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.

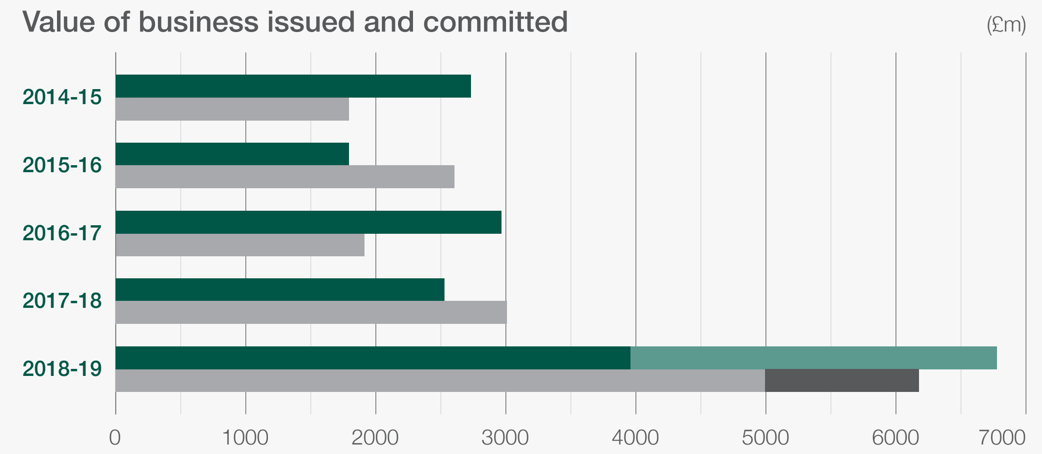


Figure 1

- 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

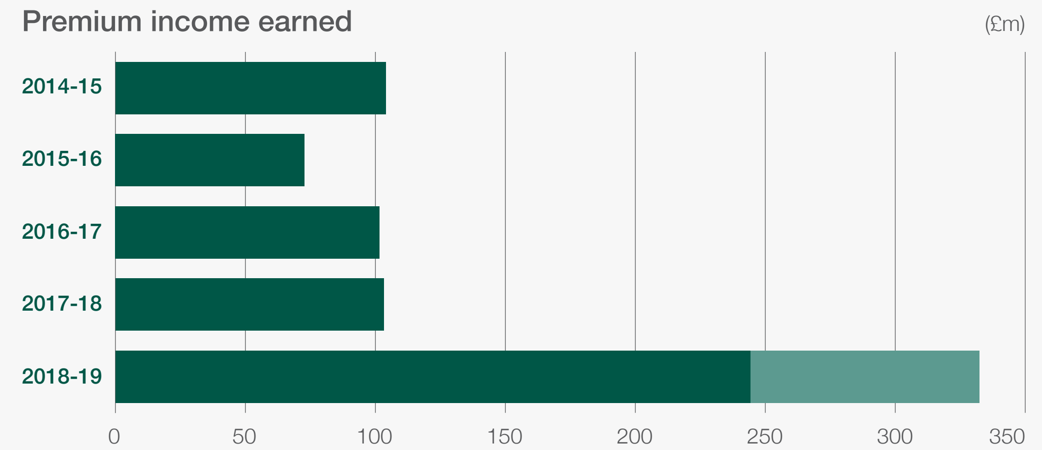
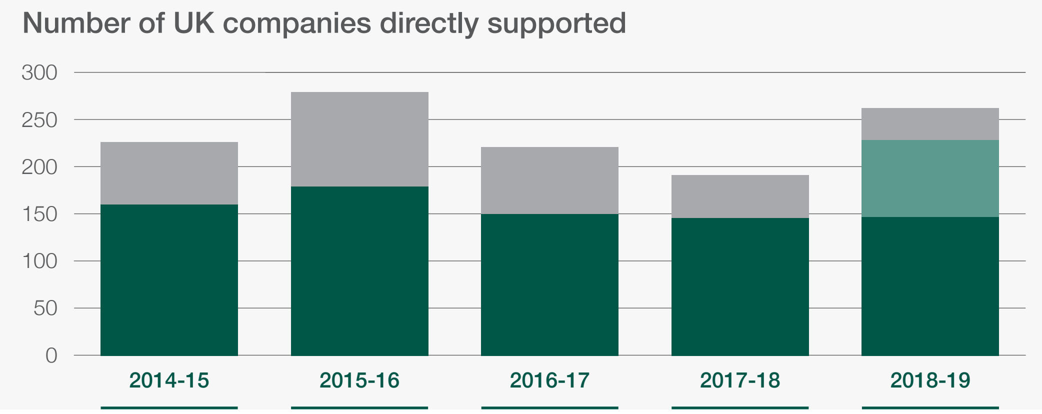


Figure 2

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

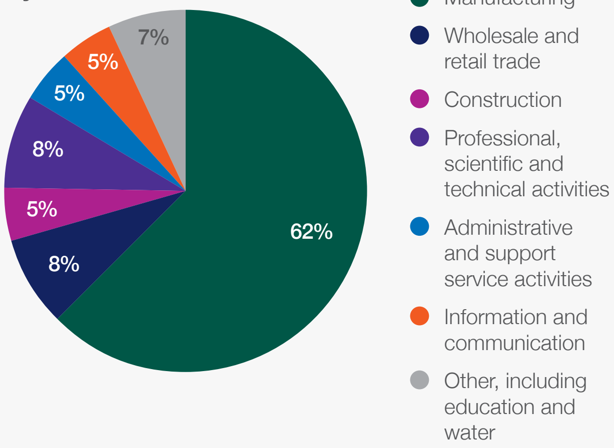


- Companies UKEF provided with finance and insurance
- Companies that have secured business supplying to a project UKEF is supporting[2]
- Export assists

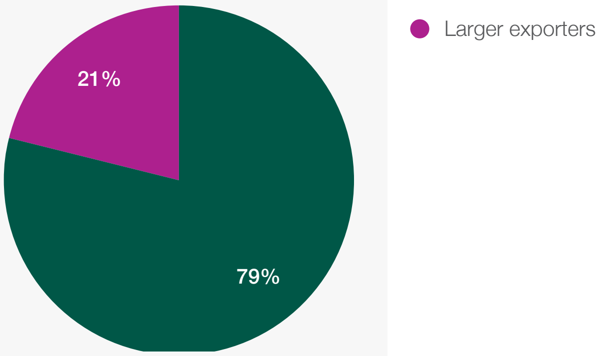
1 Where Figure 1 shows issued and effective business. It does not include amounts counter-guaranteed or reinsured by another official export credit agency where UKEF was acting as lead ECA on a jointly supported transaction. It does include business supported where the private reinsurance market was 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.

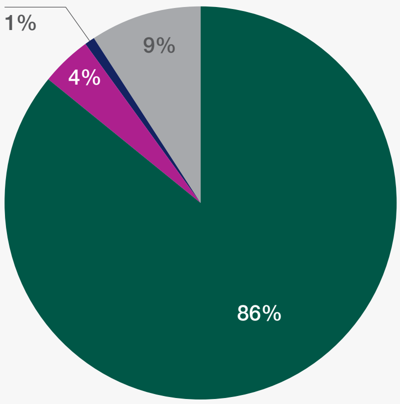
Companies supported by sector[3]



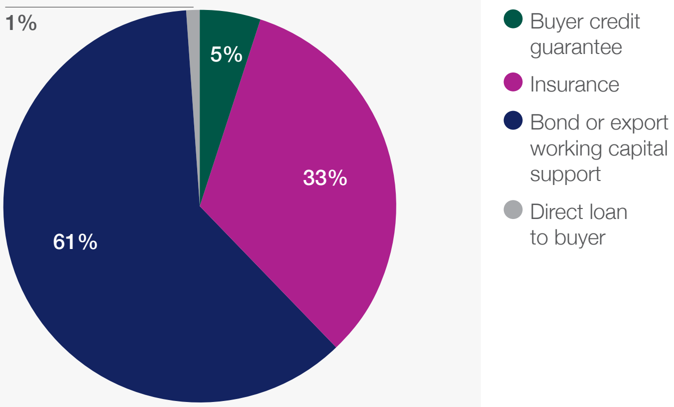
Companies supported by size[3]



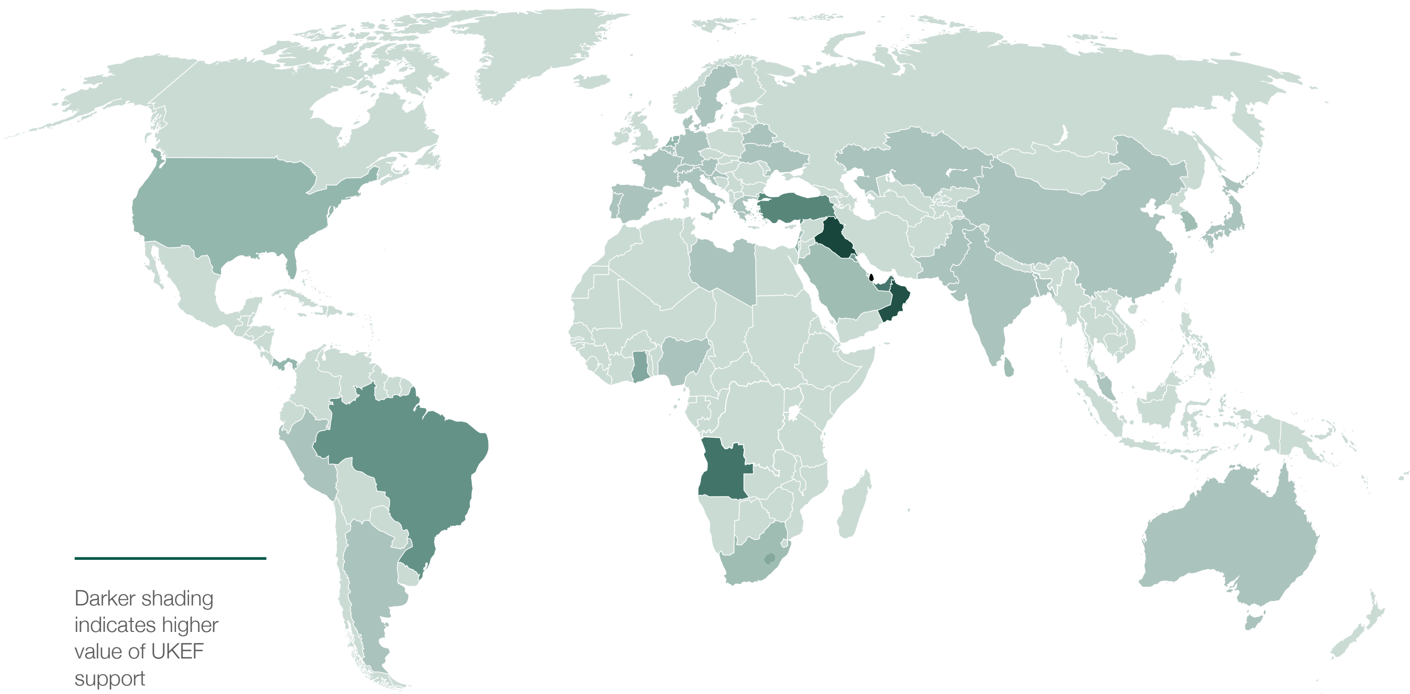
Product use by our maximum liability



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:

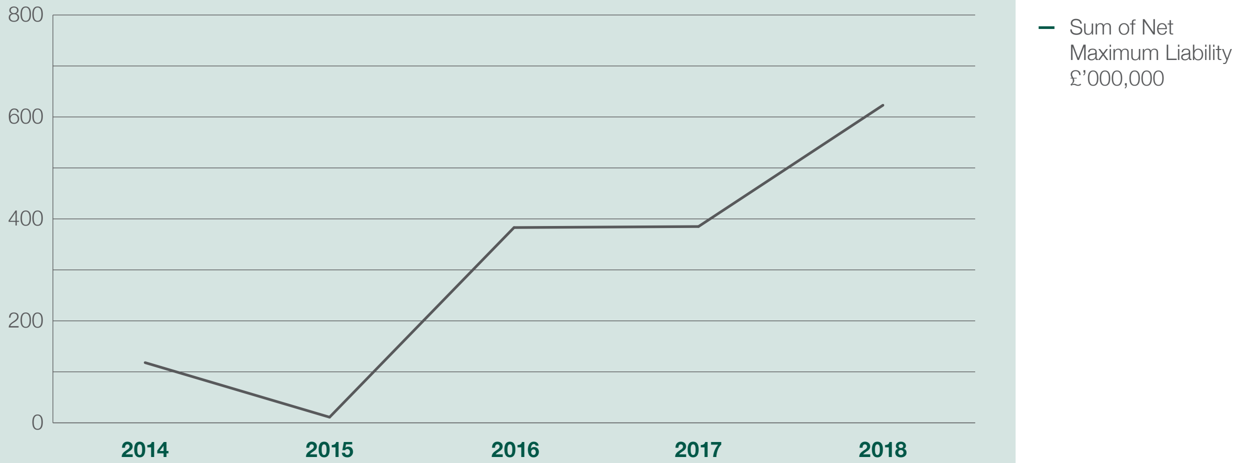
- awareness among exporters of UKEF's ability to help and the willingness of our commercial partners (for example, banks and brokers) to use and promote our services
- our pricing of risk, reflected in the premium and/or interest we charge
- whether we have the product range required to fill particular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

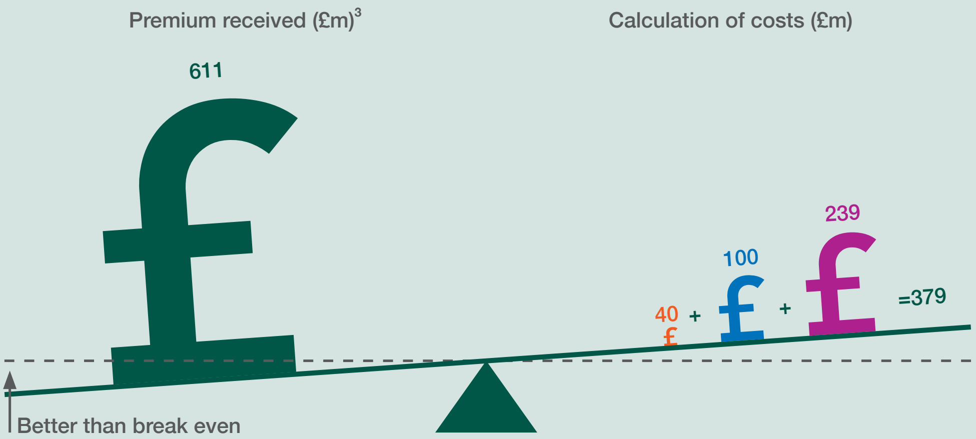
We measure this over different 3-year periods. The diagram below shows the result based on actuals for 2016-17 to 2018-19.

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

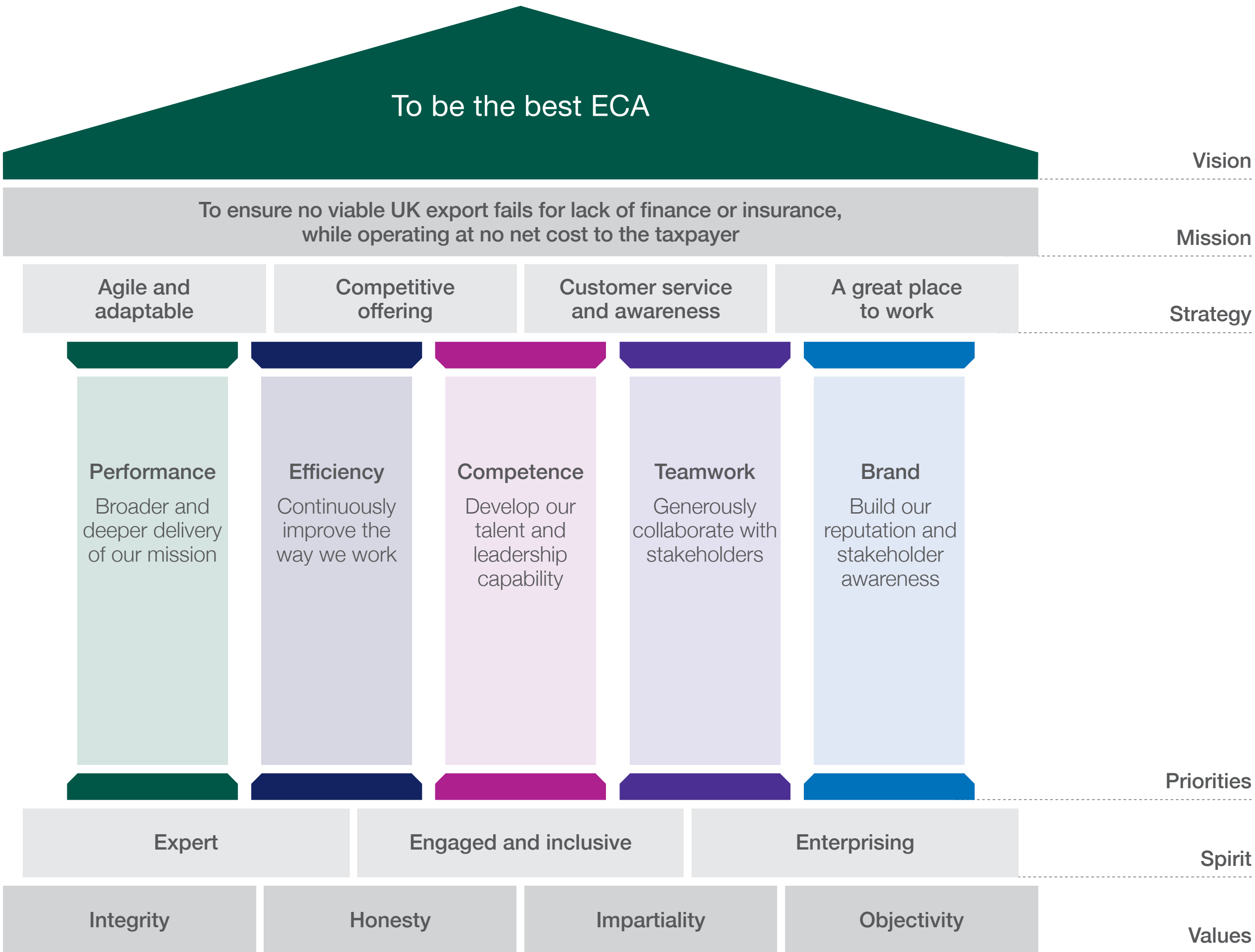
Our ambition is to have the most engaged workforce in the Civil Service, continuing to improve our employee engagement, build a diverse workforce and help our staff develop their careers.

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

Richard Smith-Morgan
Deputy Chief Risk Officer

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.

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

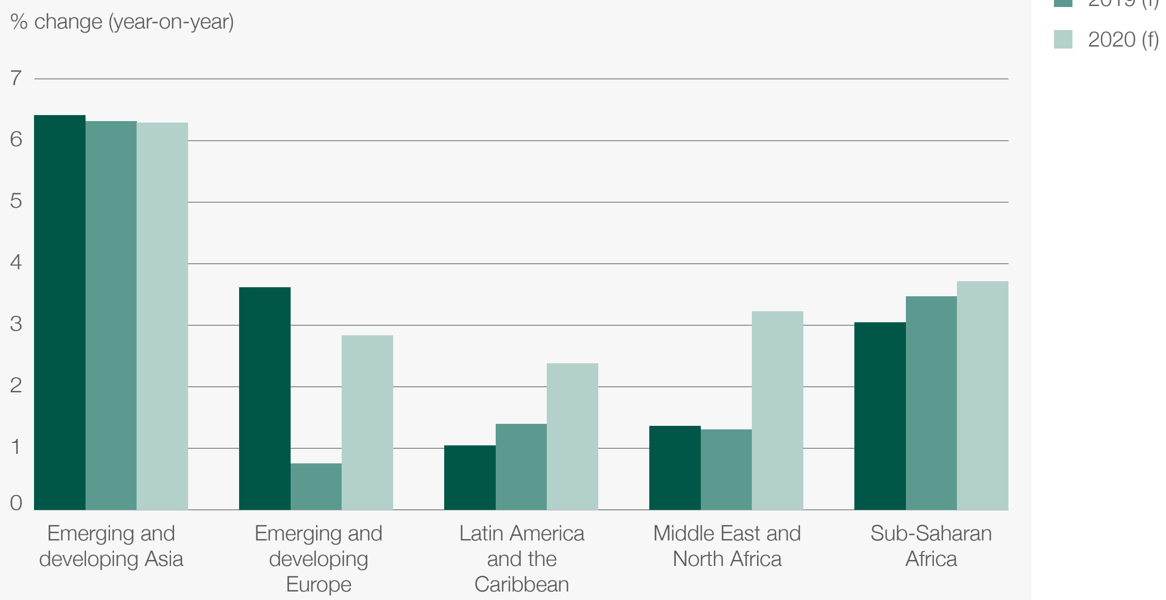
The IMF's WEO April 2019 projections suggest that the US is expected to grow at 2.3% this year, a notable slowdown from 2.9% in 2018 as the fiscal stimulus unwinds and consumer demand tapers off.

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



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.

Metals; January 2013 – March 2019

Source: Bloomberg [LMEX, XAU]

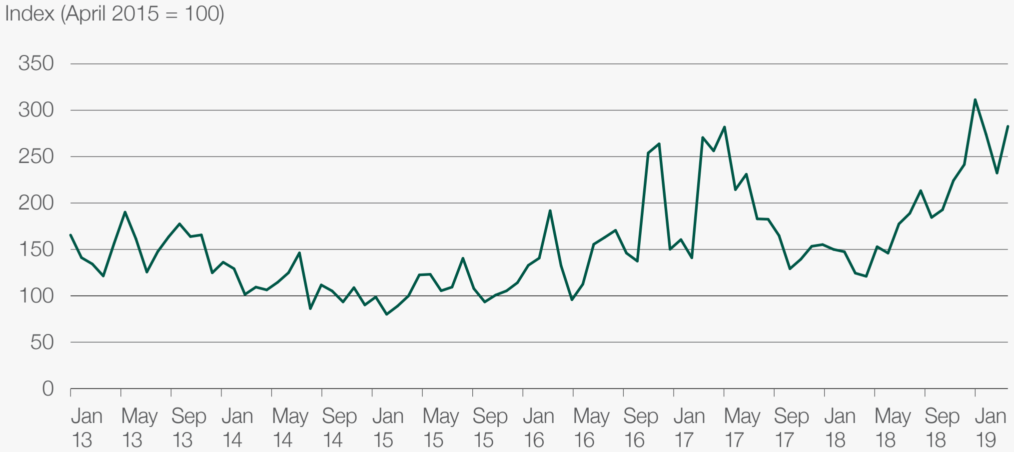
Metal prices, as measured by the London Metal Exchange Index (LMEX),[1] rose through the first half of 2018 in tandem with the global upswing. However, since June 2018, metal prices have fallen, which may be attributed to softer demand in China. Volatility is expected to remain as US-China trade negotiations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

Global economic policy uncertainty; January 2013 to March 2019



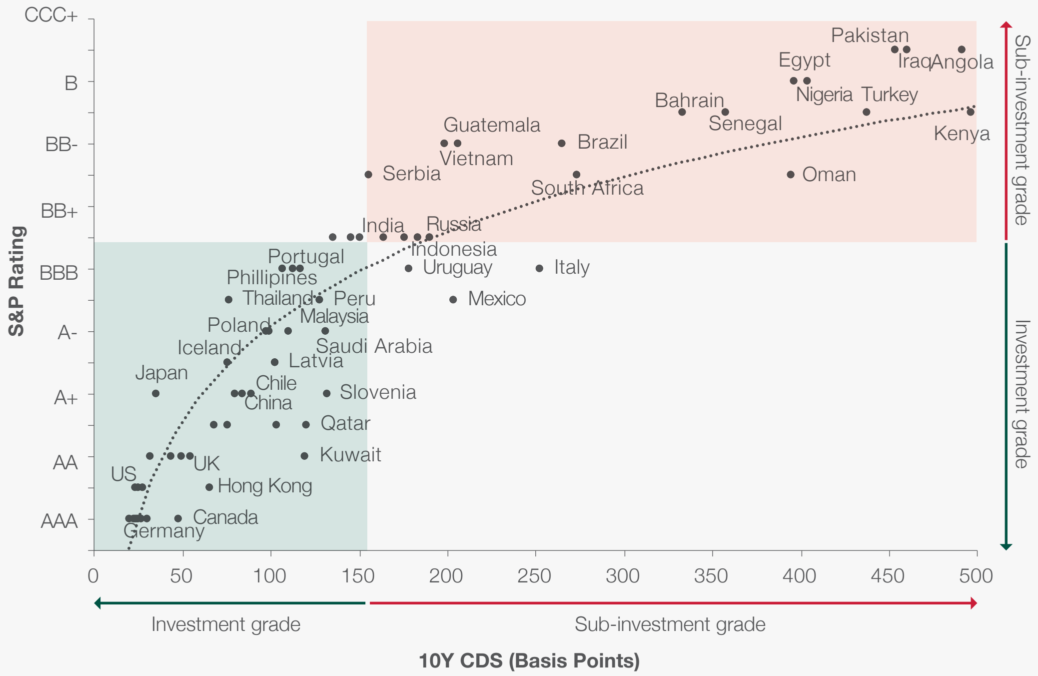
Source: PolicyUncertainty.com

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

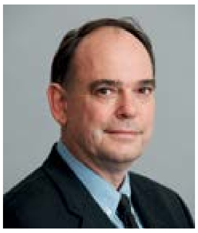
Longer term credit (2 to 18 years)	**Export credit solutions** Supporting finance for overseas buyers of UK exports	• Providing guarantees to banks on the loans they give to overseas buyers to purchase goods and services from the UK • Direct lending to overseas buyers so that they have the funds to purchase 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



Gordon Welsh
Business Group Director

Business supported

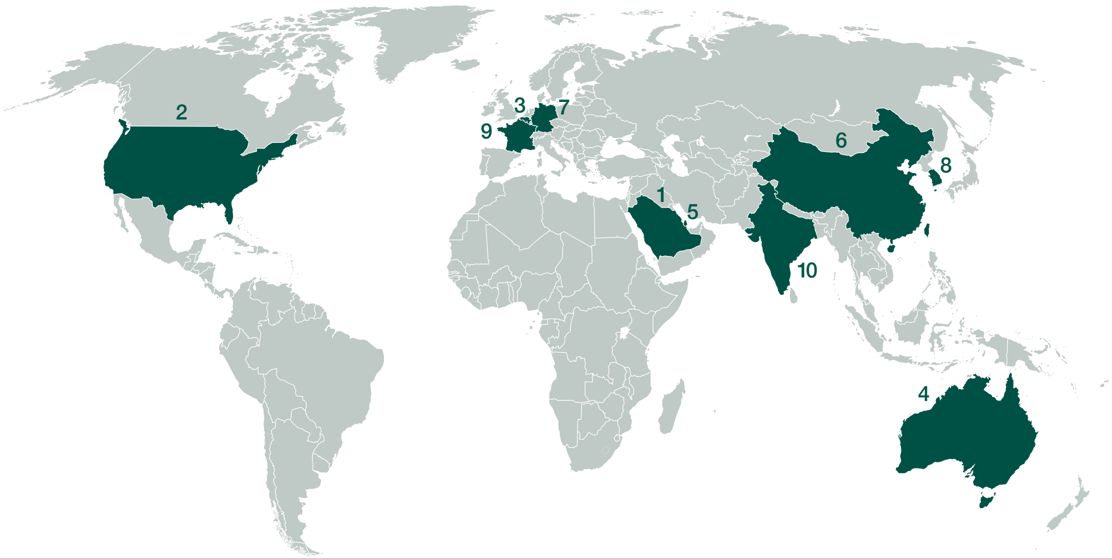
Exporters directly supported	262[1]
Value of support provided	£6.8 billion
Destination countries	72
Largest single facility	£2.26 billion (buyer credit)
Smallest case	£157.50 (export insurance)
Most popular product	Bond support (73 companies)
Highest value product (total use)	Buyer credit (£4.31 billion)

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).

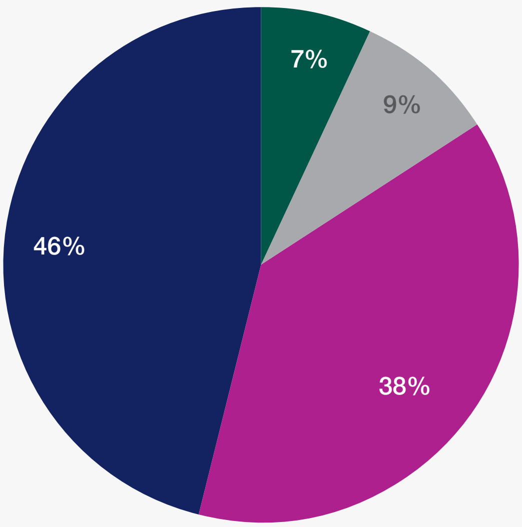
Further major steps to improve the accessibility of UKEF's trade finance products for exporters are planned with the launch of the General Export Facility, announced by the Chancellor of the Exchequer in his Spring Statement in March 2019. This new facility will mean UKEF can support exporters' overall 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.

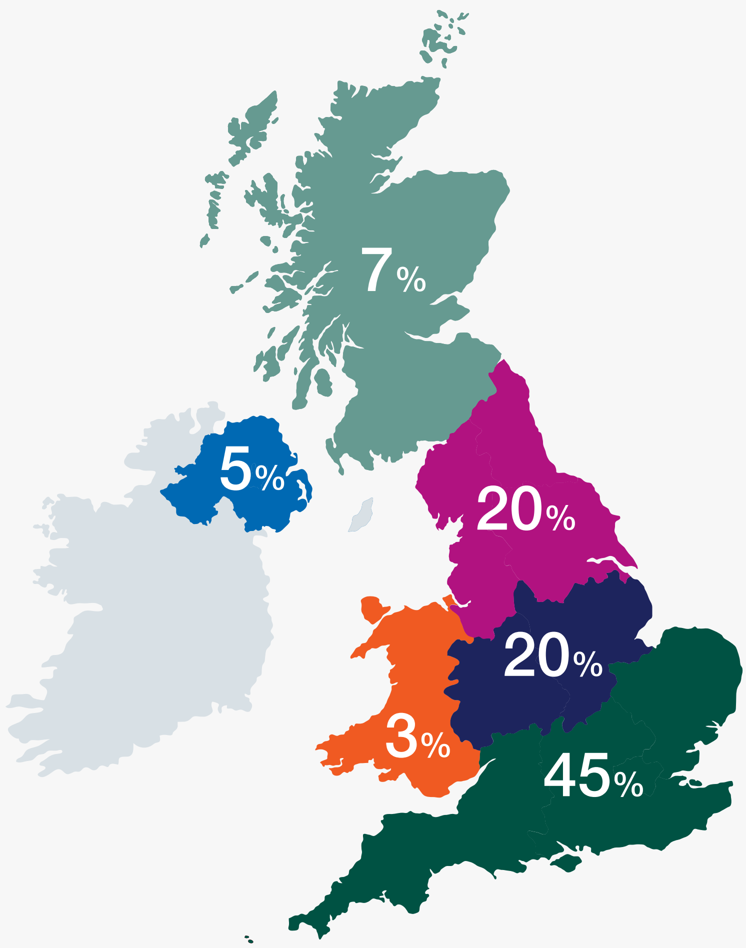
UKEF's supplier fair model is an ambitious programme to help increase UK content in overseas projects UKEF is supporting through procurement-focused events, working with trade associations and the Department for International Trade to activate the UK supply chain. These day-long matchmaking events connect 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.

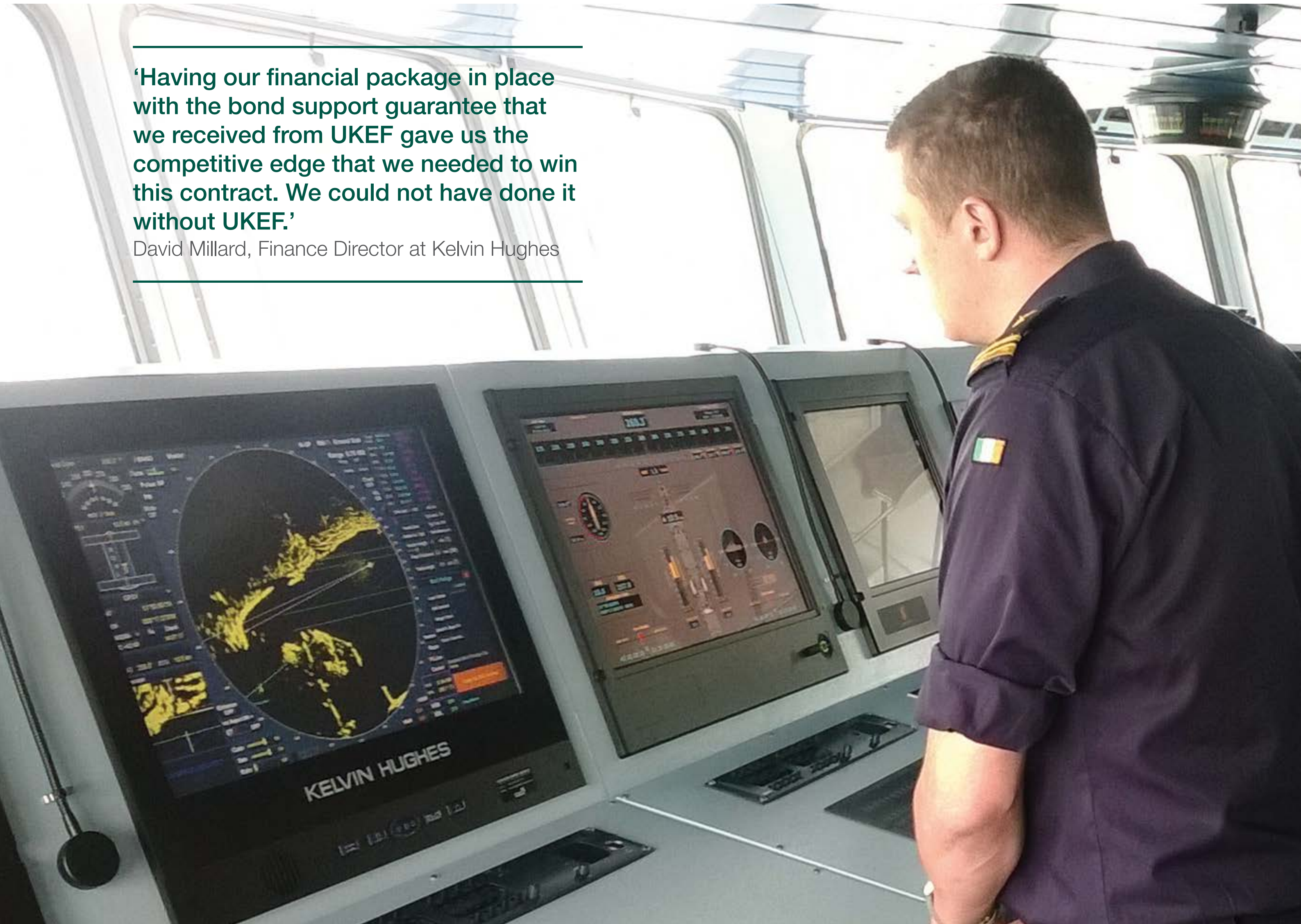
Proportion of companies benefiting from trade finance or insurance by region in 2018-19



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

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

Samir Parkash
Chief Risk Officer

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.

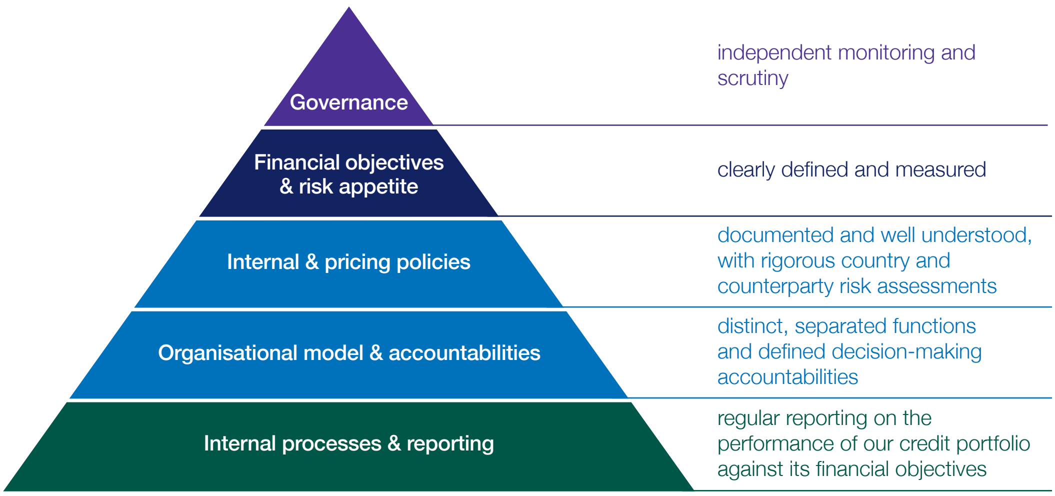
Market risk: the risk of losses due to changing market prices, such as fluctuations in foreign exchange rates and, to a lesser extent, interest rates.

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.

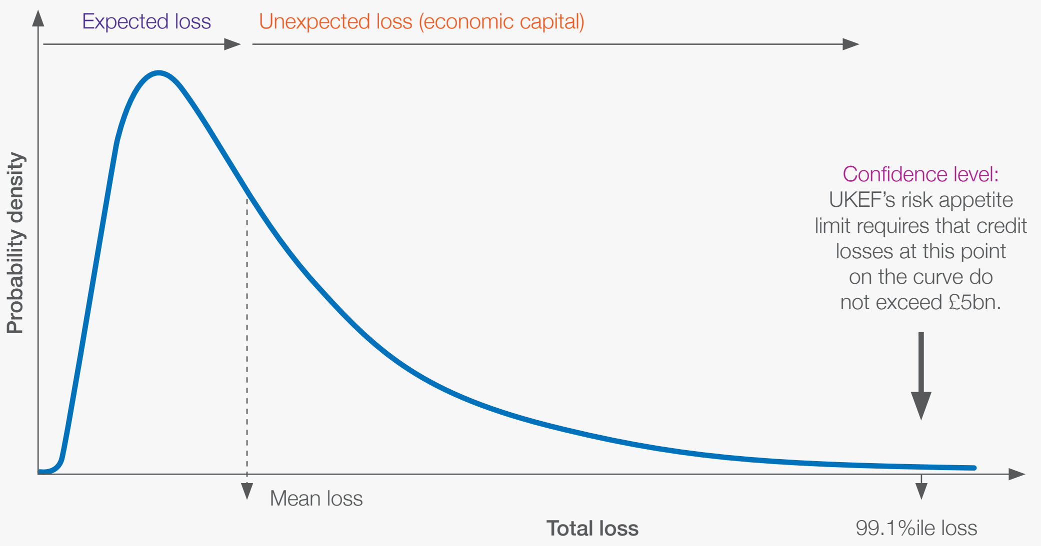
4 The reserve index means the ratio of (a) cumulative reserves plus associated provisions to (b) the aggregate of the value of the 77.5 percentile point on UKEF's portfolio loss distribution plus provisions. At the end of each month, the index must be at least 1.

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'.

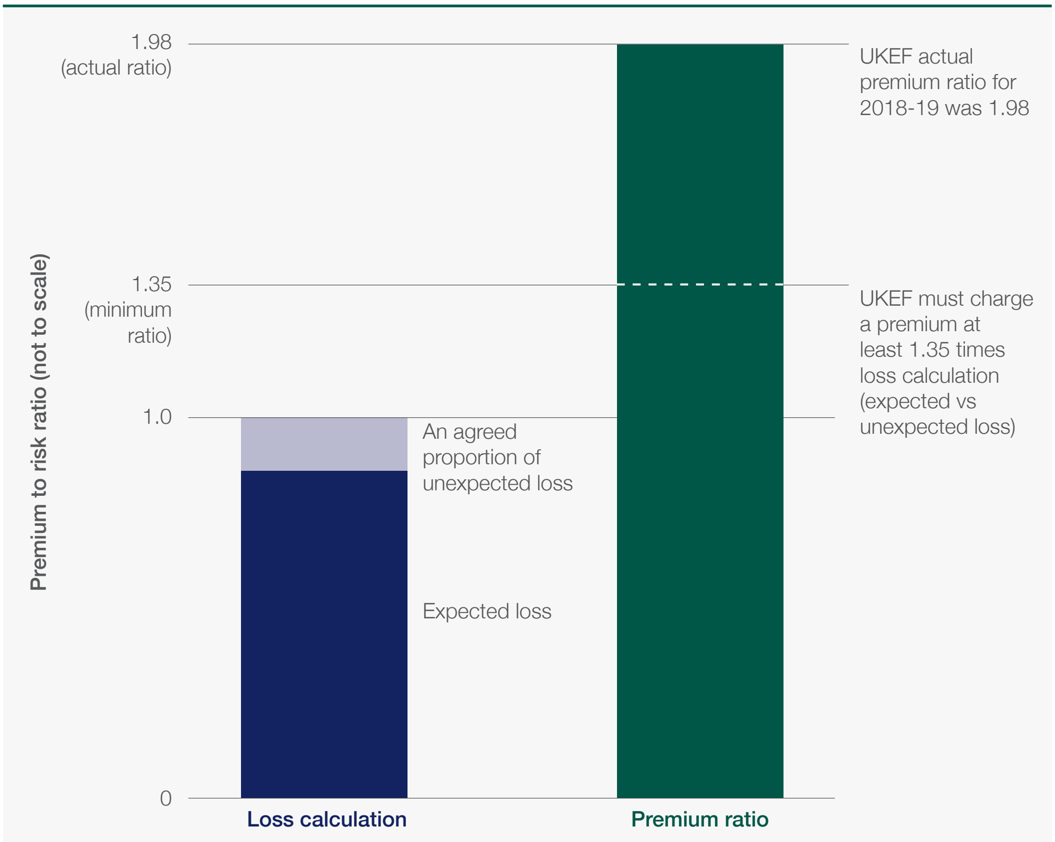
Financial objectives

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.



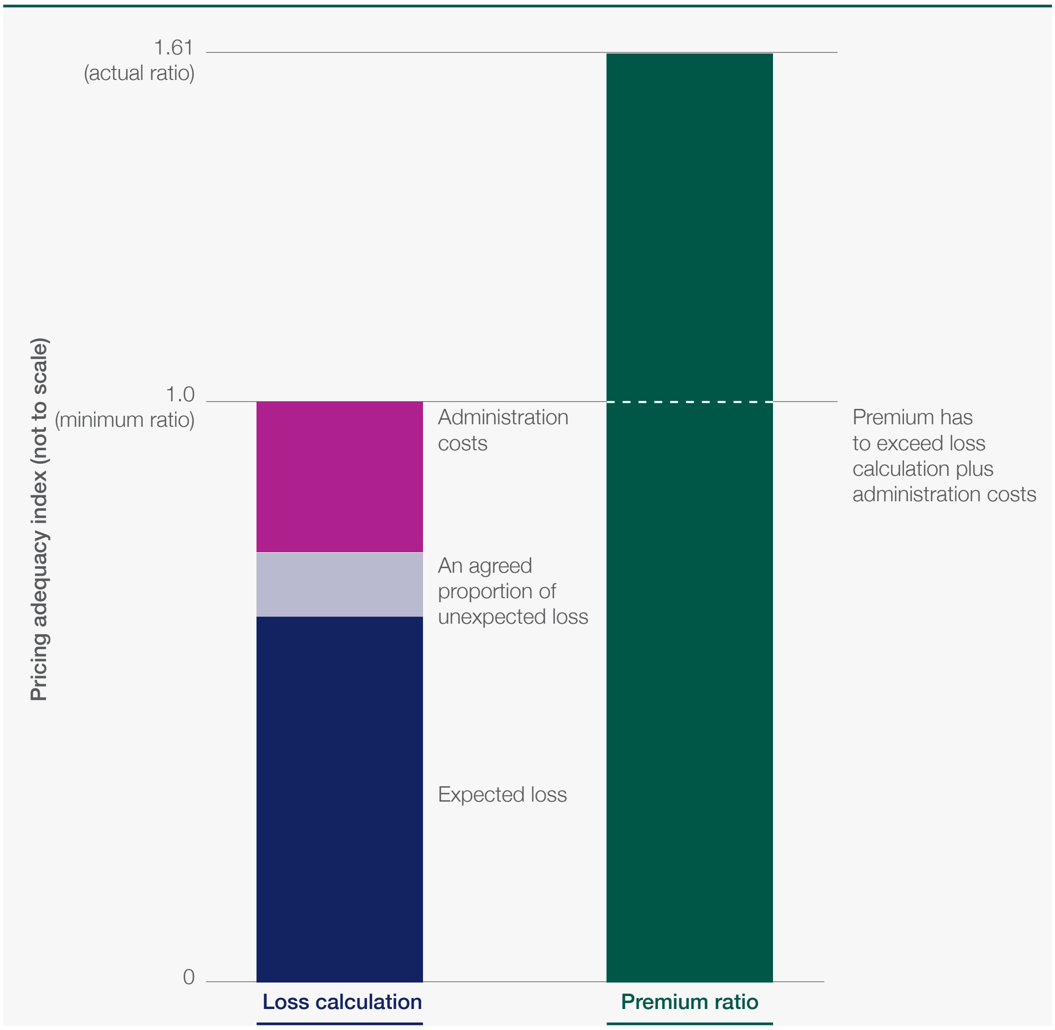
8 The Paris Club is the informal group of official creditors that seeks to establish coordinated and sustainable solutions to debt service difficulties experienced by debtor countries.
9 This was the year in which the Insurance Services Group was privatised.

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%).

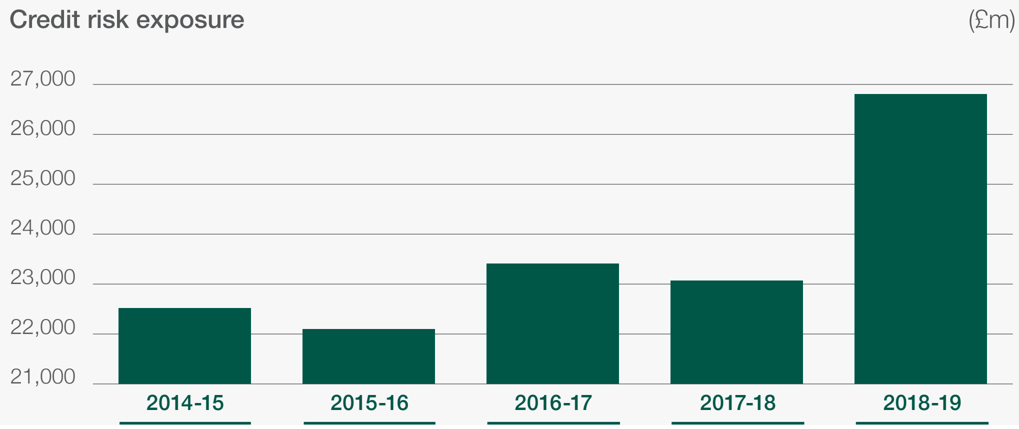
Credit risk performance 2018-19

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

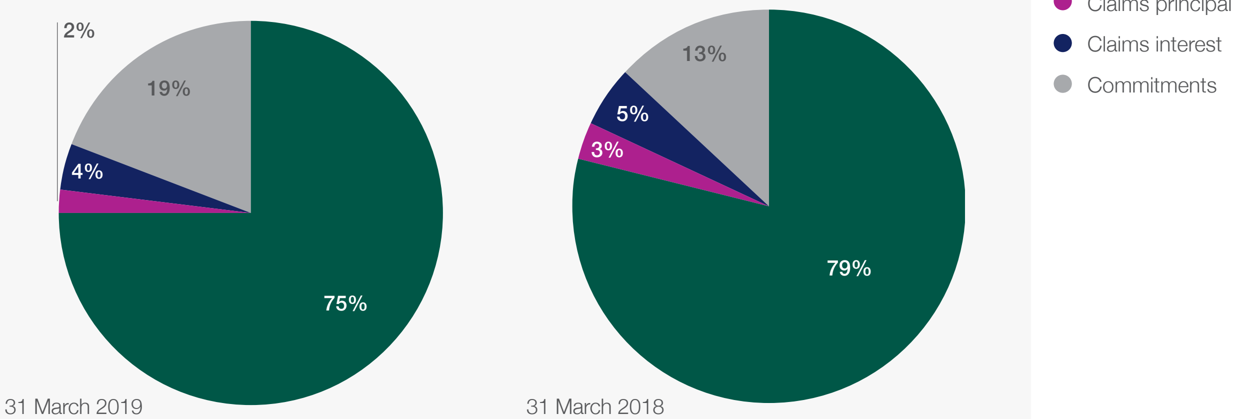
10 This, and all data that follows in this section is net of Account 3.

Credit risk exposure



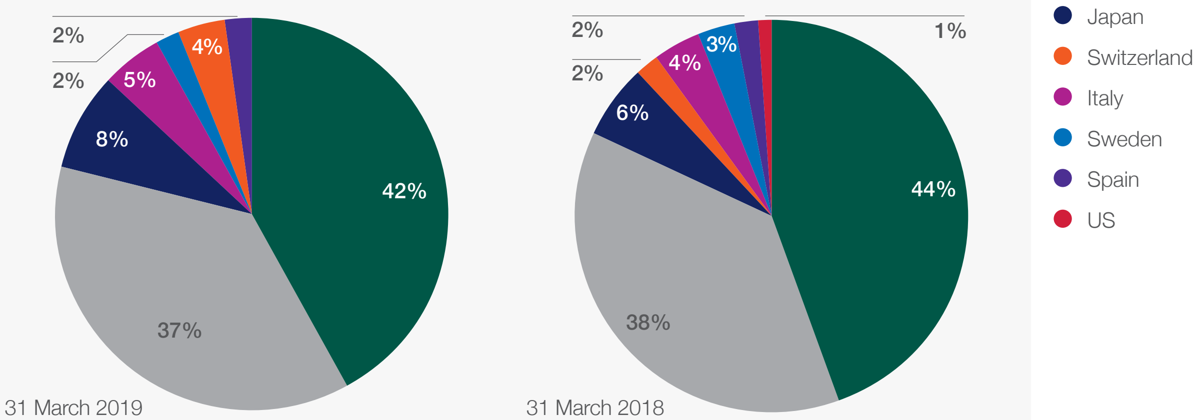
The charts below show the breakdown of this exposure between AAR, claims (principal and interest) and commitments.[11]

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

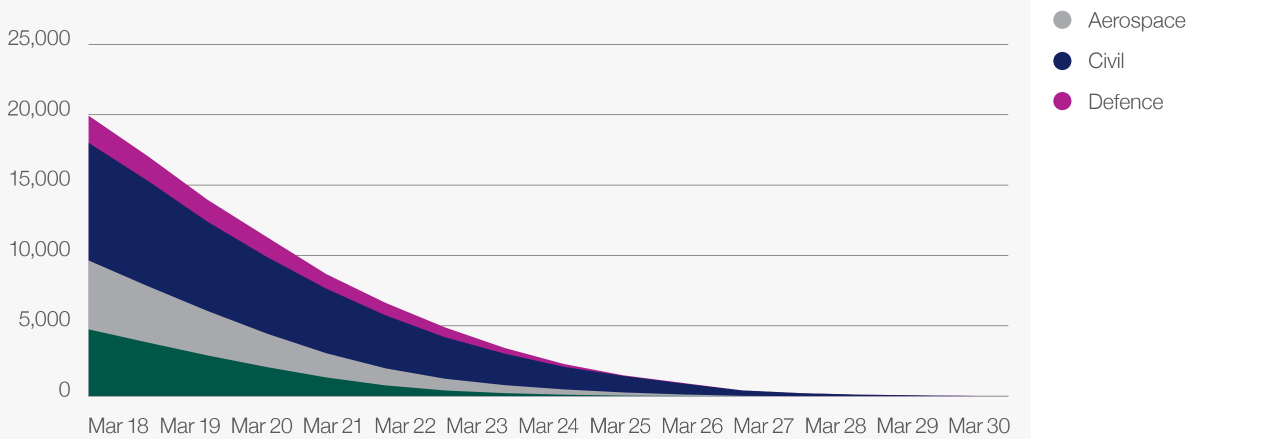


11 Commitments are cases not yet the subject of an issued and effective guarantee, but for which UKEF has communicated its intention, before a specified date and subject to conditions, to provide support.

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.

Amount at risk run-off



Risk concentrations

Context

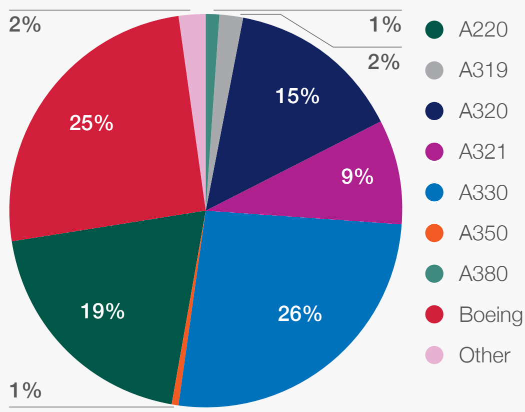
Our credit portfolio is dominated by long-dated emerging market risk, consistent with our role as the UK's official ECA. We are limited in our control over the geographic or sectoral composition of our portfolio, as we assume credit exposure in line with the needs of UK exporters rather than in the pursuit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

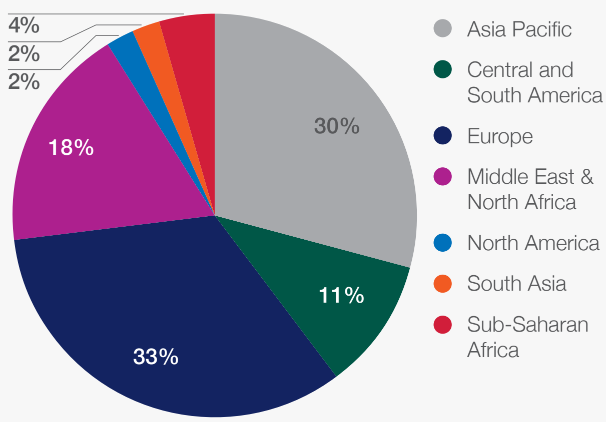
Sectors

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]

Aerospace exposure by aircraft type and geography





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.

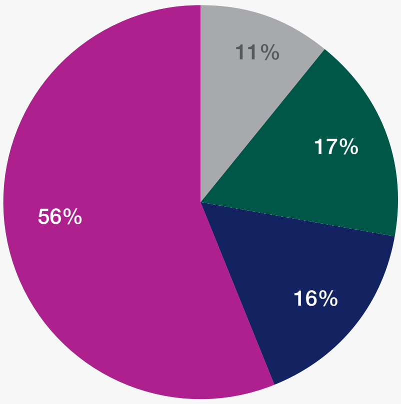
At 31 March 2019, UKEF had £2.6 billion credit exposure to commercial real estate, representing 17% of our overall AAR (net of export credit agency reinsurance/counter-guarantees), mainly in the Middle East. Other sector concentrations were to the oil and gas industry (£2.4 billion AAR) and the chemicals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

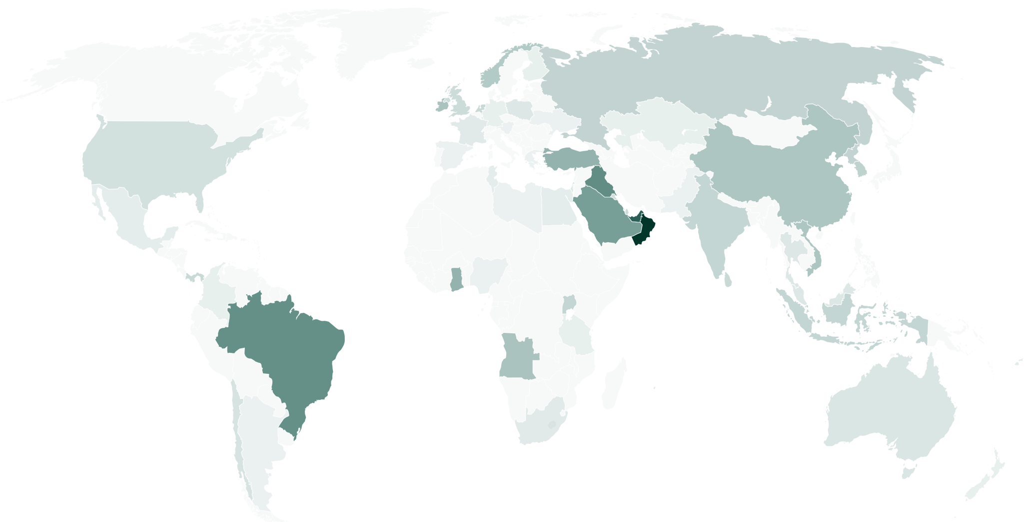
Asia accounted for 17% of net AAR, with around £1.6 billion attributable to civil aerospace business with a number of airlines. In the Americas, around £0.6 billion of exposure was attributable to the aerospace sector, and the remaining exposure largely centred on Brazil.

Regional breakdown of net AAR - whole portfolio



Global AAR at 31 March 2019

Darker shading indicates higher AAR

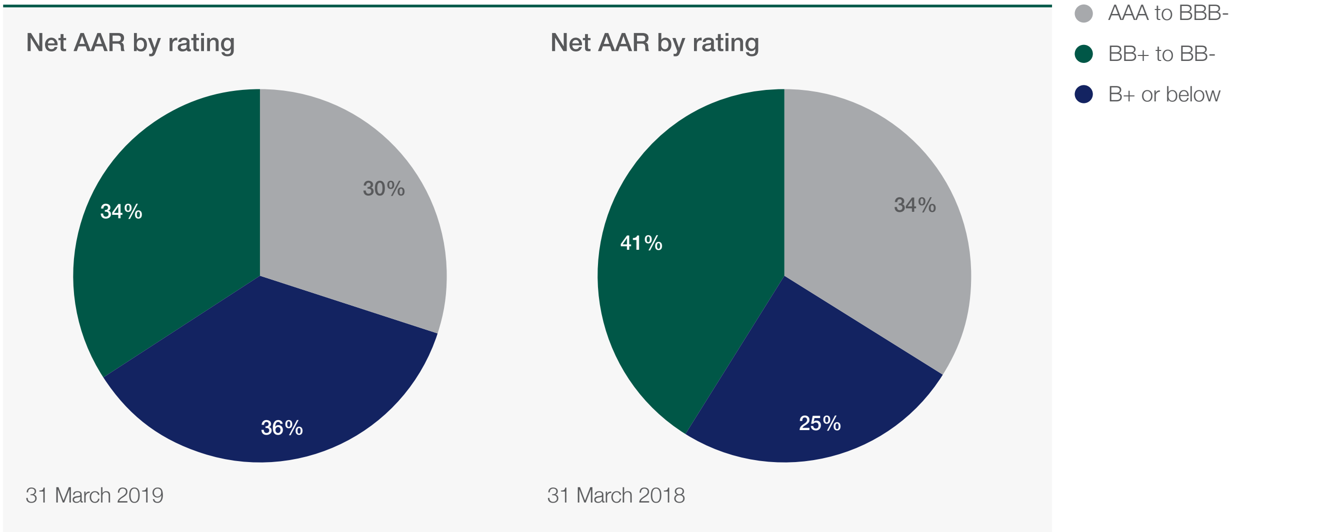


Active portfolio management

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.

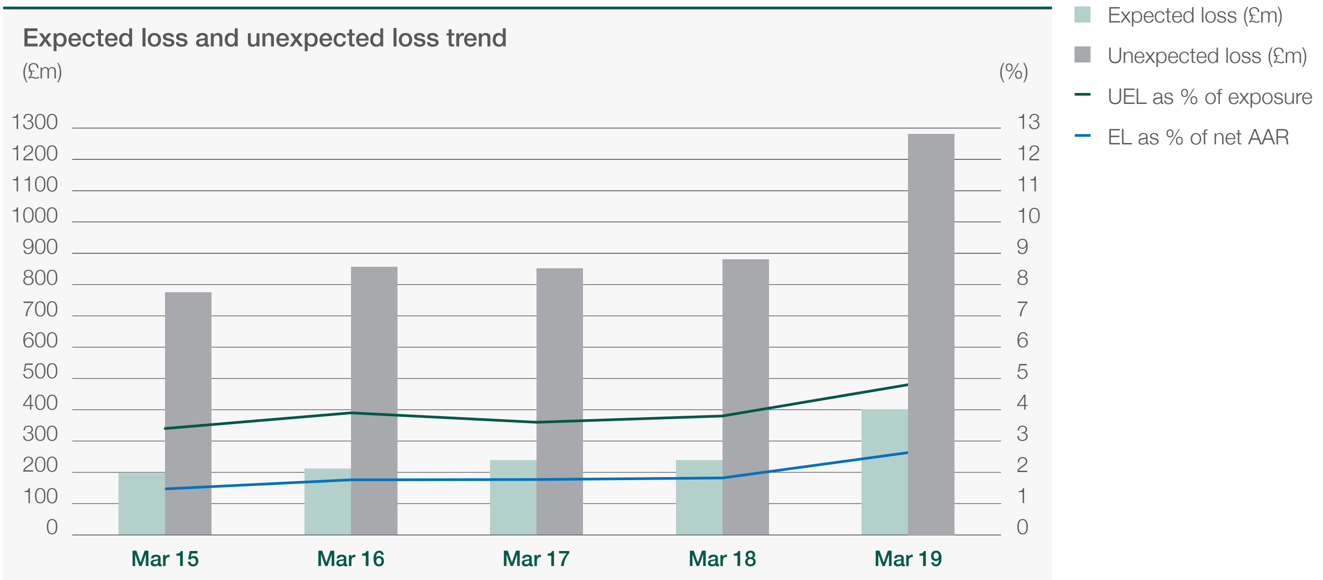
Credit quality

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 Outurn £'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:
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