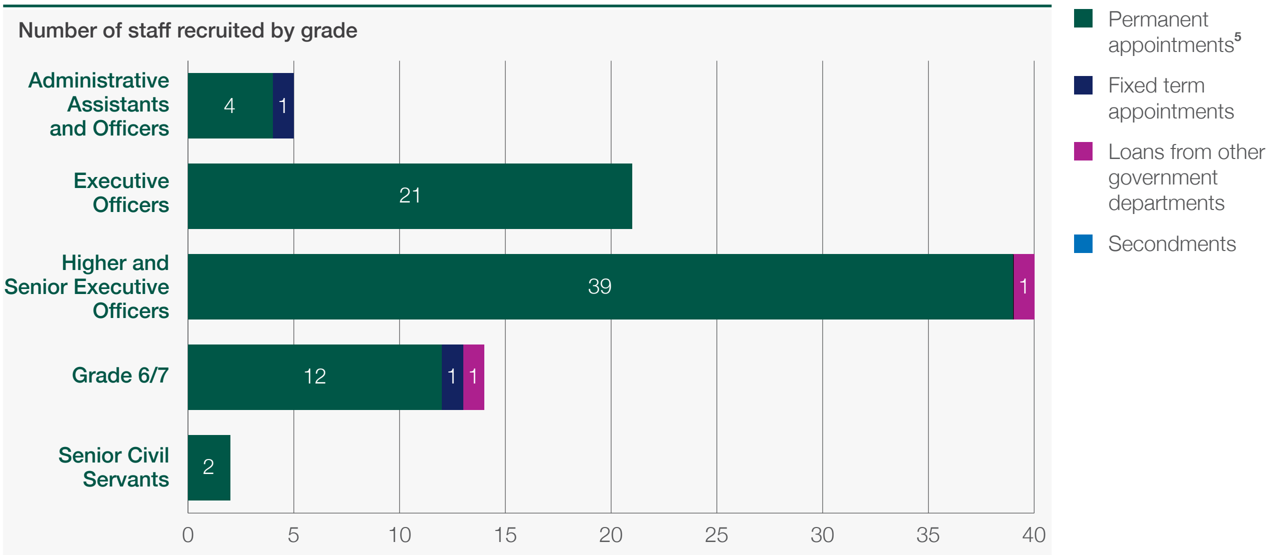
3 Off-payroll staff encompasses consultants and contingent labour i.e. interim managers, specialist contractors and agency staff.

Recruitment

The recruitment market remained relatively challenging during 2018-19. The total number of recruitment campaigns delivered in 2018-19 was 125, which resulted in 82 new joiners to UKEF and a further 33 internal promotions. Over 53% of our hires came from the private sector, reflecting the uniquely commercial nature of UKEF's work within the Civil Service. A further 30% of vacancies were filled by UKEF staff promotions, a testament to the talent available within the department.

Much of our recruitment activity was driven by higher than average turnover rates, fuelled by issues related to pay and benefits, and by the relatively buoyant jobs market, both in the private sector and within the Civil Service as many departments take on additional staff to support preparations for the UK's exit from the European Union.

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



Diversity & inclusion

The Civil Service Diversity & Inclusion Strategy was launched in November 2017 and sets out an aspiration that the Civil Service become 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, and 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. All UKEF staff are required to complete training on diversity, inclusion and unconscious bias.

The proportion of female staff and staff from BAME groups increased during 2018-19, accounting for 41% and 34% of new hires respectively. As a result, our current workforce is the most diverse on gender and ethnicity grounds in our recent history. Almost 40% of UKEF staff are female and

5 This includes permanent transfers from other government departments.

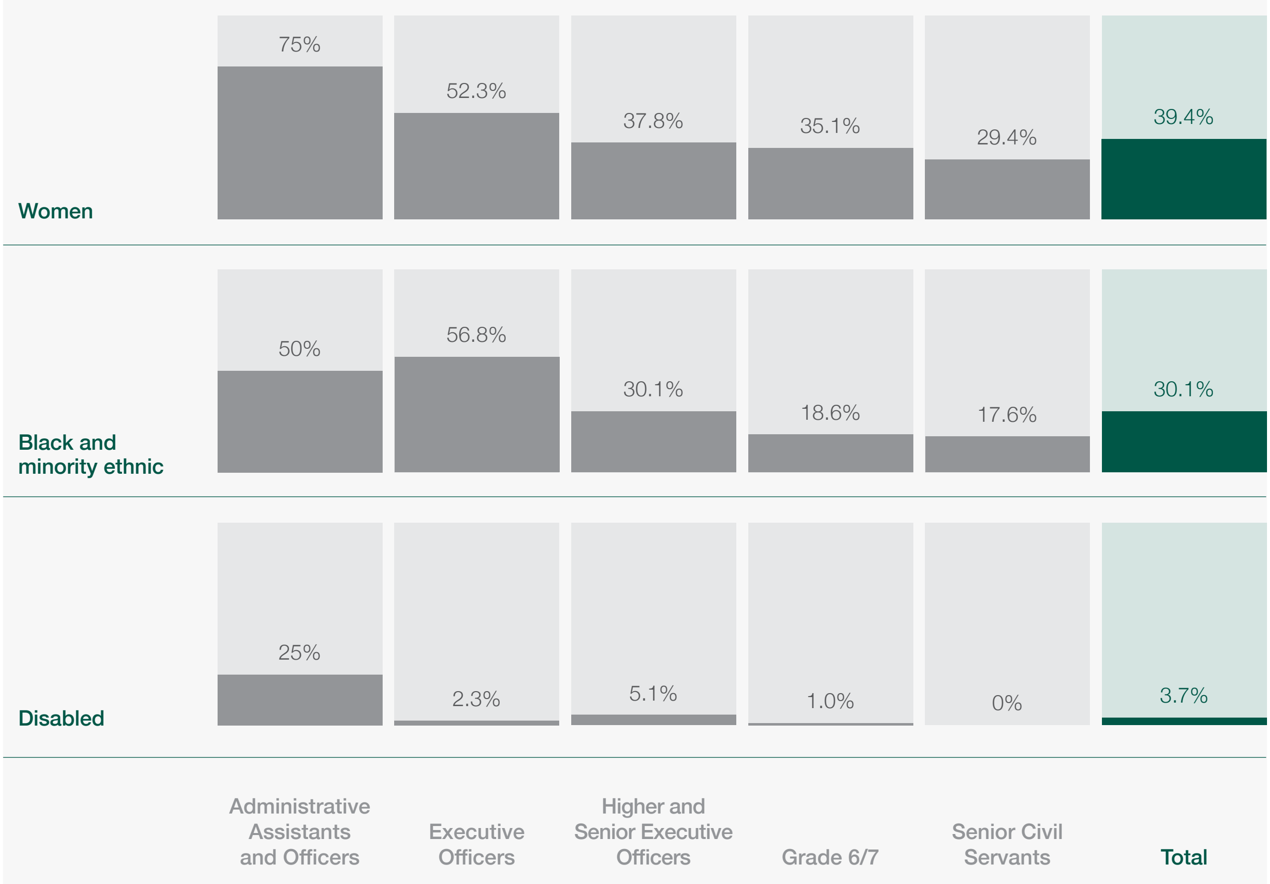
30% identify as being from BAME groups. Our performance on ethnicity is particularly encouraging as only 12% of staff across the Civil Service identify as being from BAME groups. We plan to build on this by continuing to recruit staff from across all protected characteristics.

We recognise that we need to improve our gender balance, particularly at senior levels, and are working to deliver on the commitments we made as part of HM Treasury's Women in Finance Charter. During the current financial year, 9 Senior Civil Service (SCS) campaigns were completed; 57% of successful candidates were female and 42% were from BAME groups. In 2017 UKEF signed up to the Women in Finance Charter and committed to having 30% of SCS posts filled by female staff by 2020. As of 31 March 2019 we have reached 29.4%.

UKEF has been accredited as a Level 3 Disability Confident Employer, which shows a public commitment to supporting disabled people throughout the employment lifecycle. UKEF operates the Civil Service-wide Guaranteed Interview Scheme, has a Disabled Employee Forum (in conjunction with the Department for International Trade) and proactively supports staff in implementing reasonable adjustments in the workplace. The department also provides mental health first aid and has an Employee Assistance Programme.

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

UKEF staff diversity as of 31 March 2019



Learning and development

The continued increase in headcount over the year had a significant impact on learning and development at UKEF. As in the last financial year, we had to balance the need to induct a large number of new staff into the department with continuing to meet the development requirements of our existing workforce.

Based on our assessment of progress in delivering the 2017-20 Business Plan, we continued to focus our efforts on the department's 5 agreed learning and development priorities:

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

In addition, we also continue to develop technical training programmes to develop skills that are rare 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 (see p43).

During 2018-19 the average number of days spent on formal learning and development activities per employee was 5.1 days (4.4 days in 2017-18), with a total of 11,227 hours of learning delivered. This is an increase of 17% from 2017-18. The average spend per head was £982 (£1,002 in 2017-18).

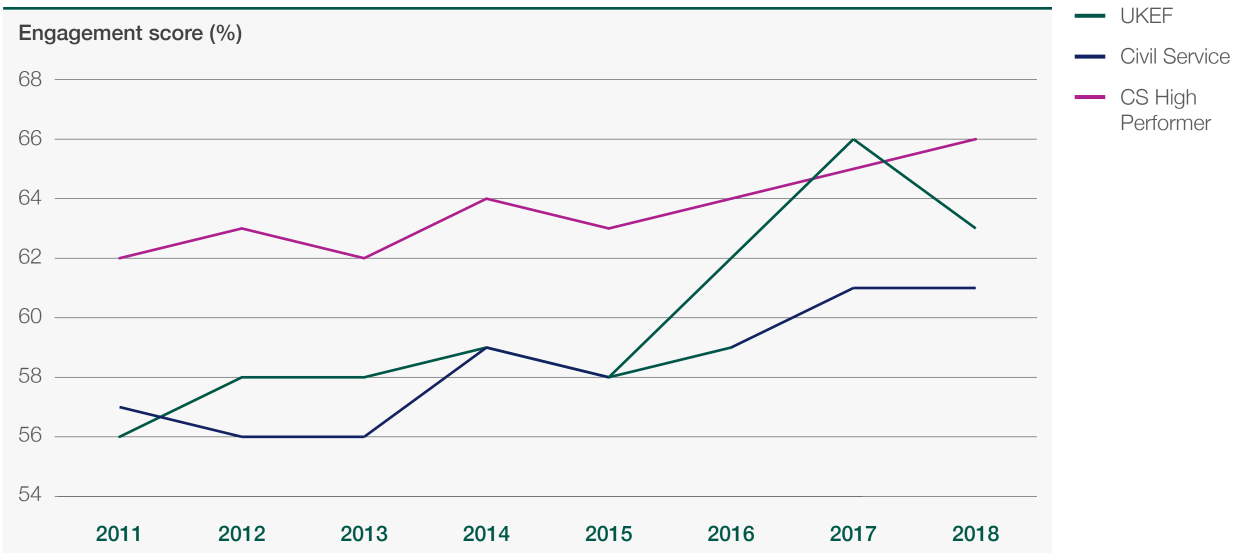
This year's figures are a strong indicator of UKEF's commitment to the continuous development of our workforce.

Engagement

We achieved our second highest ever staff engagement score of 63% in the annual Civil Service People Survey, a slight decrease of 3% from 2017's record high score.

UKEF's score for 'organisational objectives and purpose' was 91%, which was our highest in the 10-year history of the survey and in the top 5% of the Civil Service. We also achieved our highest ever scores for 'Resource and Workload', 'My manager' and 'Learning & Development'.

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.



‘UKEF is a great place to work - I look forward to coming to work on a Monday morning; I feel at home among my divisional colleagues and could not picture working without them; I am fortunate to work in the centre of London, with 3 Royal Parks practically outside my office and lots to see and do nearby; I feel my work is challenging but very interesting and rewarding; I am afforded the opportunity to travel overseas in the course of my work.’
Feedback from UKEF staff member in the 2018 People Survey

Health, safety and wellbeing

UKEF has an employee assistance programme that supports employees in addressing challenges across their work, family and personal lives, as well as an occupational health service to ensure 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.

We have seen a significant reduction in our sickness levels from 7.2 days per employee in 2015-16 to 2.98 days in 2018-19. This is below the ONS reported average for both the public sector (6.8 days) and the private sector (4.4 days).

Sickness absence data

	31 March 2019	31 March 2018	31 March 2017
Average working days lost	2.98	3.50	4.72
% staff with no sickness absence	55.9%	52.0%	58.5%

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

All pay remits must be approved by a secretary of state or responsible minister, and each department, through its Accounting Officer, is responsible for the propriety and regularity of the pay award to staff. UKEF operated its 2018-19 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 177 awards to employees through this scheme in 2018-19.

The remuneration arrangements for senior civil servants (SCS) are set by the Cabinet Office 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 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 on 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 2019, the membership was:

- **Noël Harwerth**, non-executive Chair of the Board and Chair of the Remuneration Committee
- **Shalini Khemka**, non-executive Board member
- **Justin Manson**, ex-officio board member
- **Amin Mawji OBE**, non-executive Board member
- **Oliver Peterken**, non-executive Board member
- **Lawrence M. Weiss**, non-executive Board member
- **Kimberly Wiehl**, 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 Director of Resources may be invited to attend all or part of any meeting as and when appropriate.

Salary and pension entitlements for directors

The salary and pension entitlements of the Management Board level Executive Directors 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	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	**2018-19**	**2017-18**
Louis Taylor Chief Executive	250-255	250-255	10-15	10-15	24	96	**285-290**	**360-365**[6]
Cameron Fox Chief Finance & Operating Officer	135-140	95-100	0	10-15	64	40	**195-200**	**150-155**
Samir Parkash Chief Risk Officer	155-160 (195-200 FTE)	n/a	0	n/a	n/a	n/a	**155-160 (195-200 FTE)**	**n/a**

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 2018-19 relate to performance in 2017-18.

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 the organisation and the median remuneration of the organisation's workforce. These disclosures have been subject to external audit.

	2018-19	2017-18[7]
Band of highest paid director's remuneration (£000)	265-270	265-270
Median total (£)	41,283	40,426
Remuneration ratio	6.5	6.6

6 This was incorrectly reported as £315,000-£320,000 in the 2017-18 Annual Report and Accounts.
7 The figures reported in the 2017-18 Annual Report and Accounts have been adjusted to reflect the full package of the highest paid director, including bonus payments

The banded remuneration of the highest-paid director in UKEF in the financial year 2018-19 was £265,000-£270,000 (£265,000-£270,000 in 2017-18). In 2018-19 this was 6.5 times (2017-18, 6.6) the median remuneration of the workforce, which was £41,283 (2017-18, £40,426).

In both 2018-19 and the previous year, 0 employees received remuneration in excess of the highest paid director. The remuneration of the lowest paid employee was £22,488 (£20,442 in 2017-18), and the highest paid was the Chief Executive, as disclosed above.

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

These disclosures have been subject to external audit. Further details about the Civil Service pension arrangements can be found at:
www.civilservicepensionscheme.org.uk

Pension benefits	Accrued pension at pension age as at 31/3/19 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2019	CETV at 31 March 2018	Real increase in CETV	Employer contribution to partnership pension account
Officials	£'000	£'000	£'000	£'000	£'000	Nearest £100
Louis Taylor Chief Executive	55-60	0-2.5	639	614	11	27,700
Cameron Fox Chief Finance & Operating Officer	10-15	2.5-5	137	82	31	0
Samir Parkash Chief Risk Officer	0	0	0	0	0	22,900

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 due to 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 because they have bought 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 UKEF is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2016. 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.civilservicepensionscheme.org.uk**

For 2018-19, employers' contributions of £2,974,808 were payable to the PCSPS (2017-18 £2,762,612) 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 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 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 £187,258 (2017-18: £113,128) were paid to 1 or more of the panel of 3 appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay. The employer also matches employees' contributions of up to 3% of pensionable pay. In addition, employer contributions of £6,547 (2017-18: £3,637), 0.5% of pensionable pay, 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 an annual 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 2018-19 £000	Fees for 2017-18 £000
Noël Harwerth Chair of UKEF Board Member of Remuneration Committee	45-50	45-50
Shalini Khemka Member of UKEF Board Member of Audit Committee	10-15	0-5 (10-15 FTE)
Amin Mawji OBE Member of UKEF Board Chair of Audit Committee Member of Remuneration Committee	15-20	15-20
Oliver Peterken Member of UKEF Board Chair of Risk Committee Member of Audit and Remuneration Committees	15-20	15-20
Lawrence M. Weiss Member of UKEF Board Member of Audit, Risk and Remuneration Committees	10-15	10-15
Kimberley Wiehl Member of UKEF Board Member of Risk and Remuneration Committees *Started 3 October 2018*	5-10 (10-15 FTE)	N/A

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

Off-payroll engagements

Following the review of tax arrangements of public sector appointees published by the Chief Secretary to the Treasury in 2012, departments now publish annual information on their highly paid and/or senior off-payroll engagements.

The tables below provide information on those off-payroll engagements paid more than £245 per day during 2018-19.

Off-payroll engagements that had lasted longer than 6 months as at 31 March 2019:

Number of existing engagements at 31 March 2019	13
of which, had existed for	
less than 1 year	4
between 1 and 2 years	3
between 2 and 3 years	4
between 3 and 4 years	2
4 years or more at the time of reporting	0
Total	**13**

Tax assurance for new off-payroll engagements

Number of new engagements, plus those that reached 6 month duration, between 1 April 2018 and 31 March 2019	12
Declared Inside IR35	1
Outside IR35	11
No. on Department Payroll	0
Nos reassessed, assurance not 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 that have been 'deemed' board members and/or senior officials with significant financial responsibility during the year.	13

Cost of off-payroll engagements

The total cost for 2018-19 including engagements of individuals whose daily cost was less than £245 per day was £2,101,721 (2017-18: £2,798,440).

Expenditure on consultancy

Total expenditure on consultancy in 2018-19 amounted to £543,583 (2017-18: £369,255).

Compensation for loss of office

3 members of staff left under voluntary exit terms during 2018-19.

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 to early retirements, the additional costs are met by the department and not by the Civil Service pension scheme.

These disclosures have been subject to external audit.

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
	2018-19			2017-18		
<£10,000	0	0	0	0	1	1
£10,000 - £25,000	0	2	2	0	1	1
£25,000 - £50,000	0	1	1	0	0	0
£50,000 - £100,000	0	0	0	0	0	0
£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	3	3	0	2	2
Total cost /£k	0	61	61	0	30	30

Ill health retirement costs are met by the pension scheme and are not included in the table above. During 2018-19 no individuals retired early on ill-health grounds (2017-18: nil); the total additional accrued pension liabilities in the year amounted to £0 for 2018-19 (2017-18: £0).

Parliamentary Accountability and Audit

Statement of Parliamentary Supply

For the year ended 31 March 2019

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.

A Business Group team meeting

Summary of Resource and Capital Outturn 2018-19

		Estimate			Outturn			2018-19	2017-18 Outturn
	Note	Voted £'000	Non-Voted £'000	Total £'000	Voted £'000	Non-Voted £'000	Total £'000	Voted outturn compared with Estimate: savings/ (excess) £'000	Total £'000
Departmental Expenditure Limit									
- Resource	SOPS1(a)	1,301	-	1,301	1,288	-	1,288	13	(499)
- Capital	SOPS1(b)	300	-	300	79	-	79	221	671
Annually Managed Expenditure									
- Resource	SOPS1(a)	133,374	-	133,374	(128,993)	-	(128,993)	262,367	(4,619)
- Capital	SOPS1(b)	725,368	-	725,368	426,448	-	426,448	298,920	167,736
Total Budget		**860,343**	**-**	**860,343**	**298,822**	**-**	**298,822**	**561,521**	**163,289**
Total Resource		134,675	-	134,675	(127,705)	-	(127,705)	262,380	(5,118)
Total Capital		725,668	-	725,668	426,527	-	426,527	299,141	168,407
Total		**860,343**	**-**	**860,343**	**298,822**	**-**	**298,822**	**561,521**	**163,289**

Net cash requirement 2018-19

	Note	2018-19 Estimate £'000	2018-19 Outturn £'000	2018-19 Outturn compared with Estimate: savings/ (excess) £'000	2017-18 Outturn £'000
Total	SOPS2	**363,628**	**(57,649)**	**421,277**	**(56,660)**

Administration Costs 2018-19

	2018-19 Estimate £'000	2018-19 Outturn £'000	2017-18 Outturn £'000
Total	**1**	**-**	**(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 Finance and Operating Officer's Report and within SoPS1 below.

The Notes on pages 124 to 164 form part of the Statement of Parliamentary Supply.

SoPS1 Analysis of net outturn by section

SoPS1(a) Resource

	Administration			Programme			Outturn Total	Estimate Total	2018-19 Outturn compared with Estimate: savings/ (excess)	2018-19 Outturn compared with Estimate, adjusted for virements	2017-18 Outturn 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	35,607	(35,607)	-	1,988	(700)	1,288	1,288	1,301	13	13	(499)
Total	35,607	(35,607)	-	1,988	(700)	1,288	1,288	1,301	13	13	(499)
Voted spending in Annually Managed Expenditure (AME)											
B Export Credits	-	-	-	288,695	(363,115)	(74,420)	(74,420)	30,460	104,880	104,880	(24,519)
C Fixed Rate Export Finance Assistance	-	-	-	899	(1,189)	(290)	(290)	1,294	1,584	1,584	(621)
D Loans and interest equalisation	-	-	-	-	(799)	(799)	(799)	(666)	133	133	(1,694)
E Direct Lending	-	-	-	-	(53,484)	(53,484)	(53,484)	102,286	155,770	155,770	22,215
Total	-	-	-	289,594	(418,587)	(128,993)	(128,993)	133,374	262,367	262,367	(4,619)
Total Resource	35,607	(35,607)	-	291,582	(419,287)	(127,705)	(127,705)	134,675	262,380	262,380	(5,118)

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.

For the first time in 2018-19 UKEF received RDEL Programme budget of £2m towards the GREAT Marketing campaign, of which £1.3m came from DIT (in addition to UKEF RDEL settlement) and £0.7m came from UKEF RDEL settlement. RDEL Programme budget is ring fenced to be used solely for GREAT Marketing related activities. UKEF share of RDEL Programme budget is funded from its premium income.

B. Export Credits £105 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 2018-19 due to a 7% weakening of the Sterling against the US Dollar.

E. Direct Lending £156 million – this variance relates to foreign exchange movements on expected lending activity which cannot be forecast with certainty and which is unhedged. A more detailed explanation of UKEF's foreign exchange risk can be found in the Chief Risk Officer's Report in the Performance section of the Annual Report and Note 20 of the financial statements.

SoPS1(b) Capital

					2018-19	2017-18
			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	79	-	79	300	221	671
Total	79	-	79	300	221	671
Voted spending in Annually Managed Expenditure (AME)						
D Loans and interest equalisation	-	(4,995)	(4,995)	(4,610)	385	(17,334)
E Direct Lending	485,615	(54,172)	431,443	729,978	298,535	185,070
Total	485,615	(59,167)	426,448	725,368	298,920	167,736
Total Capital	485,694	(59,167)	426,527	725,668	299,141	168,407

Explanation of variances between Estimate and outturn:

E. Direct Lending £298 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 Chief Risk Officer's 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	2018-19 Estimate £'000	2018-19 Outturn £'000	2018-19 Variance £'000
Resource Outturn	SOPS1(a)	134,675	(127,705)	262,380
Capital Outturn	SOPS1(b)	725,668	426,527	299,141
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation & amortisation of Equipment and Intangible Assets		(329)	(272)	(57)
Net foreign exchange differences & other non cash items		(144,865)	74,627	(219,492)
New provisions and adjustments to previous provisions		(206,123)	(283,270)	77,147
Adjustments to reflect movements in working balances:				
Increase/(Decrease) in receivables		(171,060)	(66,364)	(104,696)
(Increase)/Decrease in payables		25,516	(81,379)	106,895
Use of provisions		146	187	(41)
Net cash requirement		**363,628**	**(57,649)**	**421,277**

Parliamentary Accountability Disclosures

These disclosures are subject to audit.

Other Parliamentary Accountability Disclosures

In 2018-19 UKEF has not made any special payments or gifts, and does not have any remote contingent liabilities.

Louis Taylor
Chief Executive and Accounting Officer

12 June 2019

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 Export Credits Guarantee Department (trading as UK Export Finance) for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements 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 2019 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 2019 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 Export Credits Guarantee 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.

Conclusions relating to going concern

I am required to 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 Export Credits Guarantee Department's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

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 Export Credits Guarantee Department's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Export Credits Guarantee 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. The disclosures made on page 87 to 88 of the Governance Statement appropriately detail the regularity of transactions in the period under Ministerial Directions.

Gareth Davies
Comptroller and Auditor General

13 June 2019

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

Financial statements

UK Export Finance 2018-19 at 31 March 2019

Statement of Comprehensive Net Income

For the year ended 31 March 2019

	Note	2018-19 £'000	2017-18 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		381,189	129,930
Less ceded to reinsurers		(48,757)	(26,757)
Net premium income	3(a)	332,432	103,173
Net investment return	3(b)	17,041	17,907
Net claims credit & provision for likely claims	5	13,818	11,288
Net foreign exchange gain	6	13,969	-
Total income		**377,260**	**132,368**
Expenses			
Changes in insurance liabilities (net of reinsurance)	18	(266,750)	(46,881)
Staff costs	7	(17,241)	(15,865)
Other administration and operating costs	8	(12,819)	(11,014)
Net foreign exchange loss	6	-	(26,794)
Total expenses		**(296,810)**	**(100,554)**
Net income arising from Export Credit Guarantees and Insurance Activities		**80,450**	**31,814**
Export Finance Assistance			
Income			
Net investment return	3(b)	22,611	18,402
Net foreign exchange gain	6	31,962	-
Total income		**54,573**	**18,402**
Expenses			
Staff costs	7	(4,197)	(4,011)
Other administration and operating costs	8	(3,121)	(2,785)
Net foreign exchange loss	6	-	(38,302)
Total expenses		**(7,318)**	**(45,098)**
Net Income arising from Export Finance Assistance Activities		**47,255**	**(26,696)**
Net operating income for the year		**127,705**	**5,118**

All income and expenditure is derived from continuing operations.

The Notes on pages 124 to 163 form part of these accounts.

Statement of Financial Position

As at 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Non-current assets:			
Equipment and intangible assets		493	686
Financial assets			
Fair value through profit or loss	9(a)	414	912
Loans and receivables	9(b)	732,275	374,773
Insurance contracts			
Insurance assets	10	289,624	342,495
Reinsurers' share of insurance liabilities	11	379,046	371,715
Insurance and other receivables	12	9,875	4,935
Total non-current assets		**1,411,727**	**1,095,516**
Current assets:			
Financial assets			
Fair value through profit or loss	9(a)	693	1,005
Loans and receivables	9(b)	85,001	47,604
Insurance contracts			
Insurance assets	10	62,338	65,906
Insurance and other receivables	12	10,665	20,690
Cash and cash equivalents	13	187,649	81,660
Total current assets		**346,346**	**216,865**
Total assets		**1,758,073**	**1,312,381**
Current liabilities:			
Financial liabilities			
Fair value through profit or loss	15	(391)	(879)
Consolidated Fund Payable	16	(187,649)	(81,660)
Provisions	17(b) & (c)	(1,644)	(1,639)
Insurance and other payables	17(a)	(24,494)	(28,186)
Total current liabilities		**(214,178)**	**(112,364)**
Non-current assets plus net current assets		**1,543,895**	**1,200,017**
Non-current liabilities			
Financial liabilities			
Fair value through profit or loss	15	(277)	(589)
Insurance contracts			
Insurance liabilities	18	(1,275,137)	(1,001,056)
Provisions	17(b) & (c)	-	(143)
Total non-current liabilities		**(1,275,414)**	**(1,001,788)**
Assets less liabilities		**268,481**	**198,229**
Taxpayers' equity			
Exchequer Financing		(3,230,474)	(3,287,351)
Cumulative Trading Surplus		3,648,241	3,567,791
General Fund		(149,286)	(82,211)
Total taxpayers' equity		**268,481**	**198,229**

The Notes on pages 124 to 163 form part of these accounts.

Louis Taylor
Chief Executive and Accounting Officer

12 June 2019

Statement of Cash Flows

For the year ended 31 March 2019

	Note	2018-19 £'000	2017-18 £'000
Cash flows from operating activities			
Net operating income		127,705	5,118
Adjustments for non-cash transactions:			
Depreciation & amortisation			
Depreciation of equipment	8	272	127
Other:			
Audit fees	8	196	196
Amortised loans & receivables income	9(b)	(30,576)	(17,781)
Net unrealised foreign exchange (gain) / loss on net assets other than cash	6	(44,247)	62,149
Provisions:			
Insurance liabilities net of reinsurance movement	18	266,750	46,881
Financial guarantees provision movement	17(c)	49	1,586
Claims provision movement	10(a)	(13,867)	(12,874)
Interest on claims provision movement	10(b)	22,083	19,586
Early retirement and dilapidation movement		(187)	52
Impairment of uninsured Capital Loans	9(b)	8,255	-
Movements in Working Capital other than cash:			
Claims assets before provisions	10(a)	68,270	73,076
Interest on claims assets before provisions	10(b)	(7,019)	(9,856)
Loans & receivables	9(b)	85,715	56,751
Insurance & other receivables		4,226	(15,387)
Insurance & other payables		(3,459)	15,615
Financial assets held at fair value	9(a)	810	2,257
Financial liabilities held at fair value	15	(800)	(2,429)
Net cash inflow/(outflow) from operating activities		484,176	225,067
Cash flows from investing activities			
Purchase of equipment and intangibles		(79)	(671)
Export Finance Assistance loans:			
Advances	9(b)	(485,615)	(213,178)
Recoveries	9(b)	59,167	45,442
Net cash inflow/(outflow) from investing activities		(426,527)	(168,407)
Net cash inflow from operating and investing activities		57,649	56,660
Cash flows from financing activities			
Receipts from the Consolidated Fund (Supply):			
relating to the current year		130,000	25,000
Net cash inflow/(outflow) from financing activities		130,000	25,000
Net increase in cash and cash equivalents in the year before adjusting payments to the Consolidated Fund		187,649	81,660
Payments to the Consolidated Fund:			
relating to the prior year	13	(81,660)	(107,465)
Net increase/(decrease) in cash and cash equivalents in the year		105,989	(25,805)
Cash and cash equivalents at the beginning of the year	13	81,660	107,465
Cash and cash equivalents at the end of the year	**13**	**187,649**	**81,660**

The net increase in cash and cash equivalents in the year includes the effect of foreign exchange rate changes on cash held in foreign currency of £1.7 million (refer to Note 6).

The Notes on pages 124 to 163 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2019

	Note	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 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		(56,660)	-	-	(56,660)
Balance at 31 March 2018		(3,287,351)	3,567,791	(82,211)	198,229
Changes in taxpayers' equity for 2018-19					
Non-Cash Adjustments:					
Auditors' remuneration	8	196	-	-	196
Movements in Reserves:					
Transfers between reserves		114,330	-	(114,330)	-
Recognised in Statement of Comprehensive Net Income		-	80,450	47,255	127,705
Total recognised income and expense for 2018-19		*114,526*	*80,450*	*(67,075)*	*127,901*
Amounts arising in year payable to the consolidated fund	13	(57,649)	-	-	(57,649)
Balance at 31 March 2019		**(3,230,474)**	**3,648,241**	**(149,286)**	**268,481**

The Notes on pages 124 to 163 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 2018-19 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. This relates to contracts for products that are both financial guarantee contracts and insurance contracts by definition but were historically accounted for as insurance contracts. An election was made for such contracts to continue being accounted for as insurance contracts under IFRS 4. 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 2018-19 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 was for annual periods beginning on or after 1 January 2018. UKEF has however utilised a temporary exemption from applying IFRS 9 as detailed below.

  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. The Department has utilised the temporary exemption from IFRS 9 and, therefore, continues to apply IAS 39 to its financial instruments in the reporting period starting on or after 1 January 2018.

- IFRS 17 *Insurance Contracts* – this Standard is designed to replace IFRS 4 *Insurance Contracts.* IFRS 4 allows 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. The application of IFRS 17 in the public sector 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.

As at the date of issuing these financial statements, Management have undertaken an initial assessment of the impact of IFRS 9 and IFRS 17 on UKEF. Both these standards are expected to have a major impact on UKEF's accounting policies, data, systems and processes, as the vast majority of the Department's portfolio is in scope of one of them. Management continues to assess the impact of these new standards as part of the ongoing programme to implement the changes.

Major FReM changes for 2018-19

UKEF has reviewed the major FReM changes for 2018-19 and determined there are no changes that will have a significant impact on the Department's 2018-19 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.

The critical **judgements** (apart from those involving estimations that are dealt with below), that management have made in preparing the financial statements, that have had a significant effect on the amounts recognised in the financial statements are the applications of the Fund basis of accounting for insurance contacts (refer to Note 1(D) below for details) and the deferral of the application of IFRS 9 (refer to Note 1(A) above for details).

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 in 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. As the UK's export credit agency (ECA), UKEF's role and mandate result in the department's portfolio following where UK companies win business and where there are gaps in private sector provision of finance. This demand-led approach, and the small number of more significant large transactions underwritten per year, can result in risk concentrations.

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 UKEF's 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.

(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 written by UKEF that transfer significant insurance risk at the inception of the contract, including some financial guarantee contracts. 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 becomes 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

UKEF cedes reinsurance to the private sector and 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. Further information can be found in the *Our People: Staff and Remuneration Report* section of the Annual Report.

(J) Financial assets

Recognition and measurement

Financial assets are recognised and derecognised on the relevant 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 on an incurred loss basis. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the financial asset have been affected. Amongst the criteria that UKEF’s Credit Committee will use to assess if there is objective evidence of an impairment loss include:

- Overdue payments of interest and principal;
- Breach of material loan covenants or conditions;
- Significant deterioration in credit quality.

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 2019

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Income						
Gross premium income	-	269,817	111,372	-	-	381,189
Less ceded to reinsurers	-	(25,543)	(23,214)	-	-	(48,757)
Net premium income	-	244,274	88,158	-	-	332,432
Net investment return income	15,174	1,867	-	1,089	21,522	39,652
Claims credit	9,859	3,959	-	-	-	13,818
Net foreign exchange gain	11,272	2,697	-	-	31,962	45,931
Total income	**36,305**	**252,797**	**88,158**	**1,089**	**53,484**	**431,833**
Expenses						
Changes in insurance liabilities net of reinsurance	-	(181,549)	(85,201)	-	-	(266,750)
Staff costs	(343)	(15,206)	(1,692)	(278)	(3,919)	(21,438)
Other administration and operating costs	(255)	(11,306)	(1,258)	(207)	(2,914)	(15,940)
Total expenses	**(598)**	**(208,061)**	**(88,151)**	**(485)**	**(6,833)**	**(304,128)**
Net income / (loss)	**35,707**	**44,736**	**7**	**604**	**46,651**	**127,705**

ii. 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						
Net claims charge for the year	-	(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	**9,691**	**22,123**	**-**	**1,776**	**(28,472)**	**5,118**

iii. Additional segmental information

For the year ended 31 March 2019, there were four 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 £252.8 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 2019

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Non-current assets:						
Equipment and intangible assets	-	493	-	-	-	493
Financial assets						
Fair value through income	-	-	-	414	-	414
Loans & receivables	-	-	-	4,682	727,593	732,275
Insurance contracts						
Insurance assets	233,877	55,747	-	-	-	289,624
Reinsurers' share of insurance liabilities	-	352,875	26,171	-	-	379,046
Insurance and other receivables	-	9,875	-	-	-	9,875
Total non-current assets	**233,877**	**418,990**	**26,171**	**5,096**	**727,593**	**1,411,727**
Current assets:						
Financial assets						
Fair value through income	-	-	-	693	-	693
Loans & receivables	-	-	-	5,345	79,656	85,001
Insurance contracts						
Insurance assets	38,633	23,705	-	-	-	62,338
Insurance and other receivables	-	10,665	-	-	-	10,665
Cash and cash equivalents	68,905	242,062	94,635	5,697	(223,650)	187,649
Total current assets	**107,538**	**276,432**	**94,635**	**11,735**	**(143,994)**	**346,346**
Total assets	**341,415**	**695,422**	**120,806**	**16,831**	**583,599**	**1,758,073**
Current liabilities:						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(391)	-	(391)
Consolidated Fund Payable	(68,905)	(242,062)	(94,635)	(5,697)	223,650	(187,649)
Provisions	-	(1,644)	-	-	-	(1,644)
Insurance and other payables	(554)	(14,512)	(9,427)	-	(1)	(24,494)
Total current liabilities	**(69,459)**	**(258,218)**	**(104,062)**	**(6,088)**	**223,649**	**(214,178)**
Non-current assets plus net current assets	**271,956**	**437,204**	**16,744**	**10,743**	**807,248**	**1,543,895**
Non-current liabilities						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(277)	-	(277)
Insurance liabilities	-	(1,163,765)	(111,372)	-	-	(1,275,137)
Provisions	-	-	-	-	-	-
Total non-current liabilities	**-**	**(1,163,765)**	**(111,372)**	**(277)**	**-**	**(1,275,414)**
Assets less liabilities	**271,956**	**(726,561)**	**(94,628)**	**10,466**	**807,248**	**268,481**
Taxpayers' equity						
Exchequer Financing	(1,378,922)	(2,622,235)	(196,317)	9,824	957,176	(3,230,474)
Cumulative Trading Surplus	1,650,878	1,895,674	101,689	-	-	3,648,241
General Fund	-	-	-	642	(149,928)	(149,286)
Total taxpayers' equity	**271,956**	**(726,561)**	**(94,628)**	**10,466**	**807,248**	**268,481**

v. 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)
Consolidated Fund Payable	(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 contracts						
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**

3 Premium Income & Net investment return

3(a) Premium Income

	2018-19 £'000	2017-18 £'000
Underwriting Premium Income:		
Insurance contracts premium receivable (IFRS4)		
Current Underwriting Year:		
Gross Premium	378,029	127,039
Less ceded to reinsurers	(38,571)	(26,757)
Net Premium income	**339,458**	**100,282**
Previous Underwriting Years:		
Gross Premium	129	40
Less ceded to reinsurers	(10,186)	-
Net Premium income	**(10,057)**	**40**
Summary		
Gross Premium	378,158	127,079
Less ceded to reinsurers	(48,757)	(26,757)
Net Premium income	**329,401**	**100,322**
Financial guarantees premium amortised (IAS 39)		
Summary		
Gross Premium	3,031	2,851
Less ceded to reinsurers	-	-
Net Premium income	**3,031**	**2,851**
Total Net premium income	**332,432**	**103,173**

Insurance contracts premium receivable (IFRS 4) includes premium income from financial guarantee contracts that UKEF has elected to account for as insurance contracts (refer to Note 1(A) for more detail).

Financial guarantees premium amortised (IAS 39) is the premium in relation to UKEF's Trade Finance products classified as financial guarantee contracts under IAS 39.

3(b) Net Investment Return

	Note	Account 1 £'000	Account 2 £'000	2018-19 Total £'000	2017-18 Total £'000
Export Credit Guarantees and Insurance					
Interest income	4	15,174	1,608	16,782	17,907
Other income		-	259	259	-
Total Income		**15,174**	**1,867**	**17,041**	**17,907**
Net Income		**15,174**	**1,867**	**17,041**	**17,907**

	Note	Account 4 £'000	Account 5 £'000	2018-19 Total £'000	2017-18 Total £'000
Export Finance Assistance					
Amortised loans & receiveables income	9(b)	799	29,777	30,576	17,781
Gain in fair value of derivatives		1,189	-	1,189	2,699
Total Income		**1,988**	**29,777**	**31,765**	**20,480**
Impairment of loans & receivables	9(b)	-	(8,255)	(8,255)	-
Loss in fair value of derivatives		(899)	-	(899)	(2,078)
Total Costs		**(899)**	**(8,255)**	**(9,154)**	**(2,078)**
Net Income		**1,089**	**21,522**	**22,611**	**18,402**

4 Interest receivable

	Note	Account 1 £'000	Account 2 £'000	2018-19 Total £'000	2017-18 Total £'000
Interest arising from claims					
- interest charged in the year	10(b)	27,581	10,859	38,440	37,310
- net increase in provisions for unrecovered interest	10(b)	(12,829)	(9,254)	(22,083)	(19,586)
Interest arising from claims net of provisions		14,752	1,605	16,357	17,724
Other Interest		422	3	425	183
Interest credit for the year		**15,174**	**1,608**	**16,782**	**17,907**

Other Interest includes bank interest on balances with commercial banks.

5 Net claims credit and provision for likely claims

	Note	Account 1 £'000	Account 2 £'000	2018-19 Total £'000	2017-18 Total £'000
Amounts authorised and paid in the year	10(a)	-	(310)	(310)	(2,432)
Expected recoveries on claims authorised and paid in the year		-	91	91	2,035
Provision on claims authorised and paid in the year		-	(219)	(219)	(397)
Net change in provisions for claims authorised and paid in previous years		9,859	4,227	14,086	13,271
Claims credit/(charge) for the year	10(a)	**9,859**	**4,008**	**13,867**	**12,874**
Change in provision for claims on financial guarantees	17(c)	-	(49)	(49)	(1,586)
Net claims credit & provision for likely claims		**9,859**	**3,959**	**13,818**	**11,288**

There is no reinsurance element included within the figures above.

6 Net foreign exchange gain / (loss)

	Note	Account 1 £'000	Account 2 £'000	2018-19 Total £'000	2017-18 Total £'000
Export Credit Guarantees and Insurance					
Net foreign exchange gain/(loss) arising on:					
- recoverable claims after provisions	10(a)	6,971	1,789	8,760	(16,125)
- recoverable interest on claims after provisions	10(b)	4,243	25	4,268	(7,626)
- insurance premium receivables		-	(859)	(859)	(424)
- insurance payables		58	58	116	328
- cash		-	1,684	1,684	(2,947)
Net foreign exchange gain/(loss) for year		**11,272**	**2,697**	**13,969**	**(26,794)**

	Note	Account 5 £'000	Total £'000	Total £'000
Export Finance Assistance				
Net foreign exchange gain/(loss) arising on:				
- loans & receivables	9(b)	31,845	31,845	(37,823)
- payables		117	117	(479)
Net foreign exchange gain/(loss) for year		**31,962**	**31,962**	**(38,302)**

	Total £'000	Total £'000
Summary:		
Net foreign exchange gain/(loss) for year on cash assets	1,684	(2,947)
Net foreign exchange gain/(loss) for year on net assets other than cash	44,247	(62,149)
Net foreign exchange gain / (loss) for year	**45,931**	**(65,096)**

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 2019	31 March 2018
Euro	1.16	1.14
Japanese Yen	144.26	149.07
US Dollars	1.30	1.40

7 Staff costs

	2018-19 £'000	2017-18 £'000
Salaries and Wages	16,360	14,968
Social Security Costs	1,909	1,697
Early Retirement Payments	188	320
Other Pension Costs	3,168	2,839
Total Costs before provision movements	21,625	19,824
Early Retirement Provision utilisation & adjustment	(187)	52
Total Staff Costs	**21,438**	**19,876**
Of which:		
Export Credit Guarantees and Insurance	17,241	15,865
Export Finance Assistance	4,197	4,011

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

8 Other administration and operating costs

	2018-19 £'000	2017-18 £'000
Agency Staff	2,102	2,775
Training	318	312
Recruitment	139	238
Travel & Subsistence	833	820
Accomodation	2,464	2,381
IT Other	3,406	2,945
Project Costs	881	985
Legal	439	154
Marketing & Business Promotion	1,926	519
Depreciation	272	127
Irrecoverable VAT	1,570	1,375
Other Administration	1,590	1,168
Total Other Administrative Costs	**15,940**	**13,799**
Of which:		
Export Credit Guarantees and Insurance	12,819	11,014
Export Finance Assistance	3,121	2,785
Included in the above figures:		
Audit Fees	196	196

9 Financial assets

9(a) Fair value through profit or loss

	31 March 2019 £'000	31 March 2018 £'000
Interest rate derivatives in relation to Export Finance Loan Guarantees	1,107	1,917
Total	**1,107**	**1,917**
Falling due:		
- within one year	693	1,005
- after more than one year	414	912

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 2019 £'000	31 March 2018 £'000
Loans & receivables	817,276	422,377
Total	**817,276**	**422,377**
Falling due:		
- within one year	85,001	47,604
- after more than one year	732,275	374,773

	Note	Account 4 £'000	Account 5 £'000	Total £'000
Movements:				
Balance at 1 April 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**
Loans advanced	21	-	485,615	485,615
Loans recovered		(4,995)	(54,172)	(59,167)
Net foreign exchange gain/(loss)		-	31,845	31,845
Amortised income		799	29,777	30,576
Other movement in working capital		(887)	(84,828)	(85,715)
Impairment provision		-	(8,255)	(8,255)
Balance at 31 March 2019		**10,027**	**807,249**	**817,276**
Of which:				
Capital loans recoverable		9,824	957,176	967,000
Net interest receivable		203	4,324	4,527
Unamortised income		-	(145,996)	(145,996)
Impairment Provisions		-	(8,255)	(8,255)
Falling due:				
- within one year		5,345	79,656	85,001
- after more than one year		4,682	727,593	732,275

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 £10,841,000 (2017-18: £16,617,000) and Account 5 £1,012,297,000 (2017-18: £494,977,000).

10 Insurance assets

	31 March 2019 £'000	31 March 2018 £'000
Recoverable claims	246,480	292,123
Interest on unrecovered claims	105,482	116,278
Total	**351,962**	**408,401**
Falling due:		
- within one year	62,338	65,906
- after more than one year	289,624	342,495

Insurance assets are shown at 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 2017	514,419	285,098	799,517
Claims & recoverable expenditure 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**
Claims & recoverable expenditure approved in the year	-	310	310
Recoveries made in the year	(39,196)	(29,384)	(68,580)
Recoveries abandoned in the year	(33)	1	(32)
Net foreign exchange movements	10,065	3,665	13,730
Balance at 31 March 2019	**433,377**	**213,373**	**646,750**
Recoverable claims - provisions			
Balance at 1 April 2017	291,120	139,947	431,067
Release 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**
(Release)/increase of provisions in the year	(9,859)	(4,008)	(13,867)
Recoveries abandoned in the year	(33)	1	(32)
Net foreign exchange movements	3,094	1,876	4,970
Balance at 31 March 2019	**265,484**	**134,786**	**400,270**
Net recoverable claims as at:			
- 31 March 2019	**167,893**	**78,587**	**246,480**
- 31 March 2018	190,259	101,864	292,123
- 31 March 2017	223,299	145,151	368,450

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 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 charged in the year	27,581	10,859	38,440
Interest received in the year	(29,826)	(1,595)	(31,421)
Recoveries abandoned in the year	(3,369)	-	(3,369)
Net foreign exchange movements	16,034	271	16,305
Balance at 31 March 2019	**1,004,320**	**147,639**	**1,151,959**
Interest on unrecovered claims - provisions			
Balance at 1 April 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**
Increase in provisions in the year	12,829	9,254	22,083
Recoveries abandoned in the year	(3,369)	-	(3,369)
Net foreign exchange movements	11,791	246	12,037
Balance at 31 March 2019	**899,703**	**146,774**	**1,046,477**
Net interest on unrecovered claims as at:			
- 31 March 2019	**104,617**	**865**	**105,482**
- 31 March 2018	115,448	830	116,278
- 31 March 2017	132,695	939	133,634

11 Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 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 summary:	
Addition to the underwriting funds in the year	126,730
Net decrease in open credit funds	(44,004)
Other fund movements	(74,312)
Net decrease in insurance liabilities on closed funds	(1,083)
Total Movements	*7,331*
Balance at 31 March 2019	**379,046**

Movements are summarised within Note 18.

12 Insurance and other receivables

	31 March 2019 £'000	31 March 2018 £'000
Export Credit Guarantees and Insurance:		
Insurance premium receivables	18,689	24,016
Insurance prepayments and accrued income	1,657	1,609
Other receivables	194	-
Total	**20,540**	**25,625**
Falling due:		
- within one year	10,665	20,690
- after more than one year	9,875	4,935

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 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**
Net cash inflow to UKEF	57,649
Receipts from the Consolidated Fund:	
in respect of amounts received in the current year	130,000
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(81,660)
Balance at 31 March 2019	**187,649**

Cash and cash equivalents comprise:	31 March 2019 £'000	31 March 2018 £'000
Government Banking Service	35,875	16,697
Commercial banks and cash in hand	151,774	64,963
Total	**187,649**	**81,660**

14 Reconciliation of Net Cash Requirement to decrease in cash

	2018-19 £'000	2017-18 £'000
Net cash inflow from operating and investing activities	57,649	56,660
Receipts from the Consolidated Fund relating to the current year	130,000	25,000
Amounts due to the Consolidated Fund	187,649	81,660
Payments to the Consolidated Fund relating to the prior year	(81,660)	(107,465)
Increase/(Decrease) in cash	**105,989**	**(25,805)**

15 Financial liabilities at fair value

	31 March 2019	31 March 2018
	£'000	£'000
Interest rate derivatives in relation to Export Finance Loan Guarantees	202	381
Interest rate derivative contracts entered into for hedging purposes	466	1,087
Total	**668**	**1,468**
Falling due:		
- within one year	391	879
- after more than one year	277	589

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 Consolidated Fund Payable

	31 March 2019 £'000	31 March 2018 £'000
Amounts payable to the Consolidated Fund	187,649	81,660
Total	**187,649**	**81,660**
Falling due:		
- within one year	187,649	81,660

The balance due within one year represents UKEF's bank balance as at 31 March 2019.

17 Insurance and other payables

17(a) Insurance liabilities

	31 March 2019 £'000	31 March 2018 £'000
Export Credit Guarantees and Insurance:		
Insurance payables - amounts due to policyholders	9,399	7,806
Income Tax and National Insurance	532	467
Deferred income and other payables	14,562	19,594
Total	24,493	27,867
Export Finance Assistance:		
Other payables	1	319
Total	1	319
Total	**24,494**	**28,186**
Falling due:		
- within one year	24,494	28,186

17(b) Provisions for early retirement

	31 March 2019 £'000	31 March 2018 £'000
Early Departure Provision	9	196
Total	**9**	**196**
Falling due:		
- within one year	9	53
- after more than one year	-	143

17(c) Provisions for financial guarantees

	31 March 2019 £'000	31 March 2018 £'000
Provisions for likely claims on financial guarantees	1,635	1,586
Total	**1,635**	**1,586**
Falling due:		
- within one year	1,635	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	Account 3 £'000	Total £'000
Insurance liabilities - Gross of reinsurance			
Balance at 1 April 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**
Movements:			
Addition to the underwriting funds in the year	244,220	111,372	355,592
Release of excess funds - cash	-	-	-
Release of excess funds - credit	(78,954)	-	(78,954)
Other fund movements	730	-	730
Change in insurance liabilities on closed funds	(3,287)	-	(3,287)
Total Movements	*162,709*	*111,372*	*274,081*
Balance at 31 March 2019	**1,163,765**	**111,372**	**1,275,137**
Insurance liabilities - Net of reinsurance			
Balance at 1 April 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**
Movements:			
Addition to the underwriting funds in the year	228,862	85,201	314,063
Release of excess funds - cash	-	-	-
Release of excess funds - credit	(34,950)	-	(34,950)
Other fund movements	(10,159)	-	(10,159)
Change in insurance liabilities on closed funds	(2,204)	-	(2,204)
Total Movements	*181,549*	*85,201*	*266,750*
Balance at 31 March 2019	**810,890**	**85,201**	**896,091**

	Account 2 £'000	Account 3 £'000	Total £'000
Summary of movements:			
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***
2018-19			
Gross changes in insurance liabilities	*162,709*	*111,372*	*274,081*
Reinsurers' share of changes in insurance liabilities	*18,840*	*(26,171)*	*(7,331)*
Changes in insurance liabilities (net of reinsurance)	***181,549***	***85,201***	***266,750***

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 2009-10 and cash fund years up to and including 2015-16 are closed years.

	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	2018-19 fund year £'000
Accounts 2 & 3										
Credit funds										
At end of year	29,302	34,350	32,460	33,987	34,208	46,367	28,315	32,214	43,848	127,410
One year later	26,329	28,410	28,421	26,790	34,184	44,703	29,114	26,001	49,578	-
Two years later	20,725	24,153	20,398	26,204	35,429	48,413	21,070	24,134	-	-
Three years later	14,483	15,338	21,011	24,580	35,278	36,502	17,589	-	-	-
Four years later	10,479	13,602	17,117	22,511	20,860	44,479	-	-	-	-
Five years later	7,513	10,628	15,215	13,443	17,559	-	-	-	-	-
Six years later	4,584	8,044	8,331	8,158	-	-	-	-	-	-
Seven years later	4,036	3,714	3,727	-	-	-	-	-	-	-
Eight years later	1,561	1,678	-	-	-	-	-	-	-	-
Nine years later	572	-	-	-	-	-	-	-	-	-
Cash funds										
At end of year	544	311	71	8,860	69	261	480	689	383	6,365
One year later	109	1	12	7,314	14	291	-	16	100	-
Two years later	-	1	12	7,583	171	78	-	-	-	-
Three years later	-	1	-	9,438	27	40	-	-	-	-
Four years later	-	-	-	4,462	-	18	-	-	-	-
Five years later	-	-	-	3,928	-	-	-	-	-	-
Six years later	-	-	-	3,335	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-
Credit fund total	572	1,678	3,727	8,158	17,559	44,479	17,589	24,134	49,578	127,410
Cash fund total	-	-	-	3,335	-	18	-	-	100	6,365
Expected Loss total	**572**	**1,678**	**3,727**	**11,493**	**17,559**	**44,497**	**17,589**	**24,134**	**49,678**	**133,775**
Summary										**304,702**

Expected Loss Summary:	funds 2009-10 to 2018-19 open £'000	funds 2009-10 to 2018-19 closed £'000	funds 2009-10 to 2018-19 total £'000	funds years to 2008-9 closed £'000	funds grand total £'000
Accounts 2 & 3:					
Credit fund total	294,312	572	294,884	1,533	296,417
Cash fund total	6,465	3,353	9,818	29	9,847
Expected Loss total	**300,777**	**3,925**	**304,702**	**1,562**	**306,264**

The 2018-19 credit fund year includes £9,340,000 Expected Loss relating to Account 3.

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 *Chief Risk Officer's Report* in the Performance section of the Annual Report.

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

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

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

b) **Credit risk**;

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

d) **Liquidity risk;** and

e) **Risk measurement.**

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 2019		
Interest rate swap arrangements on Export Finance Loan Guarantees	(26)	29
Interest rate derivative contracts entered into for hedging purposes	74	(75)
Net impact on profit or loss	**48**	**(46)**
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)**

Sensitivities to movements at 5% increase and decrease in interest rate volatility were nil (2017-18: 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 2019				
Interest rate swap arrangements on Export Finance Loan Guarantees	4,599	8,818	-	13,417
Interest rate derivative contracts entered into for hedging purposes	18,394	3,513	-	21,907
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

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 2019				
Financial assets:				
Fair value through profit or loss	54	990	63	1,107
Account 4 loans at amortised cost	10,027	-	-	10,027
Account 5 loans at amortised cost	-	737,702	69,547	807,249
Insurance and other receivables	6,938	910	12,692	20,540
Financial liabilities:				
Fair value through profit or loss	(322)	(244)	(102)	(668)
Insurance and other payables	(24,494)	-	-	(24,494)
Financial Commitments:				
Account 5 amounts available	-	233,232	414,340	647,572
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

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 *Chief Risk Officer's 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 2019			
Account 5: Direct Lending			
Loans at amortised cost	306,014	501,235	807,249
Commitments	111,506	536,066	647,572
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

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 2019					
Account 5: Direct Lending					
Loans at amortised cost	10,446	54,401	742,402	-	807,249
Commitments	-	-	647,572	-	647,572
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

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 *Chief Risk Officer's Report* in the Performance section of the Annual Report.

The following table provides information regarding the credit exposure of Amounts at Risk and Expected Loss within the UKEF Account 2 and Account 3 portfolio as at 31 March 2019:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at Risk, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	4,896,763	3,258,226	8,154,989
Other	3,845,162	5,927,603	9,772,765
Total	**8,741,925**	**9,185,829**	**17,927,754**
Account 3: Insurance Contracts			
Other	3,396,643	-	3,396,643
Total	**3,396,643**	**-**	**3,396,643**
Account 2: Financial Guarantees			
Total	**-**	**213,514**	**213,514**
Amounts at Risk, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	1,585,893	3,258,226	4,844,119
Other	2,409,454	5,927,604	8,337,058
Total	**3,995,347**	**9,185,830**	**13,181,177**
Account 3: Insurance Contracts			
Other	2,284,993	-	2,284,993
Total	**2,284,993**	**-**	**2,284,993**
Account 2: Financial Guarantees			
Total	**-**	**213,514**	**213,514**
Expected Loss, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	33,128	74,828	107,956
Other	40,823	202,179	243,002
Total	**73,951**	**277,007**	**350,958**
Account 3: Insurance Contracts			
Other	13,787	-	13,787
Total	**13,787**	**-**	**13,787**
Account 2: Financial Guarantees			
Total	**-**	**14,590**	**14,590**
Expected Loss, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	4,242	74,828	79,070
Other	15,674	202,179	217,853
Total	**19,916**	**277,007**	**296,923**
Account 3: Insurance Contracts			
Other	9,340	-	9,340
Total	**9,340**	**-**	**9,340**
Account 2: Financial Guarantees			
Total	**-**	**14,590**	**14,590**

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 (Account 3 had nil exposure 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**

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

There are no Amounts at Risk and Expected Loss on Accounts 1.

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 2019.

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims - gross			
Account 1	9,775	423,602	433,377
Account 2	63,485	149,888	213,373
Total	**73,260**	**573,490**	**646,750**
Recoverable claims - net of provisions			
Account 1	9,702	158,191	167,893
Account 2	63,009	15,578	78,587
Total	**72,711**	**173,769**	**246,480**
Interest on unrecovered claims - gross			
Account 1	60	1,004,260	1,004,320
Account 2	379	147,260	147,639
Total	**439**	**1,151,520**	**1,151,959**
Interest on unrecovered claims - net of provisions			
Account 1	60	104,557	104,617
Account 2	376	489	865
Total	**436**	**105,046**	**105,482**

The following table provides information regarding the credit exposure of 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**

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 and Account 3 portfolios as at 31 March 2019.

	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	4,677,866	584,056	985,707	1,907,360	8,154,989
Other	1,952,001	1,167,377	5,704,251	949,136	9,772,765
Total	**6,629,867**	**1,751,433**	**6,689,958**	**2,856,496**	**17,927,754**
Account 3: Insurance Contracts					
Other	1,111,650	-	2,284,993	-	3,396,643
Total	**1,111,650**	**-**	**2,284,993**	**-**	**3,396,643**
Account 2: Financial Guarantees					
Total	**213,514**	**-**	**-**	**-**	**213,514**
Amounts at Risk, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	1,689,642	569,215	985,707	1,599,555	4,844,119
Other	569,624	1,114,046	5,704,251	949,137	8,337,058
Total	**2,259,266**	**1,683,261**	**6,689,958**	**2,548,692**	**13,181,177**
Account 3: Insurance Contracts					
Other	-	-	2,284,993	-	2,284,993
Total	**-**	**-**	**2,284,993**	**-**	**2,284,993**
Account 2: Financial Guarantees					
Total	**213,514**	**-**	**-**	**-**	**213,514**
Expected Loss, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	72,166	8,553	8,365	18,872	107,956
Other	35,055	23,577	161,180	23,190	243,002
Total	**107,221**	**32,130**	**169,545**	**42,062**	**350,958**
Account 3: Insurance Contracts					
Other	4,447	-	9,340	-	13,787
Total	**4,447**	**-**	**9,340**	**-**	**13,787**
Account 2: Financial Guarantees					
Total	**14,590**	**-**	**-**	**-**	**14,590**
Expected Loss, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	43,280	8,553	8,365	18,872	79,070
Other	9,906	23,577	161,180	23,190	217,853
Total	**53,186**	**32,130**	**169,545**	**42,062**	**296,923**
Account 3: Insurance Contracts					
Other	-	-	9,340	-	9,340
Total	**-**	**-**	**9,340**	**-**	**9,340**
Account 2: Financial Guarantees					
Total	**14,590**	**-**	**-**	**-**	**14,590**

The following table provides an indication of the concentration of credit risk within the UKEF Account 2 portfolio as at 31 March 2018 (Account 3 had nil exposure 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**

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 2019:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
- Gross	471,252	172,134	3,364	646,750
- Provisions	(332,219)	(64,917)	(3,134)	(400,270)
Interest on unrecovered claims				
- Gross	903,801	232,273	15,885	1,151,959
- Provisions	(852,359)	(178,316)	(15,802)	(1,046,477)
Net insurance assets at 31 March 2019	**190,475**	**161,174**	**313**	**351,962**

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2019 is as follows:

- 10% increase would increase the carrying value by £14,652,000 (31 March 2018 by £16,064,000).
- 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 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**

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 (Account 3 had nil exposure as at 31 March 2018):

	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 2019:					
Account 2: Insurance Contracts					
Gross Amounts at Risk	2,056,600	10,327,581	4,912,606	630,967	17,927,754
Less: Amounts at Risk ceded to reinsurers	(255,864)	(3,439,109)	(1,028,686)	(22,918)	(4,746,577)
Net amounts at risk	**1,800,736**	**6,888,472**	**3,883,920**	**608,049**	**13,181,177**
Account 3: Insurance Contracts					
Gross Amounts at Risk	59,544	621,416	2,620,529	95,154	3,396,643
Less: Amounts at Risk ceded to reinsurers	(20,918)	(215,953)	(866,643)	(8,136)	(1,111,650)
Net amounts at risk	**38,626**	**405,463**	**1,753,886**	**87,018**	**2,284,993**
Account 2: Financial Guarantees					
Gross Amounts at Risk	105,996	105,598	1,920	-	213,514
Less: Amounts at Risk ceded to reinsurers					
Net amounts at risk	**105,996**	**105,598**	**1,920**	**-**	**213,514**
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**

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 and Account 3 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 and Account 3 portfolio twice a year, using criteria endorsed by the Credit Committee and reviewed by the Board and Risk Committee. The stress tests indicate the impact on the Expected Loss on UKEF's portfolio from movements in the main factors that determine the insurance risk faced by the organisation.

For full details see the *Chief Risk Officer's Report* in the Performance section of the Annual Report.

The following table sets out the impact of the movements indicated on issued and effective guarantees on: (i) total Expected Loss, and (ii) Statement of Comprehensive Net Income which for insurance contracts takes account of the utilisation of the underwriting fund (Account 3 had nil exposure as at 31 March 2018).

	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 2019:				
Account 2: Insurance Contracts				
- Increase in Expected Loss	139,821	291,125	16,587	111,191
- Decrease in net income for the year	7,179	12,072	5,186	4,151
Account 3: Insurance Contracts				
- Increase in Expected Loss	6,290	10,824	4,682	3,650
- Decrease in net income for the year	-	-	-	-
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

There is no remaining exposure on Accounts 1.

Sensitivity analysis for Account 2 Financial Guarantee Contracts 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 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**
Loans issued & effective	519,439	519,439
Amounts drawn	(485,615)	(485,615)
Net foreign exchange adjustments	26,199	26,199
Change in Cover	(2,988)	(2,988)
Balance at 31 March 2019	**647,572**	**647,572**

22 Contingent liabilities

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

	31 March 2019 £'000	31 March 2018 £'000
Summary: Gross of reinsurance		
Account 2	18,141,268	16,987,697
Account 3	3,396,643	-
Total	**21,537,911**	**16,987,697**
Summary: Net of reinsurance		
Account 2	13,394,691	11,898,055
Account 3	2,284,993	-
Total	**15,679,684**	**11,898,055**

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**	**Account 3 £'000**	**Total £'000**
Balance at 1 April 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**
Guarantees and insurance policies issued and effective	3,513,425	3,290,948	6,804,373
Run off	(3,473,360)	-	(3,473,360)
Net foreign exchange adjustments	910,064	-	910,064
Interest rate adjustments	287,956	-	287,956
Change in Valuation	(111,692)	105,695	(5,997)
Balance at 31 March 2019	**17,927,754**	**3,396,643**	**21,324,397**

Net of reinsurance	**Account 2 £'000**	**Account 3 £'000**	**Total £'000**
Balance at 1 April 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**
Guarantees and insurance policies issued and effective	3,271,768	2,138,958	5,410,726
Run off	(2,580,839)	-	(2,580,839)
Net foreign exchange adjustments	649,247	-	649,247
Interest rate adjustments	208,155	-	208,155
Change in Valuation	(78,873)	146,035	67,162
Balance at 31 March 2019	**13,181,177**	**2,284,993**	**15,466,170**

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 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**
Guarantees and insurance policies issued and effective	100,660	100,660
Run off	(78,567)	(78,567)
Net foreign exchange adjustments	3,684	3,684
Interest rate adjustments	20	20
Change in Valuation	1,381	1,381
Balance at 31 March 2019	**213,514**	**213,514**

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.

Vomic Shah, Head of Origination, speaks to delegates at the second UK Trade and Export Finance Conference

Annexes

Business supported

Export Credits

Exporter/Investor	Buyer/Airline/ Operating Lessor	Project/goods and services	Product	Maximum Liability (£)
Angola				
ASGC UK Ltd	Ministry of Finance	Construction of hospitals	Buyer credit/ direct lending	350,471,449
Beroa Bierrum	Ministry of Finance	Power infrastructure	Buyer credit	44,960,697
Elecnor SA	Ministry of Finance	Power infrastructure	Supplier credit	68,186,602
Argentina				
Tesab Engineering	José J. Chediack SAICA	Construction equipment	Supplier credit	288,695
Austria				
Siemens Industrial Turbomachinery Ltd	PJSC Kiev Cardboard and Paper Mill	Turbomachinery	Supplier credit	3,341,384
Brazil				
Baker Hughes, a GE company	Petrobras Global Trading BV	Subsea equipment	Buyer credit	247,754,898
Dubai				
Airbus SAS	Emirates Airlines	Airbus aircraft	Buyer credit	128,315,856
ASGC UK Ltd	Dubai World Trade Centre LLC	Hotel construction	Buyer credit/ direct lending	134,973,974
Ghana				
Contracta Construction UK Ltd	Ministry of Finance & Economic Planning	Construction of a marketplace	Buyer credit/direct lending	78,218,739
VAMED Health Projects UK Ltd	Ministry of Finance & Economic Planning	Construction of hospitals	Buyer credit	37,805,692
Iraq				
Siemens AG	Ministry of Electricity	Gas turbine upgrade	Supplier credit	26,080,870
GE Global Parts & Products GMBH	Ministry of Finance	Power plant project	Buyer credit/ direct lending	294,914,740
GE Global Parts & Products GMBH	Ministry of Finance	Power plant project	Buyer credit/ direct lending	294,914,740
GE Global Services	Ministry of Finance	Gas turbine upgrade	Buyer credit	18,171,328
UK Grid Solutions Ltd	Ministry of Finance	Power infrastructure	Buyer credit/ direct lending	244,036,718

Israel				
The Boeing Company/ Rolls-Royce PLC	EL AL Israel Airlines	Rolls-Royce-powered Boeing aircraft	Buyer credit	91,601,648
Korea, Republic of				
Bombardier Inc/ Airbus SAS Inc.	Korean Airlines Company Ltd	Bombardier C-Series / Airbus A220 aircraft	Buyer credit	42,294,952
Kuwait				
Amec Foster Wheeler Energy Ltd	Kuwait National Petroleum Company	Clean fuel project	Buyer credit	171,000,390
Netherlands				
The Boeing Company/ Rolls-Royce PLC	Aercap Ireland	Rolls-Royce-powered Boeing aircraft	Buyer credit	72,953,280
Oman				
Petrofac Services Ltd	Duqm Refinery and Petrochemical Industries Company LLC	EPC services	Buyer credit	733,492,623
Panama				
The Boeing Company/ Rolls-Royce PLC	Avianca Holdings SA	Rolls-Royce-powered Boeing aircraft	Buyer credit	72,401,277
Qatar				
MBDA UK Ltd	State of Qatar	Weapons systems for Typhoon aircraft	Buyer credit	559,838,820
BAE Systems Operations Ltd	State of Qatar	Typhoon and Hawk aircraft	Buyer credit	2,256,326,224
BAE Systems Operations Ltd & MBDA UK Ltd	State of Qatar	Typhoon aircraft and weapons systems and Hawk aircraft	Bond and Export Insurance	736,844,923
Sri Lanka				
Cleveland Bridge UK	Ministry of Finance	Bridge construction	Buyer credit	46,843,120
South Africa				
The Boeing Company	Comair Ltd	Boeing aircraft	Buyer credit	40,744,789
Turkey				
Airbus Defence and Space Ltd	Türksat Uydu Haberleşme Kablo TV ve İşletme A.Ş.	Satellites	Buyer credit	328,399,017
United States				
GE Caledonian	Atlas Air Inc	Aircraft engine overhauls	Buyer credit	33,592,604

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	3	3	1	1,167,070
Export Insurance (EXIP)	2	2	2	4,096,478
Export Working Capital Scheme	2	2	2	1,780,582
Agriculture, forestry and fishing				
Bond Support	0	0	0	-
Export Insurance (EXIP)	2	1	2	365,228
Export Working Capital Scheme	0	0	0	-
Arts, entertainment and recreation				
Bond Support	1	1	0	1,114,889
Export Insurance (EXIP)	0	0	0	-
Export Working Capital Scheme	0	0	0	-
Construction				
Bond Support	2	1	0	453,272
Export Insurance (EXIP)	2	2	2	259,215
Export Working Capital Scheme	1	1	0	5,686,270
Defence				
Bond Support	1	0	0	1,972,950
Export Insurance (EXIP)	1	1	0	1,914,830
Export Working Capital Scheme	1	0	1	3,990,000
Education				
Bond Support	1	1	0	1,106,645
Export Insurance (EXIP)	2	1	2	667,273
Export Working Capital Scheme	0	0	0	-
Information and communication				
Bond Support	6	6	4	6,317,138
Export Insurance (EXIP)	0	0	0	-
Export Working Capital Scheme	2	2	0	1,184,800
Manufacturing				
Bond Support	51	47	41	27,786,805
Export Insurance (EXIP)	14	11	9	10,774,626
Export Working Capital Scheme	24	21	35	34,940,531

Mining and quarrying				
Bond Support	0	0	0	-
Export Insurance (EXIP)	1	1	1	313,801
Export Working Capital Scheme	1	1	0	600,000
Professional, scientific and technical activities				
Bond Support	5	4	3	2,958,262
Export Insurance (EXIP)	1	0	0	861,488
Export Working Capital Scheme	2	1	2	2,071,769
Wholesale and retail trade; repair of motor vehicles and motorcycles				
Bond Support	3	3	2	2,202,221
Export Insurance (EXIP)	4	3	3	3,071,838
Export Working Capital Scheme	4	3	10	5,326,820

Through working with UKEF and the Department for International Trade, Essex Girl Beauty was able to take on its larger competitors and boost its revenues by 50%

Sustainability of our estate

UKEF has reported annually on the sustainability of 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 2018-19 reporting year is the fourth year of the 5-year performance reporting cycle to 2020.

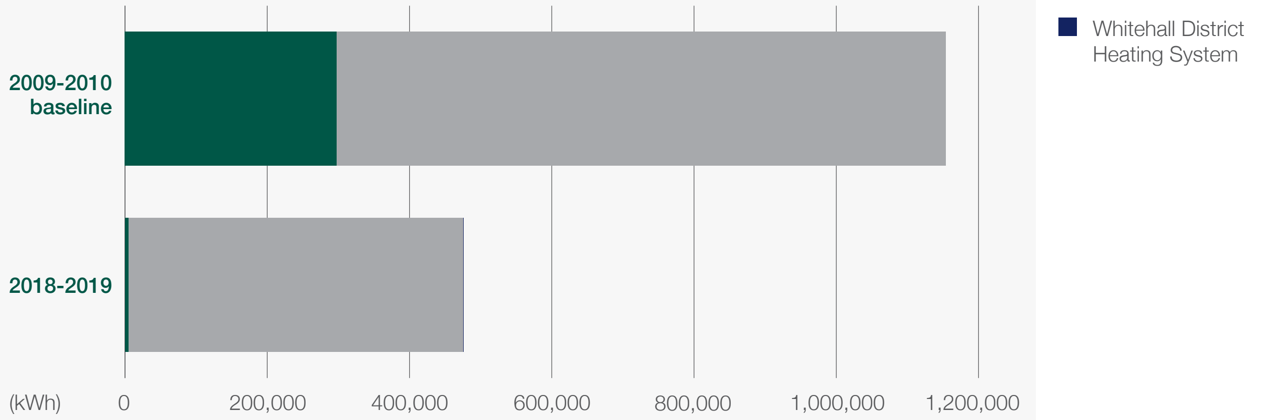
Compared to a 2009-10 baseline, by 2019-20, the government will:

- 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%

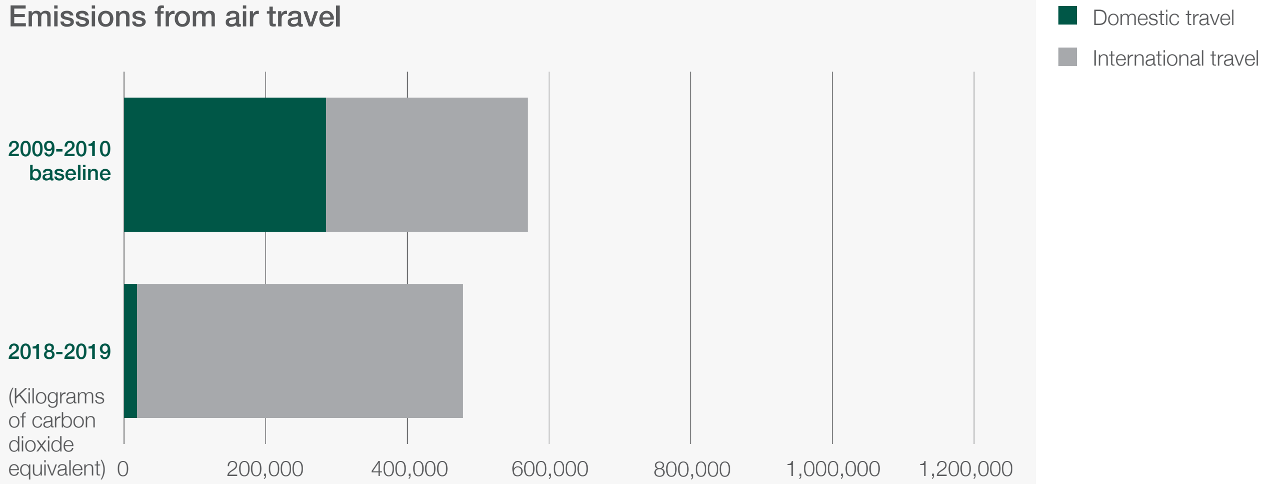
Summary of performance

Area	2009-10 baseline	2018-19
Estate Waste (tonnes)	78.62	12.5
Estate Water (m3)	2,762	2,149

Energy usage from estate



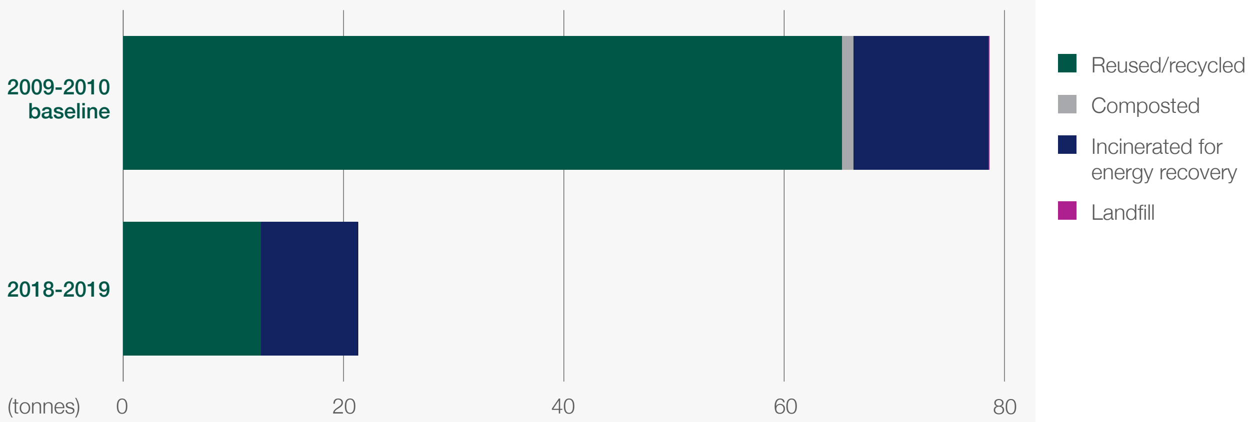
Emissions from air travel



Whilst total emissions are below the 2009-10 baseline, the international travel element has increased. This can be attributed to a number of factors, including an increase in headcount of 50% since 2009-2010 and a higher level of overseas travel required by UKEF's portfolio.

Waste

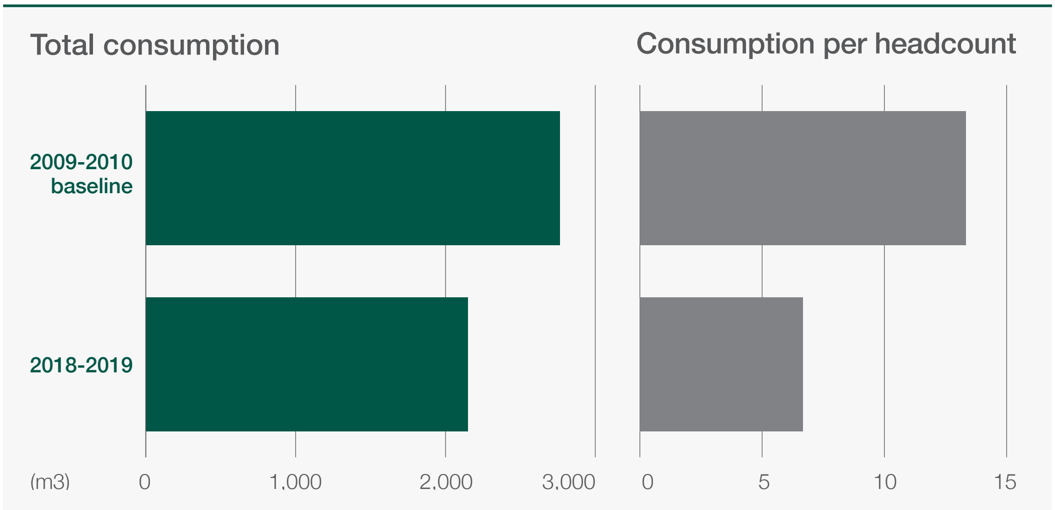
UKEF has a target to reduce waste sent to landfill to less than 10% of overall waste and continue to reduce the amount of waste generated and increase the proportion of waste which is recycled. UKEF has seen a reduction in waste generated by 73% against the 2009–10 baseline. None of UKEF's waste is sent 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 7.68%
- business travel gross emissions do not include journeys made by bus or taxi

UKEF core tables

Total Resource and Capital Spending for UKEF

The tables on the following pages provide a summary of the department's expenditure outturn for 2014-15 through to 2018-19, along with the planned expenditure for 2019-20. The outturn and planned expenditure is recorded on the same basis as the information on financial performance in the Statement of Parliamentary Supply beginning on pages 111 to 115. They represent the spending incurred collectively across UKEF in meeting its objectives detailed in the Performance Report beginning on page 7.

Resource

£'000			Outturn			Plans
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Resource DEL						
Staff costs	14,582	16,369	16,613	19,824	21,625	26,506
Other administration and operating costs*	16,751	14,377	13,728	13,799	15,940	18,253
Total	**31,333**	**30,746**	**30,341**	**33,623**	**37,565**	**44,759**
*Includes depreciation	388	444	180	127	272	430
AME provisions utilisation						
Dilapidations	250	(123)	(127)	0	0	0
Staff early retirement	(331)	(267)	(115)	52	(187)	(148)
Total	**(81)**	**(390)**	**(242)**	**52**	**(187)**	**(148)**
Resource AME						
B Export credits	(141,655)	(96,324)	(130,031)	(24,519)	(74,420)	13,881
C Fixed Rate Export Finance assistance	(1,851)	(1,923)	(1,435)	(621)	(290)	707
D Loans & interest equalisation	(5,694)	(4,318)	(2,819)	(1,694)	(799)	(478)
E Direct lending	(137)	(3,776)	(15,097)	22,215	(53,484)	110,732
Total	**(149,337)**	**(106,341)**	**(149,382)**	**(4,619)**	**(128,993)**	**124,842**

Capital

£'000	Outrun					Plans
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Capital DEL	580	0	64	671	79	300
Capital AME	(22,509)	33,874	250,724	167,736	426,448	936,811

Note: data for future years beyond 2019-20 is not held, and is therefore not included in this report. Only 5 historic years and 1 future year is included.

Resource DEL (RDEL)

For UKEF this represents the administrative cost associated with running the department (known as Administration and Programme DEL). Resource DEL has mostly remained unchanged over the preceding 4 years with the increase occurring from 2016-17 onwards primarily due to staffing costs and marketing (GREAT campaign) costs from 2018-19 onwards. The increase in staff numbers is to aid the department's strategic and corporate needs and to enable growth. RDEL outturn and plans are shown on a gross basis to allow better transparency and visibility of how the spend evolved over the period. Supply Estimates, however, show RDEL on a net basis. RDEL administration is fully offset with AME income generated by the department. RDEL programme (GREAT marketing) is partially offset with AME premium, £0.7 million, with the remainder, £1.3 million, representing the total net RDEL.

Capital DEL (CDEL)

For UKEF this typically represents IT hardware but can include software purchases (licences). The majority of capital-intensive IT strategy was carried out in 2017-18. In 2018-19 there was a reduction in the overall capital related spend.

Resource AME (RAME)

For UKEF this represents underwriting and export finance activities, including income received while supporting the exporters. Both are expected to fluctuate significantly owing to the nature of the business activity, as well as the impact of foreign exchange movements. RAME is shown on a net basis. As per the arrangement with HMT it is used to offset UKEF operating costs (RDEL) with exception of £1.3 million of RDEL programme costs representing GREAT marketing allocation from DIT. Resource AME is shown on a net basis.

Capital AME (CAME)

For UKEF this represents lending activity (mostly direct lending facility related). The direct lending facility can fluctuate considerably due to the nature of the activity. CAME is shown on a net basis.

Glossary

Glossary of terms and abbreviations

Term	Description
Active portfolio management (APM)	Work to reduce concentrations of risk in the portfolio to decrease the chance of significant losses, and/or free up headroom to support more business. APM is currently focussed on buying case-by-case reinsurance from the private market where value for money is achieved.
Amount at risk (AAR)	AAR is equivalent to the accounting term 'contingent liability'. This represents the unexpired portion of the total risks supported by UKEF, essentially amounts still owed to banks or exporters where UKEF could face a claim. AAR would normally be less than maximum liability by the amount of expired risk. It is the measurement of exposure for issued business.
Below minimum risk standard limit	The total exposure limit agreed with HMT that sets the total amount UKEF can commit to for corporate risk obligors below a minimum rating. The limit is set at £5 billion and currently split between aerospace exposure and non-aerospace exposure.
Bond insurance policy (BIP)	Cover for the unfair calling of bonds (except tender bonds).
Bond support scheme (BSS)	A scheme under which UKEF provides guarantees to banks in respect of bonds related to UK exports. Where a bank issues a contract bond (or procures its issue by an overseas bank) in respect of a UK export contract, we can typically guarantee 80% of the value of the bond.
Buyer credit (BC)	A finance facility in which, normally, a guarantee is given by UKEF to lenders supplying finance to an overseas borrower buying UK goods/services.
Claims	Amounts paid out by UKEF under guarantees or insurance where there has been a default and UKEF is required to honour its obligations to the bank/insured party.
Commercial Interest Reference Rate (CIRR)	The minimum interest rate UKEF charges for direct loans, in accordance with the OECD Arrangement on Officially Supported Export Credits.
Commitment	A case not yet the subject of an issued guarantee, but for which UKEF has agreed the terms of its support and provided its commitment to the bank/exporter. Cases at this stage are included in UKEF's portfolio as the department has agreed to accept the risk.
Common Approaches	The rules agreed at the OECD for ECA due diligence in regards to environmental, social and human rights aspects of projects supported.
Concentration	This typically refers to either sector or regional concentration in the risk portfolio, indicating where UKEF has a greater proportion of its exposure.
Corporate (risk)	These are risks on commercial trading and financial institutions which are capable of being put into liquidation or receivership.
Counterparty	UKEF refers to other entities who have a relationship with the department, but are not the key source of risk on transactions as a counterparty. Examples include ECAs who provide reinsurance, or agent banks providing loans which UKEF supports.
Country limit	The maximum amount of cover available for a particularly country as agreed under the exposure management framework.

Credit period	The period over which a loan is repaid by the borrower, or for insurance products, the period for contractual payment by the buyer.
Credit quality	This typically refers to the level of default risk of an entity or the portfolio. For example, it can be measured by the proportion of investment grade rated (low risk) obligors versus non-investment grade rated (high risk) obligors.
Direct lending (DL)	A loan made by UKEF, drawing from Exchequer funds, to finance payments due from the buyer under an export contract. The risk in this product is on the failure of the borrower to repay the loan. There is a £3 billion limit on this product. In the 2018 Budget the Chancellor of the Exchequer announced 2 one-off £1 billion boosts to this facility for the financial years 2020-21 and 2021-22.
Effective business	Business where UKEF has provided a guarantee or insurance, received premium and all other conditions have been satisfied so that UKEF is on risk.
Expected loss (EL)	How much UKEF estimates it should lose. For cases, the statistical estimate of the most likely financial outcome on a case, based on the likelihood of default and estimates of recoveries; and for the whole portfolio, the sum of the individual transaction expected losses, representing the mean of the loss distribution.
Export credit agency (ECA)	Most developed and emerging economies have an ECA. Although structure and organisation differs, they all exist to promote exports by providing insurance, reinsurance and guarantees to exporters and banks on behalf of the state. Many ECAs have reinsurance arrangements with each other (see reinsurance).
Export insurance policy (EXIP)	An insurance facility provided by UKEF to exporters that covers them against the risk of not being paid under their export contract. Cover can be provided for both cash and credit payment terms.
Export working capital scheme (EWCS)	A scheme provided by UKEF to assist UK exporters gain access to working capital finance (both pre- and post-shipment) in respect of specific export contracts. Under the scheme, UKEF provides guarantees to banks to cover the credit risks associated with approved export working capital facilities. We can guarantee up to 80% of the bank facility.
Exposure	A generic term referring to the value of the risks UKEF is holding. For pre-issue business this is measured by maximum liability and for issued business this is measured by amount at risk. Exposure can be net of reinsurance and some measures of exposure also include claims.
Exposure management framework (EMF)	A framework for setting prudent restrictions on the concentrations in the portfolio. For country limits, this is based on a matrix and limits are determined by the size of the economy and the country's Expected Loss. For sectors, regions and obligors, this is based on the percentage of the portfolio attributed to that slice of risk.
Facility	The name given to each individual provision of support by UKEF.
Horizon of risk	The total period of time where UKEF is on cover. For credit transactions, this includes both the pre-credit period (or drawdown) period and the repayment period.
Loss given default (LGD)	An estimate of the loss to UKEF at the time of default (also known as loss coefficient). The recovery rate is the inverse of this statistical estimate. The LGD is used with the probability of default to determine the expected loss.
Market risk appetite (MRA)	The level of potential new business that UKEF can underwrite in a specific country calculated by subtracting existing business (on a weighted basis) from the total agreed country limit.
Maximum commitment	The maximum amount of exposure under the HMT Consent that the UKEF portfolio can total to. Set at £50 billion but adjusted according to foreign exchange rates.
Maximum liability (ML)	The measurement of exposure for pre-issue business. Maximum liability is the maximum value of the amount of claims payable under a particular UKEF product, including any interest.
OECD	The organisation of nation states known as the Organization for Economic Co-operation and Development.

OECD Arrangement	The OECD Arrangement on Guidelines for Officially Supported Export Credits, sometimes referred to as "the Consensus" or "the Arrangement". This limits competition on export credits among members of the OECD when providing official support for export credits of 2 years or more. The Arrangement covers all officially supported export credits except those for agricultural produce and military equipment. Aircraft, ships, nuclear power plants, water and renewable energy projects are subject to separate sector understandings.
Oversea investment insurance (OII)	This scheme provides a UK investor with insurance for up to 15 years against political risks in respect of a new investment overseas. It may also be available to UK banks in respect of overseas lending, whether or not it is in connection with a UK investment or export. The risk on this product is that certain events (war, expropriation, restriction on remittances) mean the investor suffers a loss on their investment. It does not cover the commercial risk of the investment being unprofitable.
Paris Club (PC)	The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to payment difficulties experienced by debtor countries. Debts from sovereigns are handled by the Paris Club.
Persistence of default	A factor considered in UKEF's country risk assessments. This is an estimate of the number of years during which a country is expected to remain in default, before being able to resume some form of debt service. Used in conjunction with sovereign risk rating and loss coefficient to determine expected loss rate.
Premium risk ratio (PRR)	PRR assesses the extent to which UKEF premium income on new cases is sufficient to cover the risks associated with those cases. The risks are measured as both the expected loss and a charge on unexpected loss. PRR's can be calculated for individual cases, and the PRR for new business in each year is a financial objective. PRR is an in-year measure, with a target ratio of premium:expected loss (plus charge on unexpected loss) of 1.35.
Pricing adequacy index (PAI)	PAI assesses the extent to which UKEF premium income is sufficient to cover both risks and costs. PAI is measured over a 3-year rolling period, and has a target that the ratio of premium to risks and costs should always be greater than 1. Risks are defined as in the premium risk ratio as expected loss and a charge on unexpected loss, and costs are UKEF's admin costs.
Probability of default	A statistical measure of the likelihood of an entity or transaction defaulting on debt obligations. Letter ratings correspond to a specific estimate of probability of default based on historical data of the outcomes for each letter rating.
Project finance (PF)	Transactions which are dependent on generating sufficient revenue from a project to service debt, once commissioned.
Provisions or provisioning	Amounts which are set aside within UKEF's trading accounts to allow for non-recovery of claims already paid and of claims to be paid in the future.
Public (risk)	Risk that is assessed to be with an entity linked to the government, but which does not benefit from full state support or a guarantee (for example a local municipality or a state utility).
Recoveries	Amounts that UKEF has been able to get back after paying a claim (e.g. through restructuring, sale of assets etc).
Reinsurance	UKEF shares risk by reinsuring it with other partners in 2 main ways: sharing a proportion of transaction with other ECAs based on the amount of content produced in that country (ECA reinsurance); or purchasing reinsurance directly from the private sector to reduce risk concentrations (see active portfolio management).
Risk appetite limit (RAL)	A risk weighted cap on the maximum amount of risk that UKEF can take on. Calculated as the 99.1%-tile of the portfolio loss distribution (see loss distribution), with a maximum of £5 billion (as adjusted for foreign exchange foreign exchange movements).
Run-off	UKEF's risk reduces as loan repayments are made or insurance risks expire. The way in which the amounts at risk reduce is called the run-off.
Short-term (ST)	UKEF's short-term products are: bond support guarantees, working capital guarantees and export insurance policies under 2 years.
Sovereign (risk)	Risks considered as being effectively upon the state itself.

Stress testing	This is a form of scenario analysis where one considers the potential adverse impact of theoretical changes in the state of the world. UKEF carries out portfolio stress testing semi-annually, based on a number of defined stresses and scenarios.
Supplier credit finance facility (SCF)	UKEF insures a provider of finance to the supplier of an export contract, in order that the supplier can offer credit terms to the buyer. In practice, although the finance is theoretically supplied to the exporter, UKEF's risk on this product is on the payments from the overseas buyer to enable repayment of the loan, and we would seek recoveries from the buyer in the event of default.
Unexpected loss (UEL)	Measures statistical losses above EL to a certain degree of confidence. UKEF uses 99.1%.
Ultimate obligor (UO)	The final source of repayment risk. In some transactions, a number entities might be responsible for ensuring there is no default, but the ultimate obligor is the key entity for determining the riskiness of the structure.