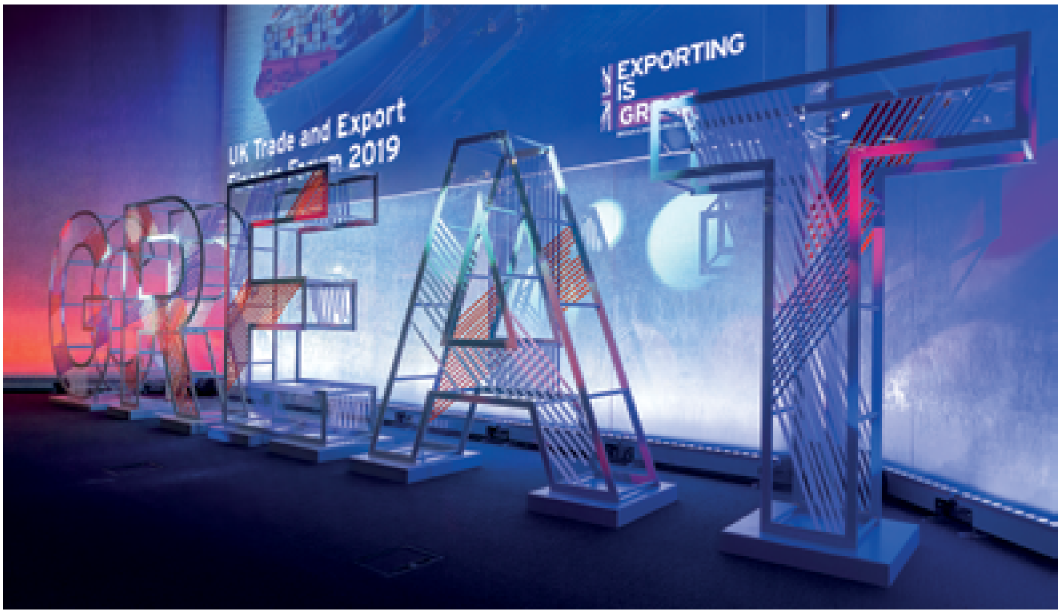
UK Export
Finance

# UK Export Finance
## Annual Report and Accounts 2019-20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Finance

# Export Credits Guarantee Department (UK Export Finance) Annual Report and Accounts 2019-20

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

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

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

Ordered by the House of Commons to be printed on 25 June 2020.

This is part of a series of departmental publications which, along with the Main Estimates 2019-20, the document Public Expenditure: Statistical Analyses 2019-20, and the Supply Estimates 2019-20: Supplementary Budgetary Information, present the government's out turn for 2019-20 and planned expenditure for 2020-21.

HC 473

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

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

ISBN 978-1-5286-1878-6

CCS0320353452 06/20

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office.

# Contents

UK Export Finance

## Who we are

UK Export Finance (UKEF) is the UK's export credit agency and a government department, strategically and operationally aligned with the Department for International Trade.

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

## Our mission

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

We help UK companies:

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

## How we do it

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

Our work means that:

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

We exist to complement, not compete with, the commercial sector and work with around 100 private credit insurers and lenders. We help to make exports happen which otherwise might not, helping UK exporters and their supply chains grow their business overseas. In this way, we provide security of support through economic cycles and market disruptions.

# Ministers' foreword

**We are proud to present the UK Export Finance (UKEF) Annual Report and Accounts for 2019-20.**

This year sees the start of a new era for UK trade. Now that we have left the European Union, we can strike our own path on the international stage for the first time in half a century, securing free trade deals that will benefit every part of the country, empowering UK companies to achieve greater exporting success.

British business has always looked overseas for opportunities and for over 100 years UKEF has been one of our greatest assets in promoting UK trade around the world and helping companies on their exporting journey.

This has been another year of great success for the department, with £4.4 billion of support for UK exports.

UKEF sits at the heart of the government's strategy for promoting exports and has a big role to play in building the UK's future trading relationship with the wider world.

UKEF is also at the forefront of the government's efforts to support UK businesses during the COVID-19 pandemic, using its tried and tested products to help ease cashflow concerns and providing insurance for their exports.

Across the UK's 4 nations, UKEF is helping companies of all sizes win export contracts, fulfil orders and get paid. 77% of the companies that it directly supported this year were small and medium sized enterprises (SMEs) and 88% were based outside of London. Looking ahead, this government is committed to supporting the transition to a low-carbon global economy.

As part of this, UKEF is actively seeking opportunities to support clean growth. In the March 2020 Budget, we announced a package of measures to improve UKEF support for low-carbon sectors. These include boosting its Direct Lending Facility capacity to £8 billion, including £2 billion allocated for clean growth projects, ensuring that UK exporters are well placed to supply this fast-evolving sector.

The UK has world-leading expertise in renewable energy, particularly in offshore wind. This year, UKEF enabled British companies to win contracts on the Formosa 2, Changfang and Xidao offshore wind farms in the Taiwan Strait. With support totalling over £300 million, these projects will place UK companies at the vanguard of Taiwan's clean energy transition.

**Rt Hon. Liz Truss MP**
Secretary of State for International Trade and President of the Board of Trade

**Graham Stuart MP**
Minister for Exports

The UK is ready to trade with the world, and there is huge opportunity ahead for businesses, particularly in emerging markets such as those in sub-Saharan Africa. At the UK-Africa Investment Summit in January 2020, we announced £620 million of UKEF financing for 6 transformative infrastructure projects, including new hospitals, road improvements and a business park. That is British expertise backed by UKEF financing making a real difference to communities around the world and supporting thousands of jobs in the UK.

As we take our independent seat at the World Trade Organisation, signing new trade deals and supporting the transition to a low-carbon future, UKEF's role in unleashing the exporting potential of businesses across the UK is more important than ever before.

**Rt Hon. Liz Truss MP**
**Secretary of State for International Trade**
**and President of the Board of Trade**

**Graham Stuart MP,**
**Minister for Exports**

**19 June 2020**

Minister for Exports Graham Stuart addressing staff at the UKEF All-Staff Conference in October 2019

# Chair’s statement

**During my tenure to date I am proud to have seen the department go from strength to strength, culminating, fittingly, in record success in its 100th year in 2019-20.**

**Noël Harwerth**
Chair

Now, at the outset of our second century, we need to continue to strive; to innovate, improve and diversify in order to ensure that UK exporters large and small, backed by the UK’s world-class export credit agency (ECA), can achieve sustained international success. To do so, we will need to continue to collaborate across government and the private sector to deliver the best possible support for our customers.

We retain our ambition to have the most engaged workforce in the Civil Service. I am delighted that UKEF is now the most ethnically diverse department in the Civil Service with 30.7% of staff from BAME backgrounds, and we have further improved our gender balance within the Senior Civil Service cohort.

We know that there is much more to do. We welcomed the findings from the parliamentary Environmental Audit Committee (EAC) inquiry and fully recognise the imperative of tackling climate change. In the past 2 years, UKEF has supported nearly £400 million worth of contracts in the renewables sector. As the sector continues to mature, and the UK suppliers within it, UKEF will be able to provide more support, ensuring companies in this market can make the most of global opportunities.

I would like to thank my fellow non-executive Board members for their diligence and commitment this year. We are very fortunate to have such a wealth of expertise on the UKEF Board, with senior executive and non-executive experience across the public and private sectors.

Our Board saw the retirement of 2 long-serving members this year: Amin Mawji OBE, who led the Audit Committee with distinction since July 2013, and Justin Manson, who was UK Government Investment's (UKGI) representative for the last 4 years. I would like to thank them both for their years of dedication and service to the department. I would like to welcome Madelaine McTernan to the Board as the new representative for UKGI and congratulate Lawrence Weiss, who has taken up the position of Chair of the Audit Committee. I’m delighted that the Export Guarantees Advisory Council (EGAC) has added 2 members with climate change policy expertise, and that starting in 2020-21, the Chair of the EGAC, Alistair Clark, will also sit on the Board bringing the benefit of the EGAC's agenda to the deliberations of the full Board.

Finally, 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**
**19 June 2020**

# Highlights in 2019-20

We provided **£4.4 billion of support** for UK exports

We were named **best export credit agency** by Global Trade Review for the third successive year and Trade Finance Global for the second successive year

We provided **£787.5 million of support for projects in Africa**, supporting the government's ambition for the UK to be the leading G7 investor in the continent

We supported 339 companies' exports to 69 countries – **77% of the companies we directly supported were SMEs**

Our direct lending capacity was **increased to £8 billion**, with £2 billion allocated for clean growth projects

We **connected more than 500 UK suppliers with international opportunities** through our supplier fair programme

We supported **our first ever offshore wind farms**, with over £300 million of financing for projects in Taiwan

**We provided £392 million in support for renewable energy projects**, supporting the government's Clean Growth Strategy

We **launched our Small Deals Initiative** and changed our foreign content policy to make our support **more flexible and competitive**

31% of our staff identify as Black, Asian and minority ethnic, making UKEF **the most ethnically diverse department in government**

# Performance

# Chief Executive's report

**As the world's oldest export credit agency, UKEF has a track record of providing world-class support for UK businesses, leading the way in the field of export credits for the last 100 years. As we enter our second century, we have lost none of our ability to innovate in fulfilling our mission to ensure that no viable UK export fails for lack of finance or insurance from the private sector.**

**Louis Taylor**
Chief Executive Officer

Our focus in this, the final year of our 2017-20 Business Plan, has continued to be on delivering for all our customers. UKEF is helping to level up the UK, from the Belfast firm selling street furniture for the Dubai Arena, to the printing company in Runcorn selling secure high school certificates to the Kenyan National Examination Council, or the start-up from Aberdeen selling mobile mapping technology in the Asia-Pacific region.

We are proud of the fact that 77% of the companies that we directly supported this year were SMEs from across the country, and we are continuing to deliver new products and processes to make our support even easier for them to access.

At the UK Trade and Export Finance Forum (UKTEF) in June 2019, we launched our Small Deals Initiative and General Export Facility. Designed to make our support more flexible and competitive, these innovations will put SMEs in a better position to win business internationally.

We also announced changes to our foreign content policy, that enabled our support for Solarcentury, a renewable energy company based in London, by allowing UKEF to recognise the significant development and design expertise in the solar energy sector in the UK. We provided Solarcentury with nearly £50 million in financing to build 2 of the largest solar plants in Spain. Together, these plants will power over 250,000 homes every year.

Our support for the clean energy sector has been enhanced by UKEF's 'Leading with Finance' initiative, which identifies overseas projects that could benefit from UK expertise. Leading with Finance combines co-ordinated international engagement with marketing and business development to match overseas demand to UK supply chains. This has helped secure additional opportunities for UK exporters to win contracts in renewable energy projects.

Together with our support for the Formosa 2, Changfang and Xidao offshore wind farms in Taiwan, and for solar-powered rural healthcare clinics in Zambia, these transactions demonstrate UKEF's commitment to developing the depth and breadth of our support for clean energy.

Our offer for UK exporters in those sectors was further strengthened in the 2020 spring Budget. The Chancellor of the Exchequer announced a package of improvements to our offering that included two new tranches of recyclable direct lending, with £2 billion allocated to clean growth projects and £1 billion to UK defence and security goods and services. Now that the boost to the facility announced in the Autumn 2018 Budget has also been made permanent, our Direct Lending Facility, recognised as a 'gamechanger' by the British Exporters Association, has had its capacity significantly increased to £8 billion.

The Chancellor also announced half a million pounds to strengthen UKEF's export finance manager (EFM) network in the north of England and Scotland. These new positions will focus on companies that supply to clean growth industries, with targeted marketing activity to support them as they transition away from older technologies to cleaner new ones.

We are also working to implement the recommendations of the Task Force on Climate-related Finance Disclosures (TCFD), as we committed to doing in the Government's Green Finance Strategy published in July 2019. Further detail on TCFD can be found on page 98 and you can also see further details of our response to the parliamentary Environmental Audit Committee's inquiry into UKEF on pages 101 to 102.

UKEF has supported a number of transformational infrastructure projects this year, particularly in sub-Saharan Africa. In Ghana, we provided £110 million in financing for a new maternity hospital that will help reduce infant mortality rates in the Ashanti region, while support worth £40 million will see 83 kilometres of road upgraded in Gabon, benefiting an estimated 1 million people in the Libreville region.

Improved health, energy and transport infrastructure are crucial in helping nations out of poverty as recognised by the UN through the Sustainable Development Goals (SDGs). Through the projects we support, UKEF helps developing countries to close the infrastructure financing gap and achieve greater prosperity, while providing exporting opportunities for UK companies.

Our 2017-20 Business Plan also set out an accelerated path for UKEF to scale up our operations, deliver a higher quality of service for our customers and increase employee engagement. Over its course, we provided £14 billion of support for UK exports, while recording our highest ever levels of staff engagement.

Our success has also been recognised more widely, with UKEF named as Global Trade Review's best export credit agency (ECA) for the last 3 years in a row, and the British Exporters Association (BExA) scoring us 9/10 for our product offering every year since 2014.

UKEF's response to the COVID-19 pandemic has demonstrated the strength and versatility of our product suite, as well as our adaptability as a department. To meet the challenges of this pandemic, we are actively working with HM Treasury to ensure that our support for business continues during this period and position UKEF to be best placed to support UK exporters as the economy recovers.

As stated earlier, 2019 was our centenary year, marking 100 years of innovation and success in support of UK exporters. Our centenary has had a lasting impact, as UKEF staff raised nearly £20,000 for charity over the course of a number of internal events and sporting feats this year.

# Business supported

In 2019-20, UKEF provided 135 applicants with finance and insurance and referred a further 62 exporters to a private sector provider; in addition, a further 140 UK companies secured business supplying goods and/or services to a project UKEF is supporting and 2 from direct support and private market assists.

The maximum liability on all new business was £4,423 million. Our short-term trade finance products represented 16% of this total. UKEF earned net premium in the year of £177 million.

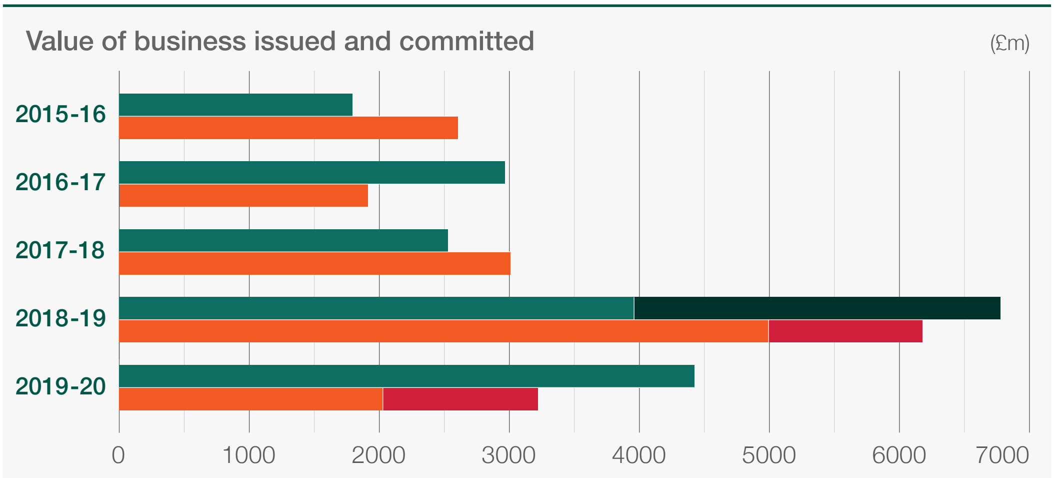



**Figure 1**

- Value of guarantees, insurance policies and direct loans issued and effective except Account 3
- Account 3[1]
- Value of commitments as at 31 March except Account 3
- Account 3

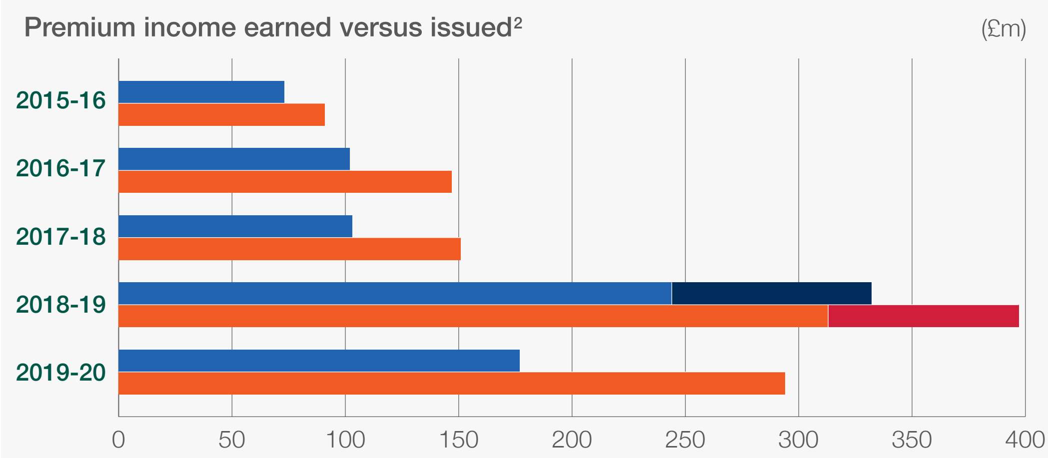
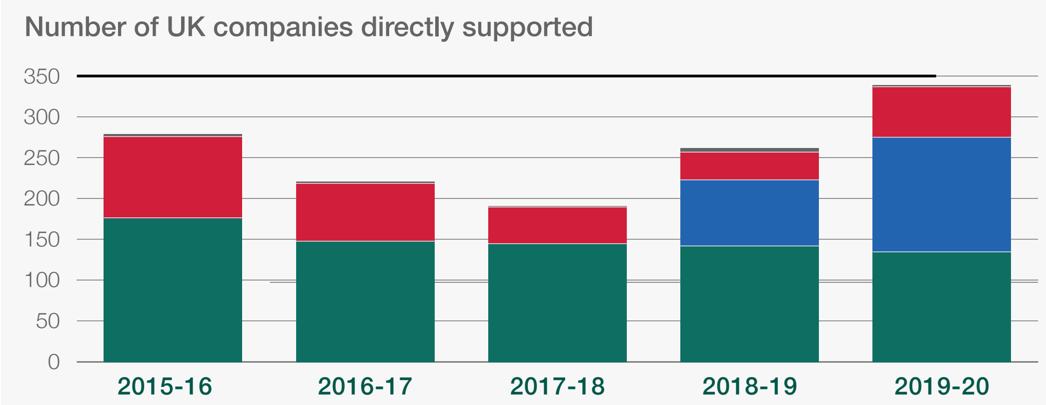



**Figure 2**

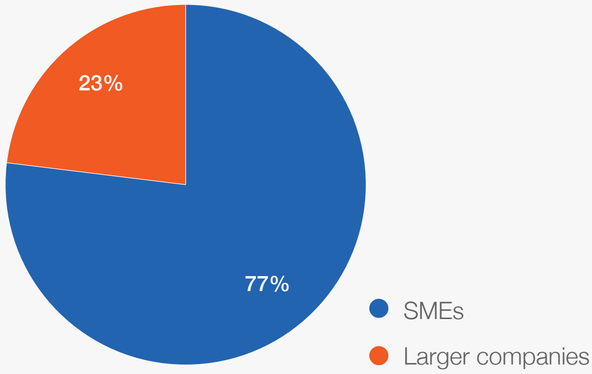
- Premium income earned – net of reinsurance except Account 3
- Account 3
- Premium income issued – net of reinsurance except Account 3
- Account 3



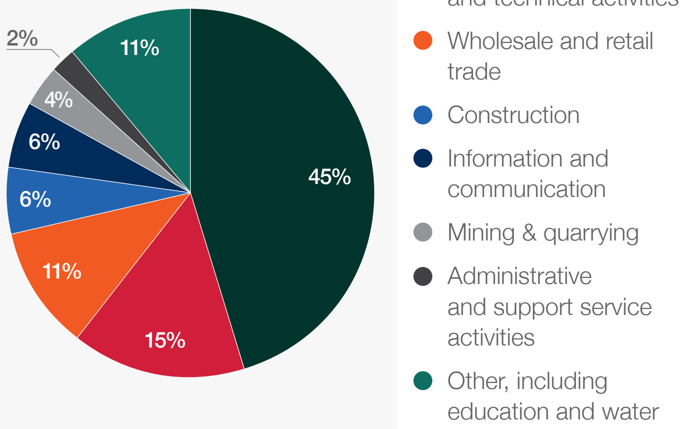

- Companies UKEF provided with finance and insurance
- Companies that have secured business supplying to a project UKEF is supporting[3]
- Private market assist[4]
- Direct support and private market assist

1 For more on what Account 3 is, see page 89.
2 Premium income earned differs from premium income issued because it:
- 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).
- Premium Income earned is based on Accounting Standards (see note 1 of the Financial statements for further details).

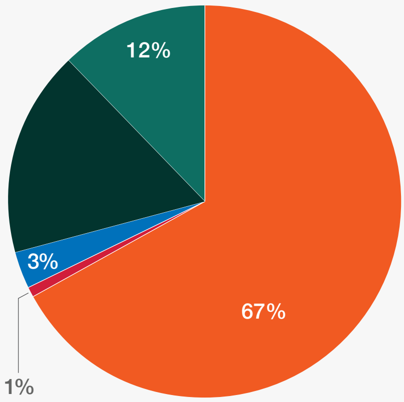
## Companies supported by size[5]



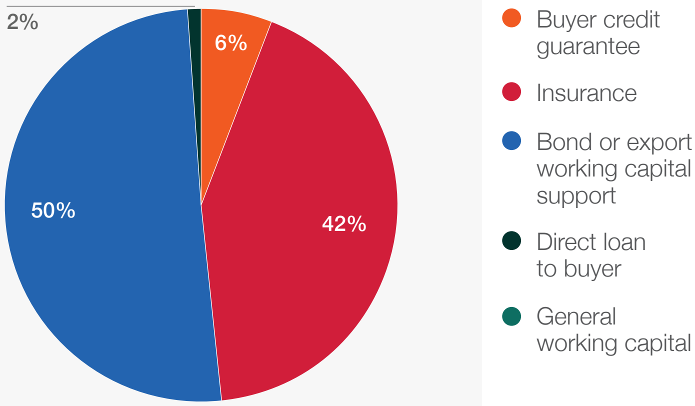

## Companies supported by sector[5]



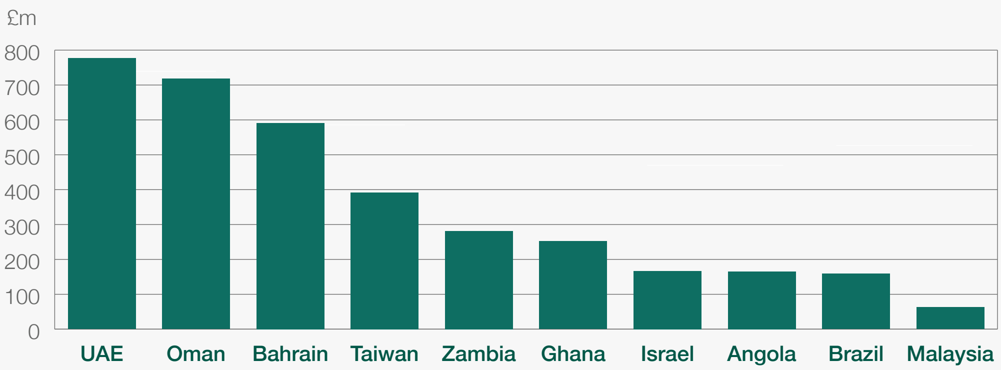

## Product use by our maximum liability




## Product use by number of facilities




## Top 10 destination of exports supported in 2019-20




3 This data was not measured before 2018-19 and therefore cannot be reported.
4 A private market assist is when our engagement has had a material contribution to a company receiving support from the private sector, resulting in an export contract going ahead that was unlikely to have proceeded otherwise.
5 Based on the number of companies UKEF directly supported with finance or insurance.

## Our response to the COVID-19 pandemic

The economic impact of the COVID-19 pandemic within this report was limited in the 2019-20 financial year, but it is important to outline how we have been responding to this health and economic crisis, and how we have prepared for the coming financial year, which will be very different.

UKEF's existing range of tried and tested products has been, and will be, vital in supporting UK exports. This includes products such as our Export Working Capital Scheme, which eases cash flow constraints for exporting businesses.

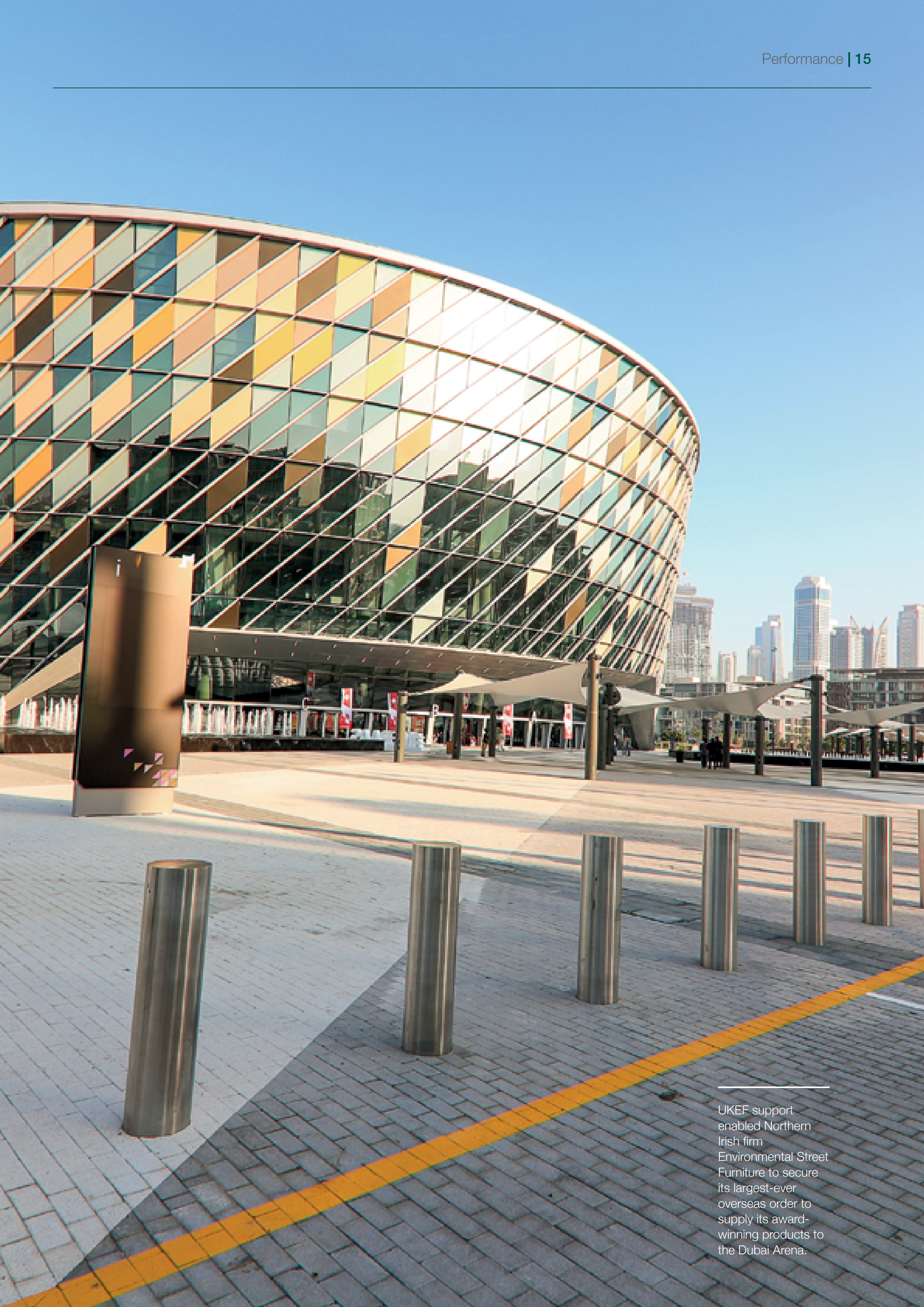
To meet the challenges of this pandemic, we are actively working with HM Treasury and taking a pragmatic approach to supporting businesses during this period. This will allow us to continue to provide finance to customers that we would have supported before the outbreak of COVID-19, even taking account of the commercial impact of the virus on their business prospects. In addition, we are able to protect our customers from financial loss from the pandemic when claims are made on insurance policies or guarantees provided to banks.

We have also accelerated the imminent launch of our General Export Facility and development of the Export Development Guarantee. These products provide a guarantee of up to 80% to support bank loans for general working capital or capital expenditure for UK exporters and is not tied to a specific exporting contract. First used in 2019 to support Jaguar Land Rover, we will be rolling these products out more widely and anticipate they will be extremely popular with businesses whose exports have been affected by the pandemic and require support.

In addition, the scope of our Export Insurance Policy has been extended to include transactions with the EU, Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and the USA so that cover is available in 180 countries in total. Our recently boosted direct lending scheme is also vital in supporting overseas buyers looking to procure from the UK, allowing UKEF to offer support where private sector liquidity is poor.

UKEF has an active role to play both during the pandemic and as we move to the recovery phase. We will continue to innovate and adapt as needed to enable UK exporters to survive and thrive through this challenging time.

You can find more on the potential effects of the pandemic on the UK and global economy in the Economic Snapshot starting on page 32.



UKEF support enabled Northern Irish firm Environmental Street Furniture to secure its largest-ever overseas order to supply its award-winning products to the Dubai Arena.

# Measuring our success

The volume of business that UKEF supports year-on-year is a reflection of private sector liquidity and risk appetite, as much as of our activity and success. We complement rather than compete with private sector finance and insurance providers. 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, as well as their supply chains

**Our support is provided on the following terms (see pages 58 to 85 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, which support our strategic aims:**

- **Agile and adaptable:** to be an agile department, able to address the challenges facing UK exporters throughout the economic cycle.
- **Competitive offering:** to be active in ensuring that we are one of the most competitive export credit agencies in the world.
- **Customer service and awareness:** to provide a high-quality service to our customers that is responsive, 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 new Business Plan for 2020-24

As we enter our second century as the UK's export credit agency, it is important to ensure that we have the ambition, resources and strategy to help exporters continue to succeed.

Our last Business Plan for 2017-20 set out an accelerated path for developing the department that saw us scale up our business and operations - all while delivering a higher quality of service, sealing landmark transactions and having a highly engaged workforce. You can find more on how we delivered against this plan on page 18.

The new plan builds on our past experience and successes, so we can remain a world-class export credit agency and help support the government's ambitions for UK exports.

In this plan, we have 4 delivery objectives, which set out what we need to achieve to realise our mission, and 3 organisational objectives, which define the resources, skills and operational capabilities we will need to do that. These are:

**Delivery objectives**

1. Provide export finance, insurance and guidance to help UK companies sell overseas, supporting the delivery of the government's Export Strategy
2. Continuously adapt and focus our activity on sectors and countries where UKEF support will have the greatest economic benefit for exporters and suppliers of all sizes and across all of the UK
3. Improve awareness and understanding among UK companies, international buyers, prime contractors, sponsors, banks and insurers about export finance and insurance support available from UKEF and the private sector
4. Ensure we retain the confidence of our ministers by rigorously managing risk, improving efficiency and operating within the consent of HM Treasury

**Organisational objectives**

1. Be a great place to work, engaging and developing our staff to deliver better for our customers, in line with the vision for a "Brilliant Civil Service"
2. Be a customer-centric organisation, delivering high-quality services to the businesses and organisations we support
3. Be agile and adaptable, responding to emerging economic developments and market gaps

You can find out more about how we will achieve each of these objectives in our Business Plan, which will be available online.

Our plan for 2020-21 to achieve against these new objectives can be found on pages 27 to 28.

# How we performed against our Business Plan commitments for 2017-20

| We said we would… | What we did… |
|---|---|
| Be a more scalable organisation, able to support higher volumes of business efficiently and effectively, in particular on the short-term trade finance side | Implemented our innovative new bank partnership and digital trade finance service to deliver more efficiently to SMEs |
| Be a more customer-centric organisation, offering improved response times, quicker decision-taking and improved case-processing | Enhanced our digital service to make UKEF more accessible and user-friendly for our customers |
| Make meaningful contact with more exporters and other stakeholders, resulting in increased numbers of exporters accessing support | Deployed our "Exporters' Edge" GREAT marketing campaign, generating over 10,000 new responses (exceeding our target by over 20%), and introduced a programme of supplier fairs to help UK companies access the supply chain of projects UKEF supports |
| Use digital as a primary means for managing relationships with a wider range of stakeholders | Established a web presence for our international customers and continued to develop our digital offer for UK businesses |
| Be smarter in our decision-taking, using data and market intelligence to guide our interventions | Improved our data management and business analytics so that we can embed insight and analysis across our business, enabling us to make better informed and evidenced decisions |
| Be a great place to work, with all staff engaged in delivering our mission and clear about the value of their contribution | Scored our three highest engagement scores to date in the Civil Service People Survey; we have also made significant strides forward in improving our operating model, staff development and diversity |
| Collaborate generously with colleagues in the Department for International Trade, other government departments and other partners, combining our efforts to maximise the benefit to exporters | UKEF is at the heart of the Government's Export Strategy, collaborating generously with other parts of government to provide a joined-up offering to exporters |
| Continue to be disciplined in our use of resources, and in risk management, in order to operate within the terms of our Spending Review 2015 settlement and Treasury consent, and at no net cost to the taxpayer | Continued to meet our financial objectives set out in the Spending Review 2015 operate at no net cost to the taxpayer; in 2018–19 alone, we generated £332 million in premium income |

# Our achievements in 2019-20

## Agile and adaptable:

| | |
|---|---|
| Appropriately embed compliance and risk management in all the business we do | Implemented and ongoing (see page 103) |
| Develop a target operating model to drive and inform UKEF's transformation plan | Implemented and ongoing (see page 57) |
| Continue to develop our digital services, data and technology to improve customer experience, increase efficiency and support robust decision-making | Implemented and ongoing (see page 57) |

## Competitive offering:

| | |
|---|---|
| Develop and deliver a product strategy in support of UK exports while protecting taxpayers' interests | Implemented and ongoing (see pages 48 to 49) |
| 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 | Mostly implemented and ongoing (see pages 48 to 49) |

## Customer service and awareness:

| | |
|---|---|
| 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 | Implemented (see page 23) |
| Continue to roll out our supplier fair programme more widely to maximise the benefits of UKEF support for the UK supply chain | Implemented and ongoing (see page 23) |
| Further expand our international network of export finance specialists | Implemented and ongoing (see page 23) |

## Great place to work:

| | |
|---|---|
| Reduce staff turnover and increase employee engagement to maintain a workforce with the right skills, knowledge and ability | Partially implemented and ongoing (see pages 132 to 134) |
| 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 | Implemented and ongoing (see page 135) |

**‘If small businesses were to export more, Britain would see even stronger economic growth. For 100 years UKEF has been enabling companies from across the UK to expand their global reach by helping them succeed abroad. That’s why it is at the heart of my plan to get businesses ready to trade.’**

Rt Hon Liz Truss MP, Secretary of State for International Trade and President of the Board of Trade

**‘Having a best-in-class ECA, with over 100 years of experience in supporting UK exporters is an incredible advantage for our country, and we can see the benefits in the admirable results that UKEF achieved this year.’**

Graham Stuart MP, Minister for Exports

Trade Secretary Liz Truss addressing UKEF and DIT staff

## Finances

UKEF achieved a net operating income of £217 million for the year ended 31 March 2020 compared with £128 million for the year to 31 March 2019.

We met all of our financial objectives, which are set for us by HM Treasury. Page 31 sets out our results against our financial objectives and pages 88 to 93 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 any single year actually reflect business written over a longer period of time.

Overall, this year, our performance in managing financial risk remained strong. But it is our management of risk through business cycles that is most important. See pages 58 to 85 for a more detailed commentary on how we have managed financial risk.

## Performance assessment

An assessment of our performance should take into account:

- the overall volume of our support (as reported on page 30)
- our ability to cover our operating costs and credit 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


Thanks to UKEF support, power transformers built by BRUSH Transformers and General Electric will be used to modernise Angola's national power grid.

## Awareness

In the UK, our ‘Exporters’ Edge’ GREAT campaign continued to engage our target audience of small to medium exporters through PR, online advertising, social media, events, partnerships, direct marketing and re-marketing. We improved our targeting to increase awareness and understanding of UKEF’s offer, and generated over 5,439 new responses from UK businesses against a target of 5,000.

In early 2020-21 we will conduct a further market survey to measure awareness among UKEF’s target audience, against a baseline of 20% awareness in 2016, which had risen to 26% by March 2019. We hope to increase this further as we continue our campaign in 2020-21.

UKEF held 6 Supplier Fairs in 2019-20, introducing 558 UK suppliers to procurement teams for international projects, the most in a single year since our supplier fairs started in 2017. UKEF has participated in 167 other domestic events, engaging directly with UK SMEs to increase awareness and understanding of our offering.

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 24 international events.

UKEF’s network of international export finance executives in Brazil, Dubai, Indonesia, Ghana, Turkey, India and Mexico led engagement with local buyers, project sponsors and associated stakeholder networks in post to develop UK export growth in these markets and surrounding regions with the offer of UKEF-supported finance, and we continue to recruit in other regions.

Getting our support to the right companies, at the right time, will remain a significant focus, particularly for our trade finance products. In 2020-21, we will continue to work closely with commercial partners to 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 pages 54 to 57.

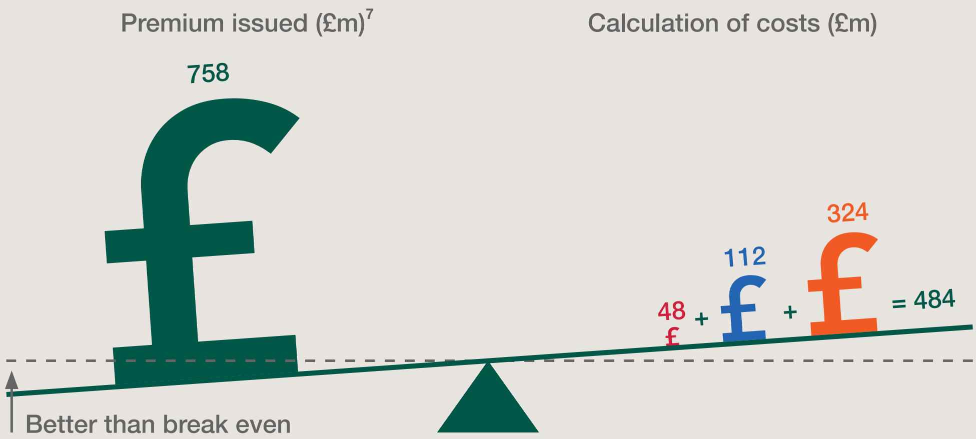
# Pricing of risk

We support UK exporter competitiveness through charging only 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 72 to 75.

## 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 actual results for 2017-18 to 2019-20.




The total premium issued between 2017-20 exceeded our costs by £274 million.

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

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

See page 73 for further details.

7 The premium accounted for 2017–2020 applied to our pricing adequacy index is the premium income issued for that period. See footnote on page 12 for more detail.

## 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 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.

In the 2020 Budget the Chancellor of the Exchequer announced that UKEF will be given more money to lend directly to overseas buyers of UK goods and services, particularly for clean growth projects. This takes the amount available under UKEF's Direct Lending Facility from £5 billion to £8 billion. To complement direct lending, UKEF will also amend its Buyer Credit guarantee to allow it to better support export finance provided on a fixed-rate basis by covering break-costs or make whole payments related to interest-rate swaps.

## 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.

We continue to have our success recognised, with UK Export Finance named Best ECA by Global Trade Review for the third year in a row and Trade Finance Global for the second year in a row.

Louis Taylor speaking at the BExA Annual Lunch

# 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 (e.g. 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, when our financial exposure has averaged £19.3 billion, demonstrates a strong capability in managing credit risk. Although past performance is not a guarantee of the future, taking the last 5 years, the average claims paid as a proportion of the average amount at risk would be:

### £1 for every £4031 at risk, or 0.02%

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 58 to 85.

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 the strategic and operational risks facing our business and consequent mitigation measures in the governance statement on pages 108 to 123.

## 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 be prepared for any increased uptake of our products and services.

The 2015 Spending Review (covering the period to the 2019-2020 financial year) committed us to cost savings of 15% by 2020, which we achieved. However, we were permitted to reinvest these savings to support measures which transform the business and drive efficiency.

These transformative measures included:

- Improving the reliability, scalability and capability of our IT systems, including the improved use of Management Information (MI), moving towards a 'digital-by-default' approach, and reducing operational risk

- A service redesign to improve product access for customers and processing by UKEF
- Organisation and workforce change, including a new operating model for the Business Group to achieve more efficient use of our talent across sectors and products, and the introduction of an enhanced business development function

Further detail on these changes is reported on page 57.

## The year ahead

As we enter the first year of our new Business Plan for 2020-24, our aim remains focussed on delivering a high quality service for our customers and being a great place to work for our staff.

**1. Provide export finance, insurance and guidance to help UK companies sell overseas, supporting delivery of the Government's Export Strategy**

To achieve this, we will in 2020-21:

- Work with 'super-buyers' overseas, UK and non-UK prime contractors and 'multipliers' to enable increased opportunities for the UK supply chain to sell into overseas projects backed by UKEF financing
- Launch a new and improved supply chain product range and fully launch our General Export Facility and our Export Development Guarantee

**2. Continuously adapt and focus our activity on sectors and countries where UKEF support will have the biggest benefit, helping UK exporters and suppliers win business**

To achieve this, we will in 2020-21:

- Appoint up to 10 new international export finance executives in key priority markets and integrate them into our operational planning
- Collaborate with the Department for International Development on the Developing Market Infrastructure Programme
- Use our new tranche of direct lending to further build and develop our clean growth transaction pipeline

**3. Improve awareness and understanding among UK companies, international buyers, prime contractors and sponsors, banks and insurers of export finance and insurance support available from UKEF and the private sector**

To achieve this, we will in 2020-21:

- Use our marketing activities to generate customer responses and an increase in awareness of UKEF among potential customers
- Develop our web presence, including improved content and functionality for trade finance customers

**4. Ensure we retain the confidence of our ministers by rigorously managing risk, improving efficiency and operating within the consent of HM Treasury**

To achieve this, we will in 2020-21:

- Ensure governance, compliance and assurance remain in line with government best practice
- Prepare to make climate-related financial disclosures in line with the TCFD recommendations as soon as is practicable after the end of 2020-21
- Actively work with HM Treasury to ensure that we continue to give the best possible support for exporters affected by the COVID-19 pandemic

**5. Be a great place to work, engaging and developing our staff to deliver better for our customers, in line with the vision for a "Brilliant Civil Service"**

To achieve this, we will in 2020-21:

- Launch our new People Strategy and Employee Value Proposition
- Continue to evolve the way we work through launching the UKEF Smarter Working Programme and completing the refresh of the staff intranet
- Refresh our commitments under the HMT Women in Finance Charter and update the Diversity & Inclusion Plan and associated Wellbeing Plan

**6. Be a customer-centric organisation, delivering high-quality services to the businesses and organisations we support**

To achieve this, we will in 2020-21:

- Implement our Target Operating Model roadmap and transformation plan
- Scope and implement our customer feedback approach
- Agree benchmarks for our Digital Trade Finance Service and Customer Satisfaction Index

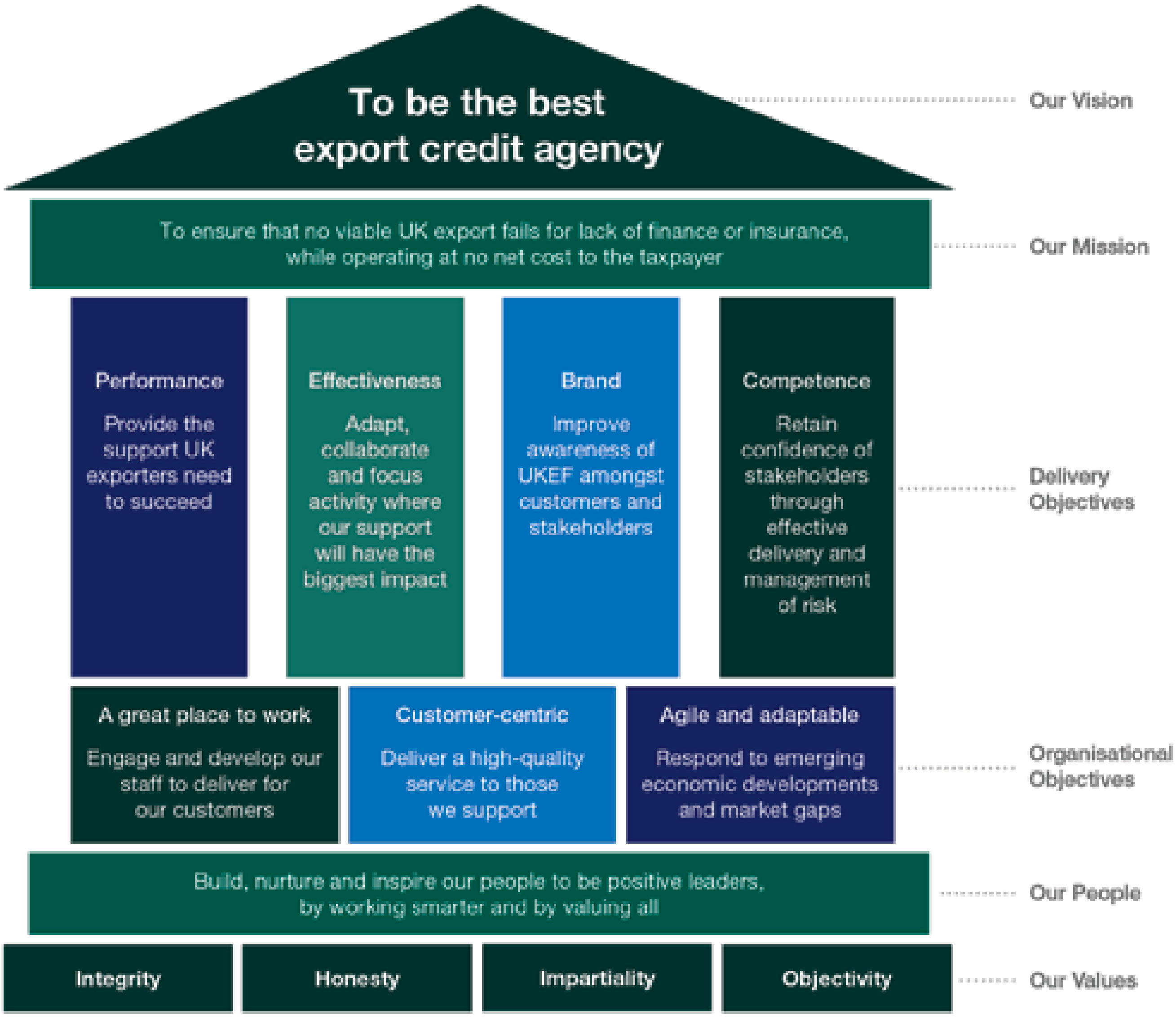
**7. Be agile and adaptable, responding to emerging economic developments and market gaps**

To achieve this, we will in 2020-21:

- Work closely with the Department for International Trade to develop the government's new Export Strategy
- Implement our Product Strategy and Product Review recommendations, including roll-out of a refreshed Export Insurance Policy
- Innovate and adapt as needed to help our customers during the COVID-19 pandemic and in the recovery phase

## 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. It ensures clarity of purpose in all that we do, and creates alignment of departmental, divisional and personal objectives in order to deliver our priorities:




I believe that this report, and the performance reports that follow, are a fair, balanced and understandable account of UKEF's performance in the 2019-20 year.

Louis Taylor
Chief Executive and Accounting Officer
19 June 2020

# Performance overview

### Financial overview – 5-year summary

| | 2019-20 £m | 2018-19 £m | 2017-18 £m | 2016-17 £m | 2015-16 £m |
|---|---|---|---|---|---|
| Business supported | 4,423 | 6,776 | 2,530 | 2,966 | 1,793 |
| Premium income earned | 177 | 332 | 103 | 102 | 73 |
| Premium income issued | 294 | 397 | 151 | 147 | 91 |
| Claims paid | 8 | 0 | 2 | 8 | 5 |
| Net operating income | 217 | 128 | 5[1] | 149 | 106 |

### Non-financial indicators – 5-year summary

| | 2019-20 | 2018-19 | 2017-18 | 2016-17 | 2015-16 |
|---|---|---|---|---|---|
| Total exporters supported, of which: | 339 | 262 | 191 | 221 | 279 |
| direct support under a UKEF product | 135 | 142 | 145 | 148 | 176 |
| companies that have secured business with a project UKEF is supporting[2] | 140 | 81 | - | - | - |
| private market assist | 62 | 34 | 45 | 71 | 100 |
| direct support and private market assist | 2 | 5 | 1 | 2 | 3 |
| Facilities issued | 604 | 733 | 580 | 483 | 593 |
| Introductions to other sources of support | 1,585 | 1,352 | 1,328 | 2,267 | 1,778 |

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 was the first year UKEF has measured this.

### Financial objectives

| Objective and description | Results |
| --- | --- |
| **Maximum commitment**<br>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**<br>The highest recorded maximum exposure in the year was £31.7 billion, against a maximum permissible level of £50 billion. |
| **Risk appetite limit**<br>This limit places a constraint on UKEF's appetite for risk at the 99.1 percentile of UKEF's estimated portfolio loss distribution. | **Met**<br>UKEF's 99.1 percentile of the portfolio loss distribution did not exceed £2.1 billion against a maximum permissible level of £5 billion. |
| **Reserve index**<br>This index ensures that UKEF has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5% level of confidence. | **Met**<br>The reserve index did not fall below 3.14 in the year, against a target minimum of 1.00. |
| **Pricing adequacy index**<br>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**<br>This index at 31 March 2020 was 1.57, against a monthly minimum target of 1.00. |
| (ii) previous, present and next year. | **Met**<br>This index did not fall below 1.54, against a monthly target minimum of 1.00. |
| (iii) present year and next 2 years. | **Met**<br>This index did not fall below 1.55, against a monthly target minimum of 1.00. |
| **Premium to risk ratio**<br>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**<br>This ratio did not fall below 1.87, against a target minimum of 1.35. |

Pages 58 to 85 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

**Richard Smith-Morgan**
Deputy Chief Risk Officer

## The Great Lockdown

After its initial outbreak in China, COVID-19 has now spread to almost every country around the world. The outbreak and response of national authorities, limiting movement and social interaction, has resulted in an unprecedented economic shock – the so-called 'Great Lockdown'. Both the supply and demand sides of the global economy have been affected, with 'sudden stops' resulting in production slowing, supply chain disruptions, labour force pressures, as well as a significant decrease in consumption. Global growth was already slowing in 2019 – at 2.9%, down from 3.6% in 2018 – and 2020 is set for a sharper contraction than the 2008 global financial crisis.[1]

The size of the impact on the global economy will in part depend on the length, severity and national responses to the outbreak. The ability for each country to limit the damage to their own economies will hinge on underlying structural factors, such as their exposure to commodity price volatility and reliance on external financing, as well as their ability to use judicious monetary and fiscal policy support.

For advanced economies with sufficient policy space, interest rates can be lowered, and fiscal policy expanded to help cushion the fall in demand. However, fiscal stimulus will result in sizeable increases in budget deficits and debt, with potential consequences for funding costs.

For emerging market economies with flexible exchange rate frameworks and manageable exposure to foreign currency-denominated debt, such as Brazil, India and Mexico, there is greater capacity to further ease monetary policy, while taking the opportunity to undertake fiscal and structural measures that help to enhance investor confidence. However, many emerging markets will suffer from under-resourced healthcare systems and tighter financing conditions, leaving them extremely vulnerable to the crisis. Consequently, external support, particularly multilateral, will play a key role in supporting developing economies through the crisis.

The economic outlook for 2020 has rapidly worsened as the virus spread around the globe. The IMF substantially revised down its projections for global economic growth in 2020, by over 6 percentage points, from 3.3% in January 2020 to -3.0% in April 2020.[2] While the three ratings agencies (Fitch, Moody's and S&P) also predict a contraction in the global economy of -2.4% to -4.6% in 2020.[3]

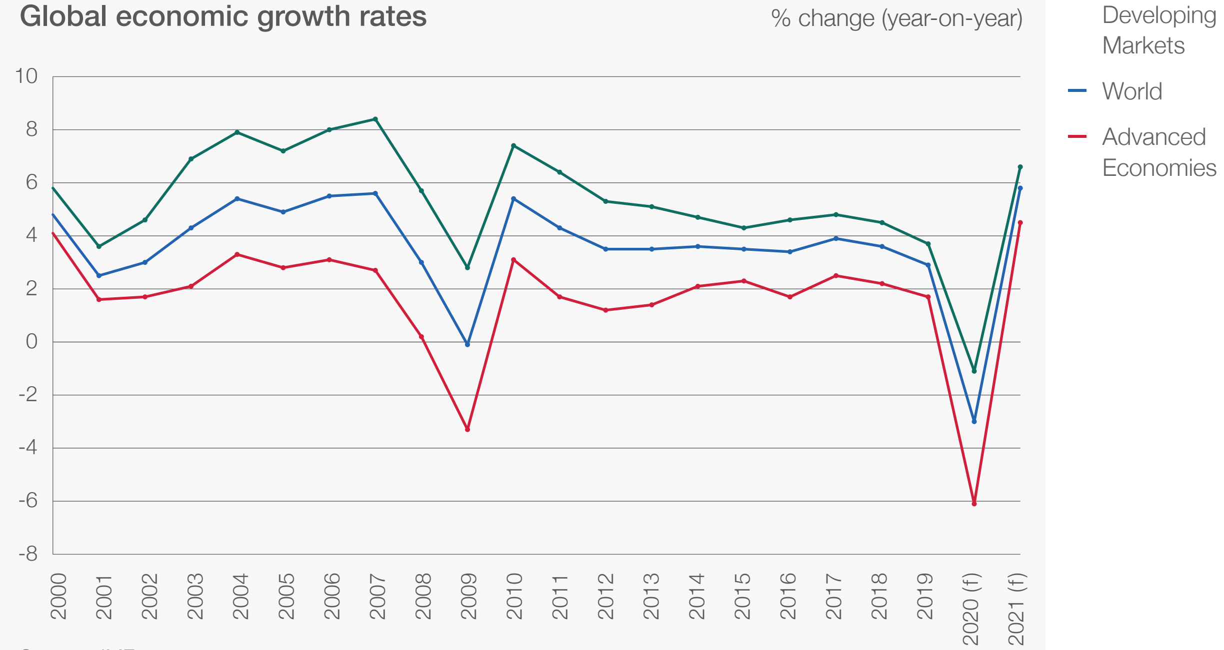
The IMF projects global growth of 5.8% in 2021 as economic activity rebounds from very low levels. This outlook is based on the assumptions that the pandemic fades in the second half of 2020, containment measures are scaled back and policy actions

1 IMF World Economic Outlook, April 2020.
2 IMF World Economic Outlook, January 2020; IMF World Economic Outlook, April 2020.
3 Fitch, Global Economic Outlook: Crisis Update May 2020 (26 May 2020); Moody's, Global Macro Outlook 2020-21 (28 April 2020); S&P, COVID-19 Deals A Larger, Longer Hit To Global GDP (16 April 2020).

are effective in preventing bankruptcies, job losses and financial strains. However, this recovery is only partial – the level of global GDP in 2021 is expected to remain about 3% below its pre-COVID-19 forecast.

The near-term outlook is very uncertain. There have been a number of material revisions to global economic forecasts as the impact and duration of the COVID-19 outbreak have become more apparent. In particular, questions remain as to the shape and speed of the recovery. The IMF state that the risks to the outlook are on the downside and that worse growth outcomes are possible. The IMF has modelled alternative growth paths, including a scenario where the outbreak is longer than expected and the global economy contracts by around 6% in 2020 and rebounds by just under 4% in 2021. Under the most extreme scenario, of a longer outbreak in 2020 and a second wave in 2021, the global economy contracts by about 6% in 2020 and a further 2% in 2021. Under both these downside scenarios there is likely to be long-term damage to productive capacity – 'scarring' – as liquidity issues lead to insolvency for businesses and long-term unemployment rises. These effects may be greater in economies where there is limited fiscal space to provide support, and which may in turn worsen longer-term prospects for growth and government balance sheets.

**Global economic growth rates**

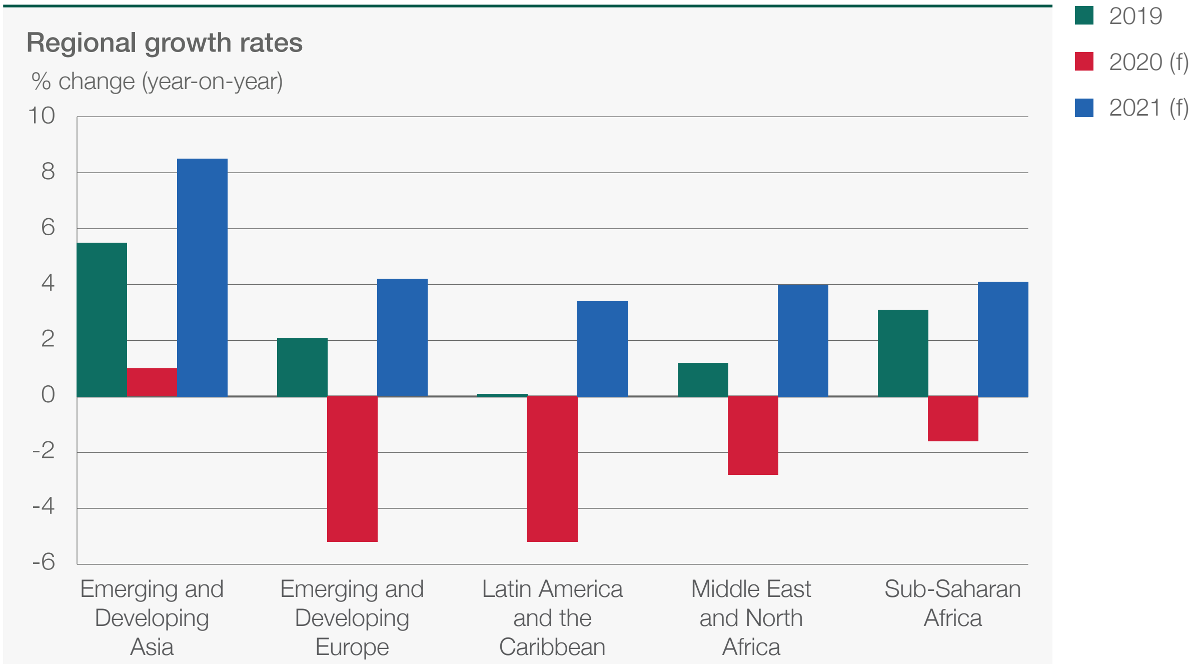



**Source:** IMF

The IMF forecasts that advanced economies will contract by 6.1% in 2020, compared to 1.7% growth in 2019. All advanced economies are expected to contract in 2020, with some of the biggest falls in Italy (-9.1%), Spain (-8.0%), France (-7.2%), Germany (-7.0%), US (-5.9%) and Japan (-5.2%). This is primarily due to the nationwide lockdowns that these countries have enacted to combat the spread of the virus. Growth in advanced economies is then projected to reach 4.5% in 2021, once lockdowns are removed, but most advanced economies are still likely to end 2021 with a lower GDP level than 2019. Moreover, the IMF note that adverse confidence effects may further weigh on economic prospects over the subsequent recovery.

Similarly, the IMF expects emerging and developing economies to contract by 1.0% in 2020, down from 3.7% growth in 2019. In addition to the public health crisis and reduction in domestic economic activity due to containment measures, many emerging and developing markets are experiencing a substantial fall in external demand, a pronounced tightening of financial conditions and a collapse in commodity prices. Growth is then forecast at 6.6% in 2021 for emerging and developing economies, but this is also subject to high levels of uncertainty. Despite the rebound in 2021, many developing economies will experience economic growth at a considerably lower rate than population growth, resulting in per capita income falling – with likely political consequences.

## Emerging market and developing economies: Regional economic growth rates




**Source:** IMF

**Emerging and Developing Asia** is the only region forecast to grow in 2020, by 1.0%. However, this is around 6 percentage points below its average in the previous decade. Positive growth in the region is supported by China (1.2%), India (1.9%) and Vietnam (2.7%). The outlook for the region in 2021 depends to a large extent on the speed of the recovery in global economic activity, particularly in China which is forecast to grow by 9.2% in 2021.

**Emerging and Developing Europe** is forecast to contract by 5.2% in 2020, with Croatia and Montenegro facing the sharpest reductions in economic activity (both at -9.0%). Due to limited access to external financing and underdeveloped banking systems, most economies in the region will struggle to finance substantial increases in their fiscal deficits. Many non-EU emerging economies in Central and Eastern Europe have applied for emergency assistance through the IMF's rapid financial assistance facilities since the outbreak.

**Latin America and the Caribbean** GDP growth is projected to decline by 5.2% in 2020, with Mexico and Brazil forecast to contract by 6.6% and 5.3% respectively. Many economies in the region were already facing high financing costs, weak growth and increasing public debt levels before the emergence of COVID-19. These factors will all be exacerbated by tighter financing conditions in global markets and contribute to the weakest emerging market regional outlook through 2020/21.

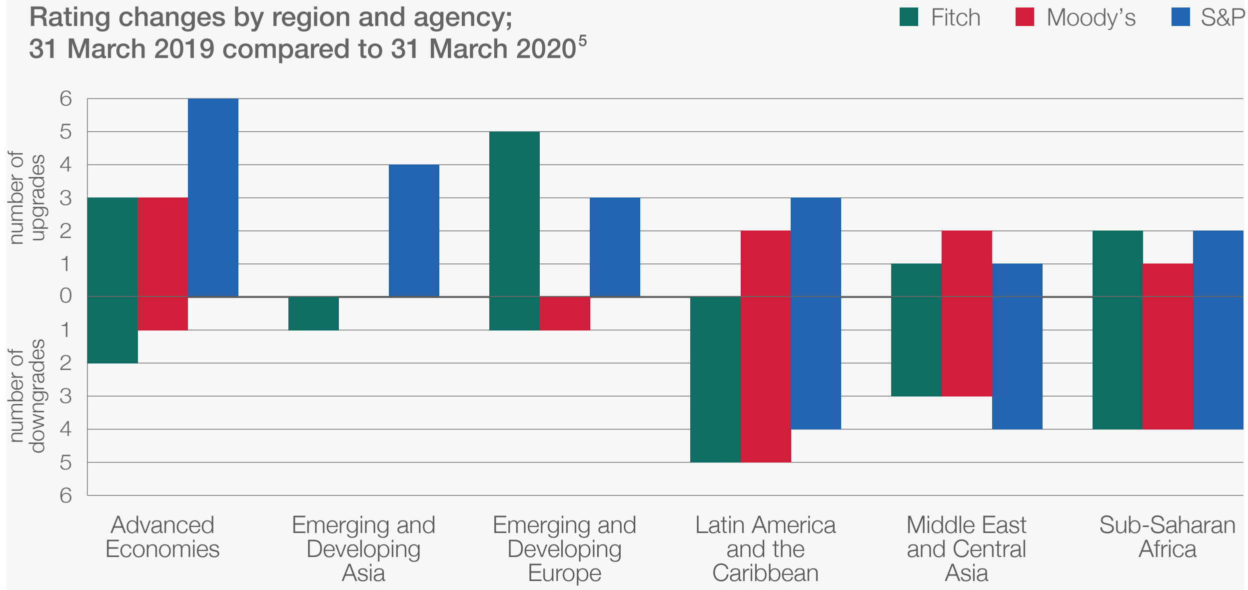
**Middle East and Central Asia** is expected to contract by 2.8% in 2020, but the growth rate for the Middle East and North Africa region, to which UKEF has significant exposure, is expected to be weaker at -3.3% in 2020. The markets where UKEF has considerable exposure are all projected to shrink, including Iraq (-4.7%), Qatar (-4.3%), Bahrain (-3.6%), UAE (-3.5%), Oman (-2.8%) and Saudi Arabia (-2.3%). The collapse in hydrocarbon prices has resulted in a significant deterioration in the outlook for most Middle Eastern economies. The fiscal positions of many governments in the region are likely to worsen considerably in the near-term as they support their economies through the period of low international oil and gas prices and depressed external demand – a position that can only worsen the longer the recovery takes. The projected pick-up of the global economy should see hydrocarbon prices rise but the outlook remains highly uncertain.

**Sub-Saharan Africa** is forecast to contract by 1.6% in 2020, the worst annual performance for the region on record. Angola's economy is projected to shrink by 1.4%, whereas Ghana and Uganda's growth rates are positive but were revised down by 4.1 and 2.7 percentage points, to 1.5% and 3.5% respectively.[4] Weak healthcare systems in the region are at risk of being overwhelmed by the spread of the virus if the number of COVID-19 cases grows rapidly. The combination of a sharp drop in economic activity, restricted access to external financing and the decline in commodity prices is likely to severely hit many economies in the region.

## Rating changes

External ratings agencies, such as S&P, Moody's and Fitch provide an important benchmark for our own internal risk assessments. Credit rating actions by these agencies allow us to observe whether regional economies have been moving in a generally positive or negative direction over the last year. This is particularly important at present – growing credit weakness before COVID-19 is very likely to be exacerbated by the global recession. Ratings agencies have already downgraded a number of countries (mostly oil exporters) in the first quarter of 2020 as a result of COVID-19 and the fall in oil prices.

**Rating changes by region and agency; 31 March 2019 compared to 31 March 2020[5]**




**Source:** Fitch Ratings, Moody's Investors Service and S&P Global Ratings
**Note:** The number of sovereigns rated differs by agency, therefore the number of rating changes should not be directly compared across the 3 ratings agencies. As of March 2020, Fitch rates 119 sovereigns, Moody's rates 144 and S&P rates 135.

4 IMF World Economic Outlook, April 2020 compared to IMF World Economic Outlook, October 2019.
5 The chart illustrates the change in the long-term foreign currency rating for individual sovereigns since the end of March 2019 to the end of March 2020 but does not take into account multiple changes by the same ratings agency. For example, Argentina experienced multiple rating changes by Fitch over the period. However, Argentina only counts as 1 downgrade for Fitch in Latin America and the Caribbean as Argentina had a lower rating by Fitch at the end of March 2020 than they had at the end of March 2019. The chart groups countries by IMF regional classification, so only includes sovereign rating changes for countries with IMF membership plus individual Emirates within the UAE.

Over the past financial year, countries in the Advanced Economies grouping recorded a large number of rating upgrades, including **Greece**, **Lithuania** and **Slovenia**, reflecting sound macroeconomic management and improving fiscal metrics. Similarly, countries in Emerging and Developing Europe have experienced primarily positive rating changes, such as **Serbia** and **Ukraine**.

In Emerging and Developing Asia, both **Indonesia** and **Vietnam** were upgraded by S&P given strong economic prospects and relative political stability. However, the impact of COVID-19 on fiscal and external positions may weigh on the credit ratings of these 2 export dependent economies.

In sub-Saharan Africa, **Mozambique** was upgraded by all 3 ratings agencies following the conclusion of a restructuring agreement between the government of Mozambique and bondholders in September 2019.

On the downside, a number of countries in which UKEF has significant exposure have been downgraded by the ratings agencies, mainly due to a rise in debt and an increase in uncertainty following the outbreak of COVID-19 and collapse in hydrocarbon prices.

The Middle East has seen primarily negative rating changes over the past year. Notably, **Oman** received a downgrade from all 3 ratings agencies in March 2020. They highlighted the continued deterioration in Oman's fiscal position and lower affordability of its debt, which is expected to increase. Likewise, **Saudi Arabia** was downgraded by Fitch in September 2019 due to the continued weakening in the country's fiscal and external balances.

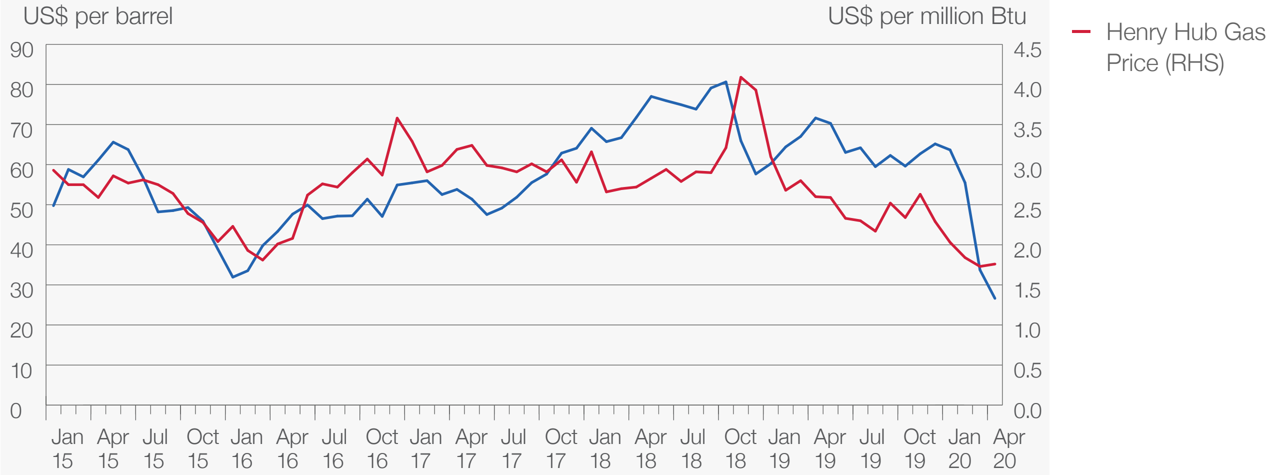
In sub-Saharan Africa, **Angola** and **Nigeria** were downgraded in March 2020, driven by the fall in oil prices as a result of the global economic slowdown and the breakdown of OPEC supply agreements. **Zambia** also received a downgrade from all 3 ratings agencies in 2019. They highlighted the country's large external financing requirements coupled with a trend in falling foreign currency reserves on the back of lower copper exports, restricted access to financing and an increase in debt.

The outlook for sovereign credit ratings in the year ahead will be primarily driven by the economic fallout from the COVID-19 outbreak, and the collapse of commodity prices for commodity-dependent economies.

The outlook for the Middle East region in particular is mixed: low oil prices will weigh on growth and fiscal metrics for some countries, such as **Iraq**, while others, like **Qatar**, are expected to withstand the shock by drawing on their substantial financial buffers. The projected economic rebound in 2021 is likely to be weaker if it takes longer to lift containment measures than assumed, or if there are subsequent surges in COVID-19 infection rates that require the re-imposition of restrictions. The large buildup of oil stocks, and significant excess supply, could see oil prices remain subdued for much longer which could be a further drag on the Middle East's recovery prospects.

## Commodity prices – oil and gas price volatility

**Hydrocarbon prices; January 2015 – April 2020, monthly average**




**Source:** Bloomberg [CO1, NG1]
**Note:** Monthly averages based on daily closing prices

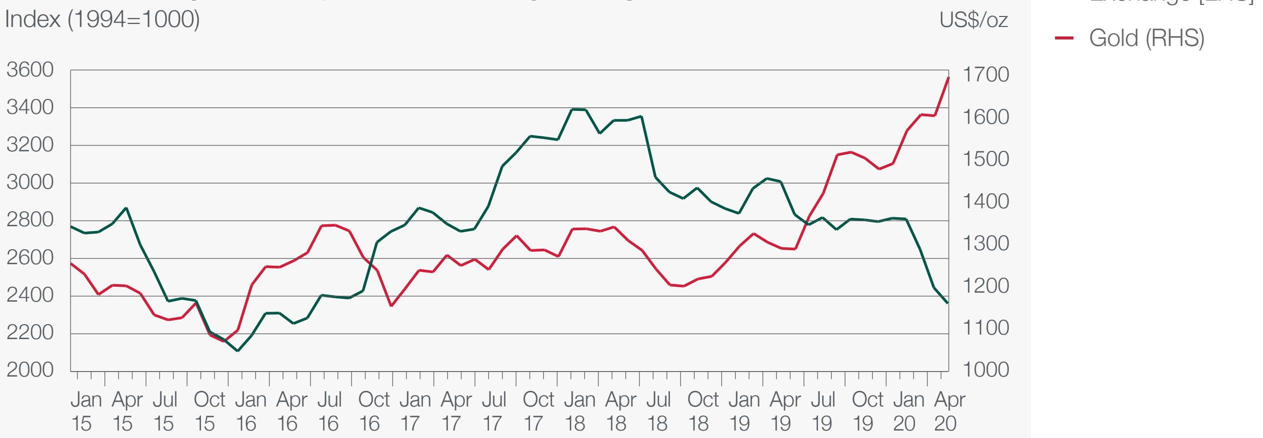
The 2019-20 period saw huge volatility in oil prices. Brent Crude oil prices reached a peak of around US$75 per barrel on 24 April 2019, before steadily declining. Oil prices began to drop rapidly at the start of 2020 as the impact of COVID-19, and the policy responses of various governments, led to a large decrease in oil demand. The OPEC+ announcement to cut production in April 2020 caused a brief rebound in oil prices, but it was not enough to reduce excess supply, with Brent oil prices at around US$25 per barrel at the end of April 2020. Meanwhile, limited storage spaces meant that West Texas Intermediate (WTI) Crude oil witnessed a significant fall in prices, reaching a historic low of negative US$38 per barrel on 20 April 2020, before recovering to a positive price. On 12 May 2020, the US Energy Information Administration (EIA) forecast that Brent Crude oil prices will average US$34 per barrel over 2020, down from an average of US$64 per barrel in 2019.[6]

Natural gas prices (indicated by the benchmark Henry Hub price) had generally been falling through the first half of 2019, reaching a low of US$2.1 per million British thermal units (MMBtu) on 5 August 2019. Prices then briefly rebounded to a peak of US$2.9 per MMBtu on 5 November 2019, as a result of colder temperatures, before decreasing to a low of US$1.6 per MMBtu on 2 April 2020, reflecting a sharp drop in demand for natural gas – as in the oil market. The EIA forecast that Henry Hub gas prices will average US$2.1 per MMBtu in 2020, compared to the 2019 average of US$2.6 per MMBtu.

If oil and gas prices remain at these lows throughout 2020, countries which are dependent on producing these commodities, for foreign exchange and government revenues, will suffer and may face balance-of-payments crises. On the other hand, importers of hydrocarbons may benefit from low prices, as it is a key input into manufacturing and transport sectors and consumer goods. However, in the near-term, low oil and gas prices are unlikely to be a significant boost to economic growth in importing countries, due to the sharp drop in global economic activity.

6 EIA, Short-term energy outlook (12 May 2020).

**Metals; January 2015 – April 2020, monthly average**



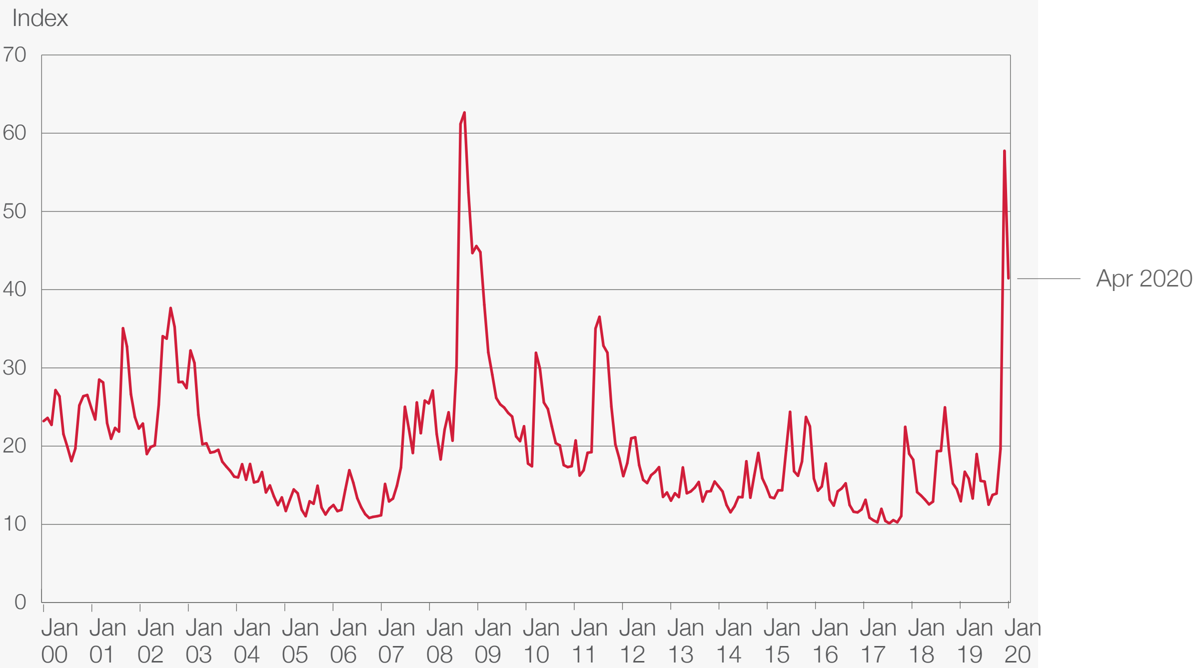

**Source:** Bloomberg [LMEX, XAU]
**Note:** Monthly averages based on daily closing prices

Metal prices, as measured by the London Metal Exchange Index (LMEX),[7] were relatively stable from April 2019 until the end of the year. However, in the first quarter of 2020, metal prices began to weaken as COVID-19 slowed global growth. Future prices are likely to remain low in the short-term but could rebound if the projections of a sharp global pickup in 2021 materialise.

Gold prices rose significantly throughout 2019. Prices picked up rapidly in the first quarter of 2020 to a peak of US$1,675 per troy ounce on 24 February 2020, as investors sought safe-haven assets due to the outbreak of COVID-19. Gold prices have since seen further increases, reaching over US$1,700 per troy ounce towards the end of April 2020.

## Financial markets conditions

**Chicago Board Options Exchange Volatility Index (VIX); January 2000 – April 2020, monthly average**



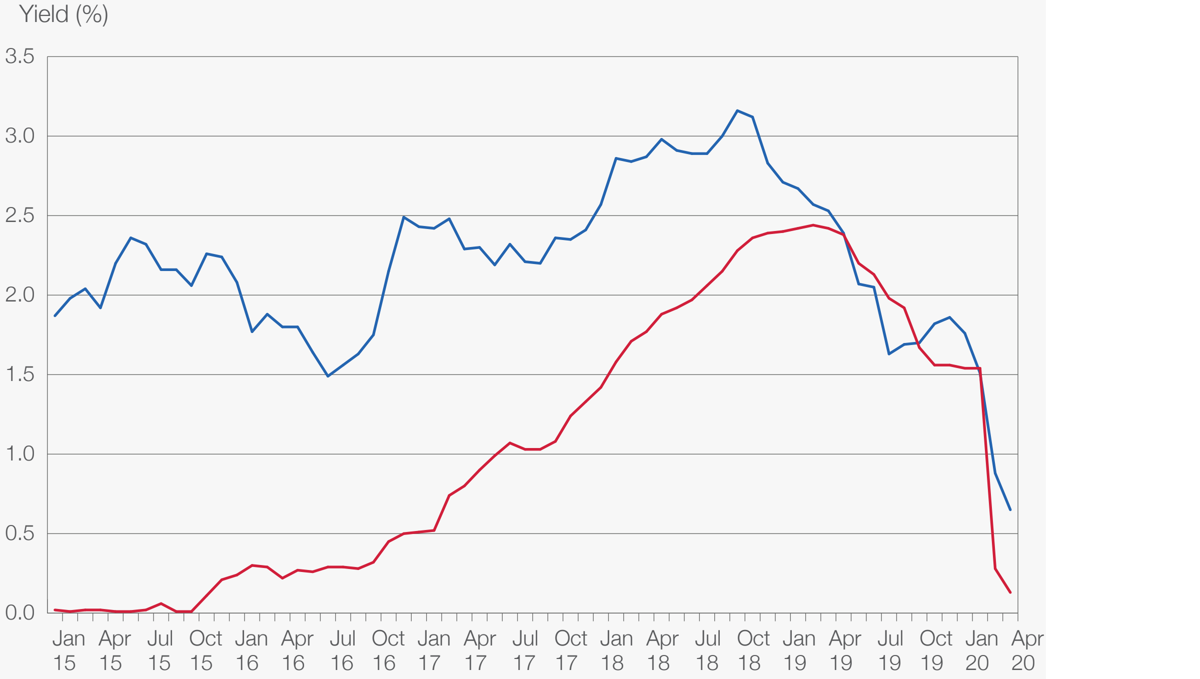

**Source:** Bloomberg [VIX]

7 Note: 'Metals' is based on the London Metal Exchange Index (LMEX), 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 VIX, also known as the “fear index”, reflects investor estimates of future volatility, where a rising index indicates higher risk. The VIX averaged below 20 throughout 2019 and in early 2020. However, since late February 2020 the index rapidly increased, peaking to a historic high of 82.7 on 16 March. The previous record peak was 80.9 and was reached during the 2008-09 financial crisis.

This is unsurprising, given that global stock markets have been severely impacted by uncertainty around the outbreak of COVID-19, the scale and breadth of the recession and consequences for earnings. Stock markets have seen substantial falls in the first quarter of 2020 as business confidence has collapsed. At the end of April 2020, the FTSE 100 and Dow Jones had fallen by around 22% and 16% respectively since the beginning of January 2020.[8]

**US Treasury 3-month and 10-year yields; January 2015 – April 2020, monthly average**




**Source:** Bloomberg [GB03, GT10]

The 3-month and 10-year US Treasury yields have experienced a steady decline since April 2019, with the yield curve inverting in late May 2019 until October 2019. The 10-year yield then began to pick up slightly for the remainder of the year and into January 2020, with the 3-month yield plateauing.

With the outbreak of the virus in 2020, both the 3-month and 10-year yields collapsed as concerns of a global recession grew and investors moved capital towards the safer option of US Treasuries.

The Federal Reserve cut its interest rate target range from 1.5%-1.75% to 1%-1.25% in early March 2020, and the 10-year yield fell below 1% for the first time ever to a record-low of 0.5%. The Federal Reserve has responded to the deepening economic crisis by cutting interest rates further by 1 percentage point to 0%-0.25% in mid-March, a level not seen since 2015.

8 Bloomberg [UKX, INDU].

## UK economy

The UK economy grew by 1.4% in 2019, a slight increase from 1.3% in 2018, but lower than 1.9% in 2016 and 2017.[9] The Office for Budget Responsibility (OBR)[10] published analysis of the potential impact of the COVID-19 outbreak on the UK economy, assuming a 3-month lockdown followed by another 3-month period where the lockdown is partly lifted. Under this scenario, the OBR estimates that the UK economy could contract by 12.8% in 2020. This is a much sharper decline than the IMF's growth projections for the UK (-6.5%). However, the OBR's analysis suggests that the UK economy could then expand by 17.9% in 2021, while the IMF forecasts growth of only 4.0%.

As of 30 April 2020, Fitch has been the only ratings agency to downgrade the UK following the start of the COVID-19 pandemic, which it did on 27 March 2020 from AA to AA-. Fitch state that the downgrade reflects a significant weakening in the UK's public finances and fiscal loosening following the "commensurate and necessary policy response" to the COVID-19 outbreak.

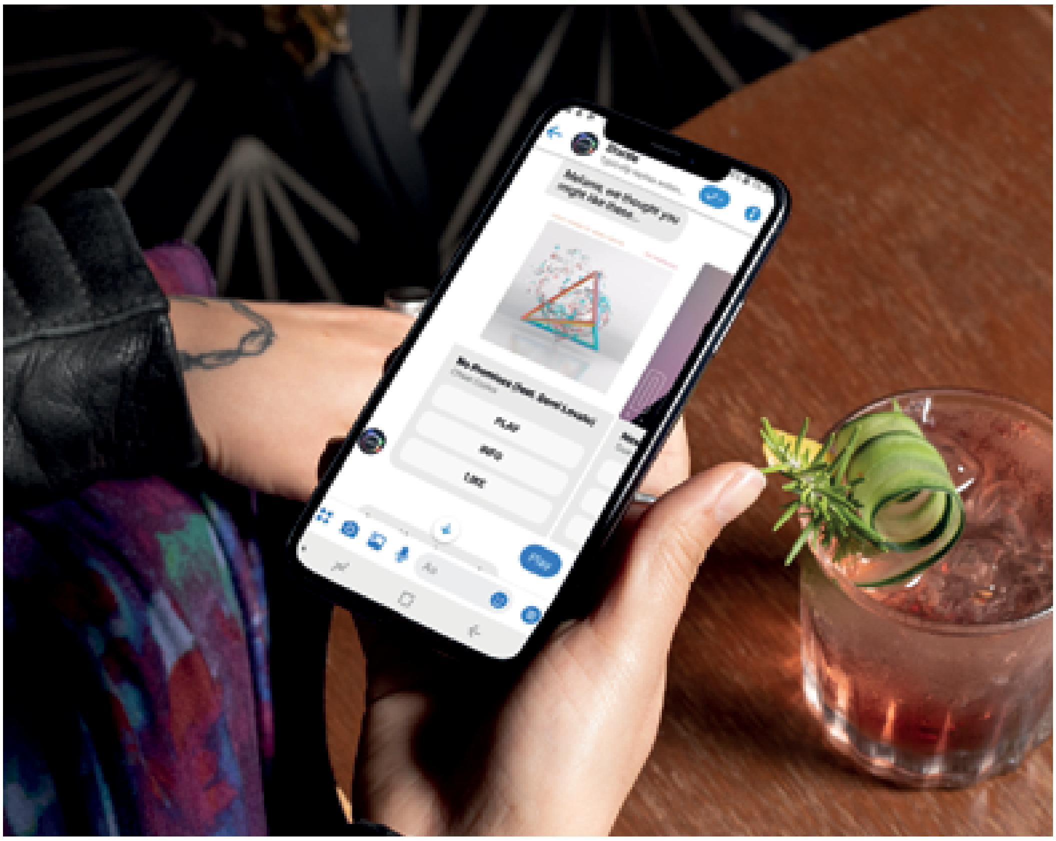
Fitch has also assigned a negative outlook for the UK based on its perception that the deterioration of the fiscal metrics may extend beyond 2020 and uncertainty around the UK's future relationship with the EU hindering the post-crisis recovery. Fitch suggests that the stimulus package could lead to a widening of the fiscal deficit to around 9% of GDP in 2020 from 2.1% of GDP in 2019, increasing government debt to 94% of GDP in 2020 from 84.5% of GDP in 2019.[11]

The UK left the EU on 31 January 2020 under the terms of the revised Withdrawal Agreement (WA), entering a transition period and commencing "phase 2" negotiations on the future relationship between the UK and EU. The WA allows the UK to forge a new economic partnership with the EU that will protect existing trade and supply links, while giving the UK new flexibilities to embrace trade opportunities with the rest of the world. Talks between the UK and EU remain ongoing despite the current crisis with the transition period set to end on 31 December 2020.

9 ONS, Gross Domestic Product: Year on Year growth: CVM SA % (31 March 2020).
10 OBR, Coronavirus reference scenario (14 April 2020).
11 Fitch Downgrades the UK to 'AA-'; Negative Outlook (27 March 2020).

## Near-term outlook

The current environment presents both a challenge and an opportunity for UKEF. Export Credit Agencies (ECAs) are essential during periods of global economic slowdown as they play a counter-cyclical role – we support commercial banks through periods of financial market disruption, keep credit flowing and trading networks working. This was the case following the global financial crisis of 2008-09, and we will be doing the same in 2020-21 and beyond. However, the continuing outbreak and scale of its impact means there is heightened risk of defaults, and UKEF has been working with HM Treasury to put in place a temporary refinement of its standard risk management framework, to help us continue to support UK exporters through the current crisis.



UKEF supported music technology firm Startle to expand into the United States

# 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 58 to 85.

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 responsive, 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**<br>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<br>• Direct lending to overseas buyers so that they have the funds to purchase goods and services from the UK | • Buyer credit facility<br>• Supplier credit facility<br>• Direct lending<br>• Lines of credit<br>• Export refinancing facility | Lower volume, higher value |
| Shorter term credit (less than 2 years) | **Trade finance solutions**<br>Supporting UK exporters | • Reducing or removing the risk of non-payment by overseas buyers<br>• Helping to support a bond required under the terms of a contract<br>• Supporting working capital | • Export insurance<br>• Bond insurance<br>• Bond support<br>• Export working capital | Lower value, higher volume |

## Investment into the UK

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.


The UK Trade and Export Finance Forum in June 2019 was attended by over 700 delegates, with an agenda that provided real and substantive help to exporters and potential exporters looking to grow internationally.

# Our support for exports

## Business supported

| | |
|---|---|
| Exporters directly supported | 339 |
| Value of support provided | £4.4 billion |
| Destination countries | 69 |
| Largest single facility | £528 million (Export Development Guarantee) |
| Smallest case | £639 (Export Insurance Policy) |
| Most popular product | Bond Support Scheme (61 companies) |
| Highest value product (total use) | Buyer Credit Facility (£2.1 billion) |

**Gordon Welsh**
Business Group Director

## The Trade Finance Division: making exports happen

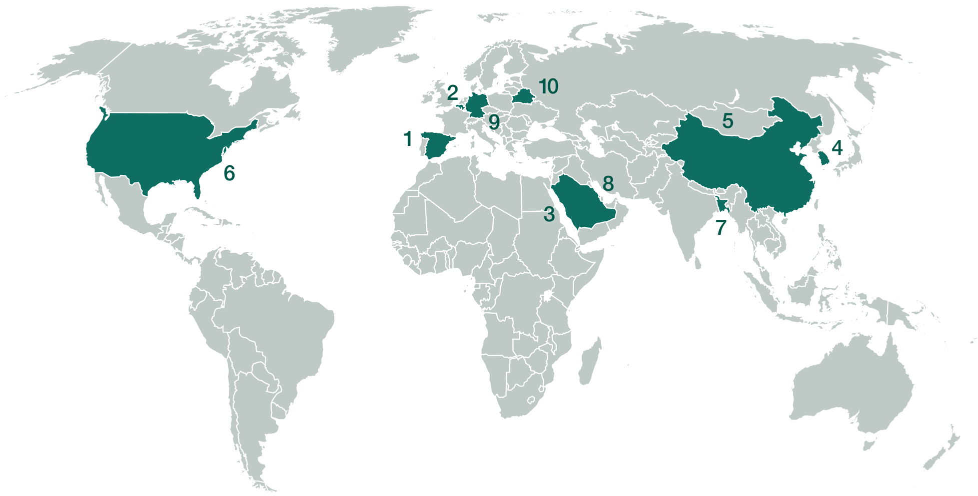
In October 2019 the short-term business of UKEF, comprising trade finance and export insurance, was joined by the export finance managers team and the business support group to form the Trade Finance Division. The alignment of SME business development with our underwriting function and post issue management enables an end-to-end view of the business that creates opportunities for strategic enhancements to our overall customer business activities in this segment of the market. These activities will be incrementally developed commencing in the business planning cycle of 2020-21.

## Short term trade finance and export insurance

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. 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 2019-20



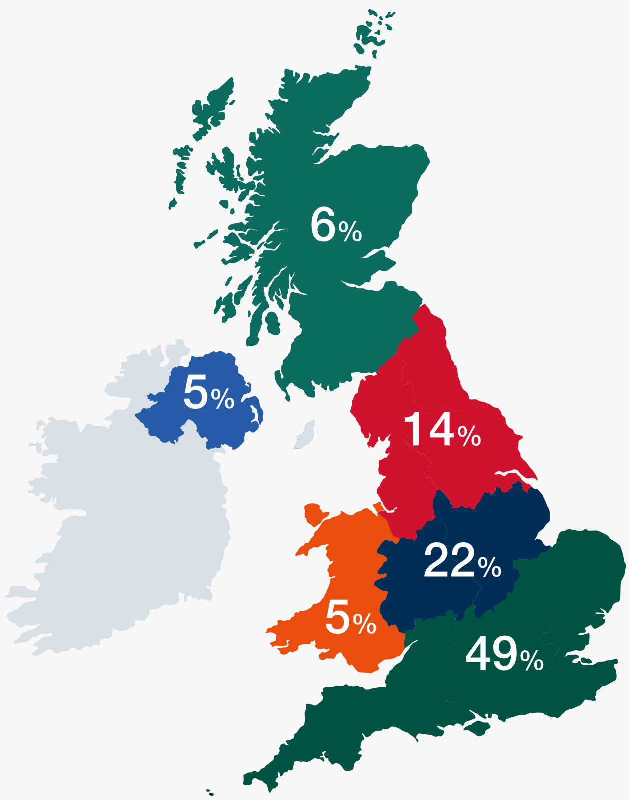

1. Spain
2. Belgium
3. Saudi Arabia
4. Korea, Republic of
5. China
6. United States
7. Bangladesh
8. Bahrain
9. Germany
10. Belarus

Since the launch of our trade finance products in 2011, we have supported £5.84 billion in contracts through these products.

## 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 UKEF trade finance or insurance by region in 2019-20**



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 had 4,116 customer interactions of which 1,170 were 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 1,585 referrals to third-party sources of support.

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

## Enhancing our products and services

Since the launch of UKEF's bank delivery model and trade finance digital service, UKEF has continued to work in partnership with our 5 current partner banks, Barclays, Santander, HSBC, Lloyds/Bank of Scotland and RBS/NatWest/Ulster Bank, to make further enhancements to the service. Revised legal documentation was agreed in January 2020, which has further simplified the service following the first year of operation, resulting in approximately 60% of all transactions now processed automatically.

Following the announcement of the new General Export Facility in March 2019, UKEF concluded an initial transaction with Jaguar Land Rover in respect of a £500 million guarantee on £625 million of commercial bank lending. Both this and the Supply Chain Discounting initial programme, as announced in January 2019, will provide UKEF with key feedback in relation to these two new products and inform enhancements for full implementation in 2020-21 if proven successful.

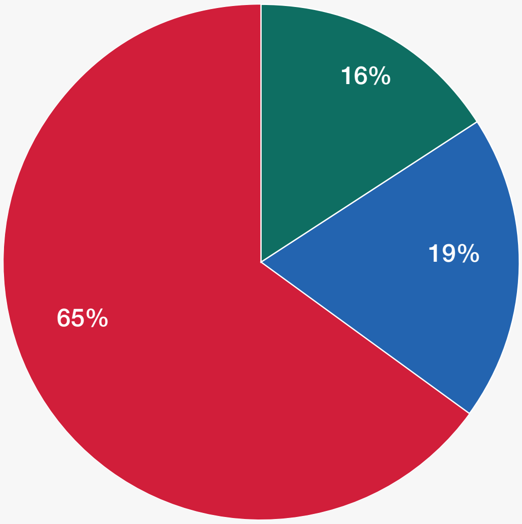
In respect of existing products, UKEF has undertaken a review of the Supplier Credit Facility to better meet the needs of users. Work has taken place to update the existing legal documentation, working closely with UK Finance. Initial improvements in the documentation for paperless loan structures are being finalised for implementation, with additional work planned for alternative finance structures due to be delivered in 20-21.

UKEF has continued to implement policy and process improvements. In July, UKEF published the outcome of the public consultation on Foreign Content policy. Launched in April 2019 as part of UKEF's commitment in the Export Strategy to review its products and policies, the consultation received 28 responses, which were largely supportive of the approach proposed by Government and reinforced the need for the Department's Foreign Content policy to adapt to increasingly globalised supply chains. The revised Foreign Content policy has been used to support, among others, a £47.6 million financing for the construction of 2 large solar plants in Spain, allowing UKEF to recognise the significant development and design expertise in the solar energy sector in the UK.

In addition, UKEF has worked closely with DFID to implement process improvements in relation to application of the OECD Recommendation on Sustainable Lending. These improvements will streamline assessments of the debt sustainability of a project utlising UKEF support, resulting in an improved service to UKEF's customers.

## Export credits: helping UK businesses compete in the global marketplace

### Export credit business supported (medium/long-term) 2019-20




| Sector | UKEF maximum liability, £m |
|---|---|
| Aerospace | 665 |
| Civil – direct loans | 775 |
| Civil – guarantees | 2691 |
| Defence | 6 |

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

2019-20 was another busy year for UKEF in the civil, infrastructure and energy sectors, with buyer financing support worth a total of £3.5 billion provided across 16 countries.

In Taiwan UKEF has supported 3 significant wind farms. These are landmark deals for UKEF supporting both offshore wind directly and the first major project financings in the renewables sector for UKEF. These transactions also share a notable feature being financed in local currency.

UKEF also closed its first non-aviation Islamic Financing, being a Murabaha Islamic compliant structure supporting 3 UK suppliers to Serba Dinamik, for 7 projects covering the design, supply, installation and commissioning of equipment and services to improve electricity generation and provide gas storage/transportation equipment in various locations.

UKEF continued its support for healthcare projects with £720 million of finance being guaranteed for 3 hospitals being built in Oman to meet a range of healthcare needs. This was a strong sector for UK export contracts this year with UKEF also supporting healthcare centres and district hospitals in Zambia though a £300 million financing and providing over £100 million of finance for 2 hospitals in Ghana.

Ghana has continued to be a strong market for UK exporters supported by UKEF with 2 airport projects closing this year at Tamale and Kumasi and continued strong future demand.

In a year that featured the UK-hosted Africa Investment Summit UKEF was pleased to continue to grow its support in countries including Uganda, Gabon and Angola where projects totaling over £350 million have been concluded.

In the energy sector UKEF participated with other Export Credit Agencies and commercial lenders in an innovative and award-winning project finance structure to bring up to best in class standards the BAPCO refinery, being the largest single contributor to the Bahrain economy.

The Middle East has been a strong area for UKEF supported projects for many years with this year seeing a landmark design project, the Curve Hotel project in Dubai, also reaching financial close.

The establishment of UKEF’s Smaller Deals initiative was announced at UKEF's Trade and Export Finance Forum in June 2019. That initiative provides support for exporters looking to offer extended payment terms to their overseas customers, often involving smaller / SME exporters trading with smaller / SME partners overseas.

The initiative has supported seven sub-£10 million transactions to date and has a very strong pipeline of future business. The latter has been generated in conjunction with UKEF’s network of Export Finance Managers and International Export Finance Executives, along with counterparty lenders – including the first non-bank institution UKEF has partnered with in the medium-term finance space, London Forfaiting Company.

A range of supporting announcements are planned for 2021-22. UKEF expects this to lead to a significant increase in the awareness of the support UKEF can provide for smaller value export contracts, and to the volume of these transactions UKEF is able to support as a result.


'UKEF's flexible finance was key to securing this contract, which will have a marked impact on the lives of people in Gabon and on our future growth. Their support for this project and of other infrastructure projects in the region demonstrates the UK government's commitment to growing UK trade with Africa'

**Carl Fergusson**
Chief Executive Officer, Colas UK

## Aerospace and Defence

With buyer financing support worth a total of £665 million, the volume of support provided for aerospace transactions reflected the continuing strong appetite of the commercial market for asset-backed lending to airlines. UKEF's support increased compared with 2018-19 (£450 million), although remains relatively low compared with historical levels.

UKEF-supported financing for Rolls-Royce-powered Boeing 787 aircraft continued in 2019-20 with further support provided for 2 B787-8 aircraft delivering to EL AL Israel Airlines, taking the total number of Rolls-Royce-powered Boeing 787 aircraft supported across all customers to 18 to date.

UKEF and its French and German counterparts continued to provide support for Airbus A380 deliveries to Emirates Airlines in 2019-20, supporting the delivery of 6 such aircraft. Support followed satisfactory completion of the extended due diligence process developed to assess applications from Airbus for export credit support. Support was also provided for the delivery of 2 Airbus A330Neo aircraft to Air Senegal, these being the first A330Neo aircraft the ECAs have supported.

On 31 January 2020, Airbus reached settlements with the UK, French and US authorities. In the UK, Airbus and the SFO entered into a Deferred Prosecution Agreement which brought to a close a 4-year investigation into bribery offences.

In 2019-20, a further loan was provided in support of the engine overhauls undertaken by GE Caledonian in Prestwick in Scotland, taking support for GE Aviation overhaul in the UK well over the $120 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 was much reduced from the significant contribution to UKEF’s business supported figures for 2018-19 reflecting the tendency for large irregular deals in this sector. Proactive management of the existing UKEF exposure in Qatar has ensured retention of UKEF’s risk capacity for new projects. A number of deals were targeted to close near to financial year end and a strong pipeline of new transactions is in place for 2020-21.

## Bringing business to the UK

In 2019-20, 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 6 supplier fairs in 2019-20, connecting over 500 exporters with opportunities potentially worth hundreds of millions of pounds in sectors as diverse as rail, construction and healthcare, with more to come in the future.


**'The whole process - from first awareness to departure - was excellent... The ability to inform and involve SMEs in the often impenetrable world of major international corporations in such a way is perhaps unique and is applauded.'**
Delegate at a UKEF Supplier Fair

# Our partners and operations

Building strategic relationships and collaborating with partners in both the private and public sector is a vital part of our offer to customers.

Partnerships help us to source export opportunities, deliver our products, support exporters and raise awareness of our products and services, ensuring UKEF's support reaches businesses at home and overseas buyers.


## Our partners

**Other government departments:** UKEF's offer of finance is at the heart of the government's Export Strategy and we work closely with other government departments to support UK exporters and overseas buyers.

This year we have collaborated extensively with private and government owned entities like the Private Infrastructure Development Group (PIDG), and CDC Group (the UK's development finance institution), along with the Foreign and Commonwealth Office (FCO), the Department for International Trade (DIT) and Department for International Development (DFID).

We continue to support and educate business-facing colleagues in other departments. UKEF offers an accredited online training course developed with the Institute of Export and International Trade, the Award in Trade Finance, to improve government officials' knowledge of trade and export finance.

**Commercial finance (lenders), insurance and re-insurance partners (brokers and insurers):** UKEF's role is to complement the commercial sector, and its guarantees, loans and insurance products are delivered through around 100 private sector partners.

We work with over 20 private re-insurance organisations to actively manage concentration risk and to offset some of the risk exposures in the portfolio.

We have continued to develop our bank partnership delivery model for our short-term trade finance support by making the process clearer, simpler and more efficient for all parties to improve turnaround times in banks. In February 2020 we introduced a new Master Guarantee Agreement ("MGA") in conjunction with the 5 largest UK Banks and will continue to onboard new financial institutions to improve accessibility for exporters.

UKEF collaborated with banking partners at our annual **UK Trade & Export Finance Forum held in June 2019**. HSBC bank was the platinum partner, with Standard Chartered, Lloyds Banking Group and Mitsubishi UFJ Financial also supporting the event, highlighting the close collaboration between public and private sector to deliver finance for exports. See page 208 for the amount of sponsorship received for this event.

**Export credit agencies:** UKEF works with other 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 61 ECAs, this year adding:

- The Export-Import Insurance Company of the Republic of Belarus
- The Export-Import Bank of China
- JSC National Managing Holding (Kazakhstan)
- Korea Trade Insurance Corporation
- Nigerian Export-Import Bank
- The Export Credit Insurance Corporation of the Republic of Poland

In 2019-2020, UKEF worked with BPI France, Export-Import Bank of Korea, Export Development Canada, Euler Hermes (Germany), Eksport Kredit Fonden (Denmark), US EXIM Bank, Garantiinstituttet for Eksportkreditt (Norway), Oesterreichische Kontrollbank (Austria) and Servizi Assicurativi del Commercio Estero (Italy), among other ECAs.

**Industry bodies:** UKEF engages with industry bodies to seek market intelligence and insights that facilitate the development of our products and services while promoting our support to their members. Key relationships include:

- the British Exporters Association (BExA), which evaluates UKEF against other national ECAs
- the Confederation of British Industry (CBI), which provides feedback from industry and supports UKEF's business outreach
- the Institute of Exports and International Trade (IOE&IT), which partners with UKEF to increase knowledge of export and trade finance and insurance throughout the business community
- the Federation of Small Businesses (FSB), to understand challenges faced by small businesses in financing export activity
- Make UK, which supports the manufacturing sector and highlights challenges faced by the UK supply chain across sectors to access finance for their exporting business

- the British Chambers of Commerce, which, through its regional network of accredited chambers, works with UKEF's Export Finance Managers (EFMs) to promote exports
- UK Finance, on new product development and delivery, as well as to discover the challenges faced by SME's to access finance and general support. This year we consulted UK Finance on product development for Supplier Credit, General Export Facility, Export Development Guarantee and Trade Finance

Internationally, UKEF plays an active role in negotiations at the OECD, the main rule-making body for export credits. A key topic over the last year has been modernisation of the Arrangement. UKEF is also a founding member of the Berne Union, the trade association of both ECAs and private sector insurers.

UKEF also works with sector-focused trade associations, such as the Energy Industries Council, the Renewable Energy Association (REA), Aerospace Defence and Security (ADS) and Subsea UK to understand emerging trends and challenges faced within their sectors, engage with their members, and raise awareness of overseas projects at supplier fair events.

**Multipliers**: UKEF has developed strategic relationships with commercial organisations that have an interest in projects in multiple sectors around the world. These businesses cover the full lifecycle of a project from early stage project preparation to work on procurement and construction.

UKEF has formed these partnerships in order to jointly identify projects that would benefit from UKEF financing support and expertise from the UK supply chain. In return, UKEF's partners promote their overseas projects in the UK and generate export opportunities for the UK companies.

Examples of these multiplier relationships include:

- Atkins Acuity, part of SNC Lavalin
- Advisian, part of Worley Parsons
- Maire Tecnimont
- Mace group

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

# Our operations

Our Change and Transformation Plan has equipped UKEF with the necessary infrastructure and resources to become more focussed on our customer's needs, delivering on our strategic aims to be agile and adaptable and provide high levels of customer service.

This builds on significant investments in the early years of the 2017-20 business planning period to improve underlying IT infrastructure. In 2019-20, improvements were made to enhance efficiency, resilience and scalability in UKEF's operations, including:

1. continuing improvements to UKEF's digital trade finance service to make it easier for our customers to receive finance through our bank partnership delivery model
2. work on delivering 'straight through' processing of transactions so that they can be completed without manual re-keying of data, making the process quicker and more efficient, as well as reducing operational risk
3. significant improvements to the intranet, to make it easier for staff to communicate and collaborate with each other
4. automated testing capability to improve the way systems changes are assured
5. an upgrade of reporting capability

Members of the Technology, Change and Innovation team meet to discuss the Change and Transformation Plan

# Chief Risk Officer's Report

**The primary risks to which UKEF is exposed include financial risk (including credit, market and liquidity risk), operational risk, strategic and business risk, environmental and social risks, compliance and legal risks, program and project risk, political risk and external risks.[1]**

**Samir Parkash**
Chief Risk Officer

Within UKEF, conduct, culture and reputational risks are identified, evaluated and monitored on a departmental basis rather than as a separate risk type.

All our risk management practices 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 composition of our portfolio is somewhat different. Our UKEF Risk Management Framework is detailed below.

## UKEF's risk management framework


1 A description of our approach to operational risk is discussed in the Governance Statement on pages 108 to 123. Environmental, social and human rights risks are discussed in the head of Environment and Social Risk's report on pages 95 to 99.

# Risk management

## Context

Parliament sets an overall limit of SDR67.7 billion[2] on the commitments into which UKEF may enter. 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 differ from financial institutions in 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 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 Enterprise Risk and Credit Committee (ERiCC)) and UKEF's risk management activities are subject to independent oversight and monitoring.

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.

UK Government Investments (UKGI) represents the Secretary of State on the Board of UKEF. Its officials review the department's risk management function and processes, to help ensure that risk and internal controls are effectively managed. UKGI also works with HM Treasury has also delegated to UKGI monitoring of the department's performance against its financial and non-financial objectives.

Within UKEF, the ERiCC is responsible for advising the Chief Executive on the effective management of our enterprise and credit risk exposures. Its responsibilities include:

- ensuring the effective identification, assessment, management and reporting of enterprise risk across UKEF in accordance with UKEF policies, procedures and risk appetite
- agreeing policies, procedures and methodologies for calculating and charging premium, and monitoring portfolio risk, including risk parameters and assumptions used in PRISM (Portfolio Risk Simulation Model)

2 This limit is expressed in special drawing rights (SDR), an international reserve asset created by the IMF. SDR67.7 billion corresponds to approximately £74.8 billion.

- 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, including through country risk parameters, country exposure limits, minimum Risk Standards for sovereign and corporate obligors, corporate risk assessment methodologies, sector reviews and watch list portfolio reviews
- 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 Underwriting Policy and Products
7. Head of Portfolio Management
8. Chief Analyst

The Director of Legal and Compliance, or a nominee, will also attend to provide advice on legal and compliance matters. In the 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, which separates business origination work from 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 CRO has been given authority by the Chief Executive to approve various categories of credit risk within pre-determined limits
- in turn, the CRO has granted authority over certain credit approvals to senior staff within their team
- credit approvals that exceed the delegated authority of the CRO must be approved by the ERiCC (and for larger transactions, also the Accounting Officer)

## Enterprise Risk

During 2019-20 UKEF created an Enterprise Risk Division within the Risk Management Group. It is responsible for reviewing, enhancing and developing the department's approach to managing Enterprise Risk. The Enterprise Risk Framework is designed to ensure that adequate processes, procedures, reporting and control mechanisms are embedded in the business to facilitate the identification, assessment, reporting and remediation of risks across UKEF. The Enterprise Risk Division operates through 2 teams:

- The Risk Governance team: responsible for designing, implementing and managing a best practice Risk Appetite Framework within UKEF and supporting business functions to embed it in their day-to-day operations.
- The Operational Risk team: responsible for designing, implementing, monitoring and managing a best practice approach to Operational Risk. This supports the effective management of risks within acceptable boundaries whilst achieving the strategic objectives defined within the UKEF Business Plan.

The Chief Executive has appointed the CRO to be responsible for leading UKEF’s overall approach to risk management and ensuring adequate skilled resources are employed to independently influence governance and decision-making forums.

Using a UKEF-issued Export Insurance Policy, Teignbridge Propellers International was able to fulfil a major order to Bangladesh

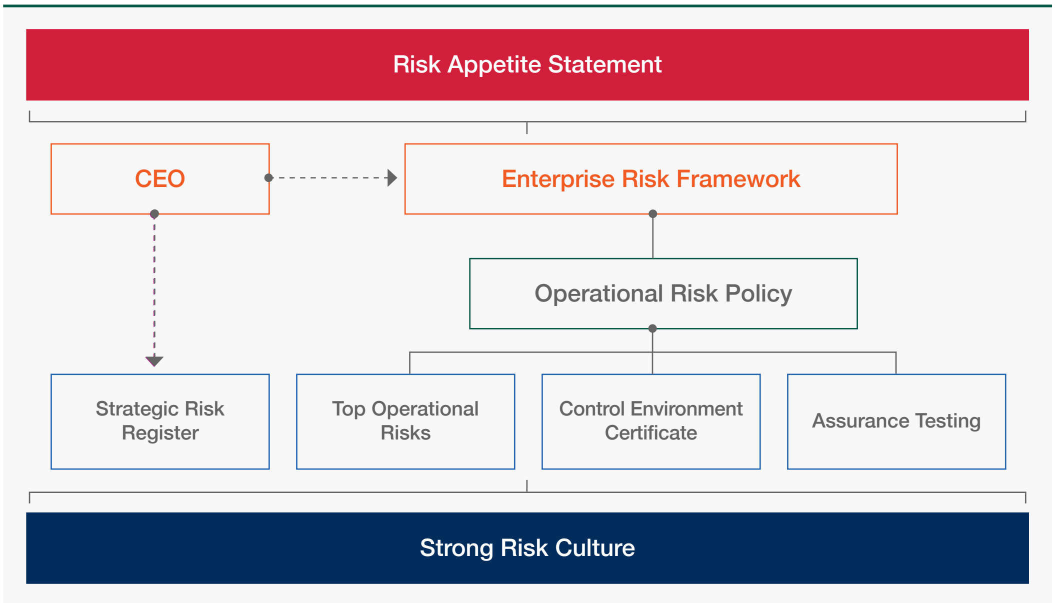
## Key components of enterprise risk

The UKEF approach to enterprise risk enables the department to consider the potential impact of all types of risks on all processes, activities, stakeholders, products and services. It allows UKEF to understand and prioritise significant risks and identify the weakest key controls in order that UKEF can make decisions in the knowledge of the underlying risks and manage these risks appropriately.

An Enterprise Risk taxonomy has been approved by the ERiCC. This provides senior management with a structured approach to identifying, assessing, evaluating and reporting known and emerging risks across UKEF. The 8 Enterprise Risk categories are as follows:

| Primary Enterprise Risk Category | Definition |
|---|---|
| Environmental, climate & social risks | The risk of an actual or potential threat to or from the environment arising out of the department's activities |
| Financial risk (including credit & market risk) | The risk of claims being made against UKEF, and of it suffering ultimate loss arising from defaults by counterparties against which UKEF has a financial exposure. |
| Strategic & business risk | The risk of direct or indirect loss arising from a suboptimal business strategy or failure to respond positively to changes in the business environment |
| Political risk | The risk that political decisions, events or conditions will have a significant impact on the department's strategic objectives and priorities |
| Operational risk | The risk of direct or indirect financial losses resulting from inadequate or failed internal processes, people, systems or external events |
| Programme & project risk | The risk that defined objectives, plans and change initiatives fail to meet agreed timescales, budgets and/or expected outcomes |
| External risks | The risks beyond the direct control of the department |
| Compliance & legal risks | The risk of being exposed to censure, financial loss, civil or criminal proceedings due to failing to comply with applicable laws, regulations or legal obligations |

The Enterprise Risk Framework comprises the following key components that define key themes, practices and processes that UKEF has in place to manage risk effectively:




There is a discipline of reappraising the opportunities and risks facing UKEF as both alter with time and circumstances. This is achieved by the regular review, appraisal and update of risk and control assessments by the business. Control Registers have been prepared by all divisions detailing the controls in place to manage key processes. Additionally, incidents are reported by the business. Incidents are monitored and analysed by the Enterprise Risk Division to identify key themes and ensure appropriate remedial action is undertaken.

Top operational risks and strategic risks are regularly evaluated and updated by each group director to ensure current and emerging risks are identified and mitigated as appropriate. Further details are outlined in the Governance Statement on pages X to X.

Enterprise risk is regularly reported and discussed at the Enterprise Risk and Credit Committee (ERiCC) and to the Risk Committee every quarter, providing reports on the key risks and the effectiveness of risk management in UKEF.

## Enterprise Risk Management Principles

UKEF senior management has a responsibility to ensure that the appropriate risk management principles, culture and behaviours are embedded in day to day business activities, policies and procedures. Sound risk management is underpinned by an effective and robust risk culture which is embedded in UKEF's 3 lines of defence model.

The UKEF Enterprise Risk Management Principles support our approach and ongoing application of risk management within our business. The principles are:

- Proactive, not reactive
- Ownership of risks by the relevant division
- Risk Management is embedded in day to day processes
- Robust and responsive to change
- Assists in the achievement of UKEF strategic objectives

## Assurance across UKEF

The UKEF Assurance Framework is a key component of the UKEF Enterprise Risk Framework and is coordinated by the Enterprise Risk Division. It seeks to provide reliable assurance (evidence) to the Chief Executive and ERiCC on organisational stewardship and the management of major UKEF risks by sample testing and examining key controls detailed in the risk and control assessments and validating statements made in the control environment certificate (CEC) self-certification process. This key assurance process commenced in the last quarter of the 2019-20 financial year and be fully embedded in UKEF during 2020-21.

The CEC is a half-yearly process. It requires Executive Committee members and their senior management teams (typically divisional heads) to provide an assurance assessment and self-certification to the UKEF Chief Executive regarding the management of Operational Risk within their area of responsibility. Furthermore, at the end of the financial year, each Executive Committee member is required to complete a self-assessment of their directorate's compliance with key business processes as well as a governance statement. All self-assessments are completed using a consistent and comparable rating mechanism.

## Financial Risk

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. The definitions of financial risk are set out in the table below.

### UKEF's financial risks

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

**Market risk:** the risk of losses arising from change of market prices, such as fluctuations in foreign currency exchange rates and 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. Considered low because UKEF’s status as a government department enables us to access the Consolidated Fund.

## Financial objectives and appetite

UKEF’s financial objectives, set by HMT, are designed to enable it to fulfil its mandate of supporting UK exporters while ensuring that credit risk and pricing:

- are undertaken on a basis that UKEF should receive a return adequate at least to cover the cost of the risks it is assuming
- do not expose the taxpayer to the risk of excessive loss.

UKEF's credit risk and pricing is governed by 6 financial measures:

1. Maximum commitment: the total amount of nominal credit risk exposure that the department may incur. This is 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 66)
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: detailed under pricing policies on pages 72 to 75
6. Premium to Risk Ratio: detailed under pricing policies on pages 72 to 75

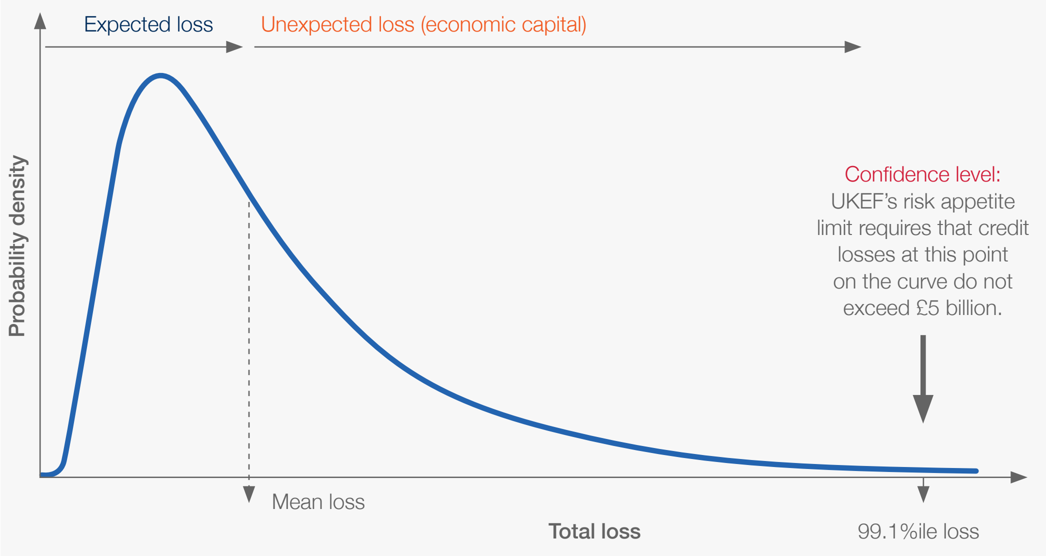
The 2019-20 outturn against all our financial objectives is presented on page 31.

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. Policies are generally reviewed annually – EMF is tri-annual – by the ERiCC and subsequently endorsed by the Risk Committee.

## 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 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

3 This limit is set under the HM Treasury consent. 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.

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.

## Credit risk approach

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

Our Exposure Management Framework (EMF) 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 potential country limit (subject to other factors)
- 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; in very exceptional circumstances, this can exceed £5 billion where the UKEF Chief Executive has been instructed otherwise by a ministerial direction

The ERiCC systematically 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 are assessed and decided for around 200 overseas markets, prioritised based on the size of existing exposures, the assigned credit rating and active, potential new business requirements.

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.

## 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, triannual 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 ERiCC.

## 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 S&P credit rating templates from which to base our risk assessments on our principal areas of business. This includes specific rating templates with appropriate credit risk factors for passenger airlines, operating lessors, large corporates, SMEs, project finance, banks and non-bank financial institutions.

For each transaction, these rating templates are used in conjunction with an analyst's detailed assessment of the key factors affecting the obligor's business and financial risk profiles, and consideration is also given to factors that the rating templates may not consider explicitly, such as governance and liquidity. Further, this approach is supplemented by S&P derived models that assess the likelihood of government or parental support, which is also considered in the final rating of the obligor. Where relevant, Moody's industry-specific methodologies are used as benchmark rating tools. Additionally, final ratings are benchmarked against industry peers.

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.

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.

From 1 November 2019, UKEF has introduced explicit commentary on environmental, social and governance risk into all non-sovereign credit risk assessments and all sovereign analysis when setting limits.

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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 | Guarantees medium/long-term finance from lenders or capital market investors provided to overseas buyers of UK goods/services | Overseas buyer | S&P methodologies |
| | Supplier credit facility | | | |
| | Lines of credit | | | |
| | Export refinancing facility | A buyer credit provided with an undertaking to support refinancing of the bank loan through the capital markets | Overseas buyer | |
| **Trade finance** | Bond support scheme | Guarantees contract bonds provided by private lenders | UK exporter | Bespoke UKEF methodology |
| | Export working capital scheme | Guarantees working capital loans provided by private lenders to UK exporters | UK exporter | Bespoke UKEF methodology |
| | Letter of credit guarantee scheme[7] | 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 | 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 |

7 This product was withdrawn in April 2020.

## 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.[8] 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 (£)

We assign a rating (from AAA to D) to all credit risks within UKEF to denote an associated probability of default. The probabilities are updated at least annually in line with the latest S&P statistics.[9]

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 and Project Finance loss given default assessments are conducted on a case-by-case basis, considering the specifics of the transaction in question, including security, priority ranking, recovery prospects by market 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.

Another 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 pages 65 to 66).

## 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 risks in the portfolio. ERiCC will only consider approving a case or making a positive recommendation to the Chief Executive if it is satisfied that a given level of credit exposure calculated using this modelling will not threaten any of the department's financial objectives.

8 Expected loss applies both at an individual transaction level and at a 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.

9 UKEF subscribes to S&P Global's CreditPro database that provides a strong statistical foundation to assess ratings migration and default rates across geographical regions and industry sectors.

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

- individual exposures within a country must not in aggregate 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
- periodic reviews of single obligor, sector and regional/geographic concentration risks are undertaken

Further work is being undertaken to refine risk appetite measures in respect of individual counterparties, sectors and geographies.

Practical means of reducing risk concentration include reinsurance and counter-guarantees from the private (re)insurance market, as well as, from other ECAs. UKEF may seek (re)insurance when it is acting as lead ECA in a transaction where goods/services are sourced both from the UK and from other countries.

## Active portfolio management

UKEF's risk management strategy aims to reduce concentrations of risk in its portfolio to decrease the likelihood of idiosyncratic losses, and/or free up headroom in country limits to support more UK exporters. Under the active portfolio management (APM) program, UKEF can buy facultative reinsurance from the private market, subject to cost-benefit analysis and positive value for money. During 2019-20, UKEF successfully placed around £400 million of risk in the private reinsurance market, primarily aimed at addressing portfolio concentrations in the Africa and Middle East region across a variety of sectors.

## Credit processes and reporting

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

The ERiCC 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 exposures are within the agreed country and other limits.

At a transactional level, we regularly update the ratings allocated to countries and individual obligors. UKEF maintains 'watch lists' of obligors whose credit risk is materially 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 unit.

## Post Issue Management

Once an exposure is declared "effective", it is handed from the Business Group teams to the an in-house Post Issue Management team, which reviews and monitors cases on an ongoing basis until maturity.

Amendments, waivers and compliance with documentation are monitored with the help of the agent functions of the lending banks. Requests for waivers and amendments are considered on a case-by-case basis through a chain of delegated authorities and reported to senior management.

## The Claims and Recoveries Unit

Claims and Recoveries are an integral part of the Risk Management Group, examining Claims, admitting liability and, if valid, paying out to customers. In addition, the C&R team is responsible for Recoveries, undertaking recovery actions, recouping amounts due from debtors and minimizing risk for UKEF. The Claims and Recoveries unit submits regular reports to the ERiCC 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 ERiCC 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[10] 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 Enterprise Risk and 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.[11]

UKEF helped Devon-based Green Resource Engineering secure a £1.1 million order from South Korea for a water-cooling system

10 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.
11 This was the year in which the Insurance Services Group was privatised.

# 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'.

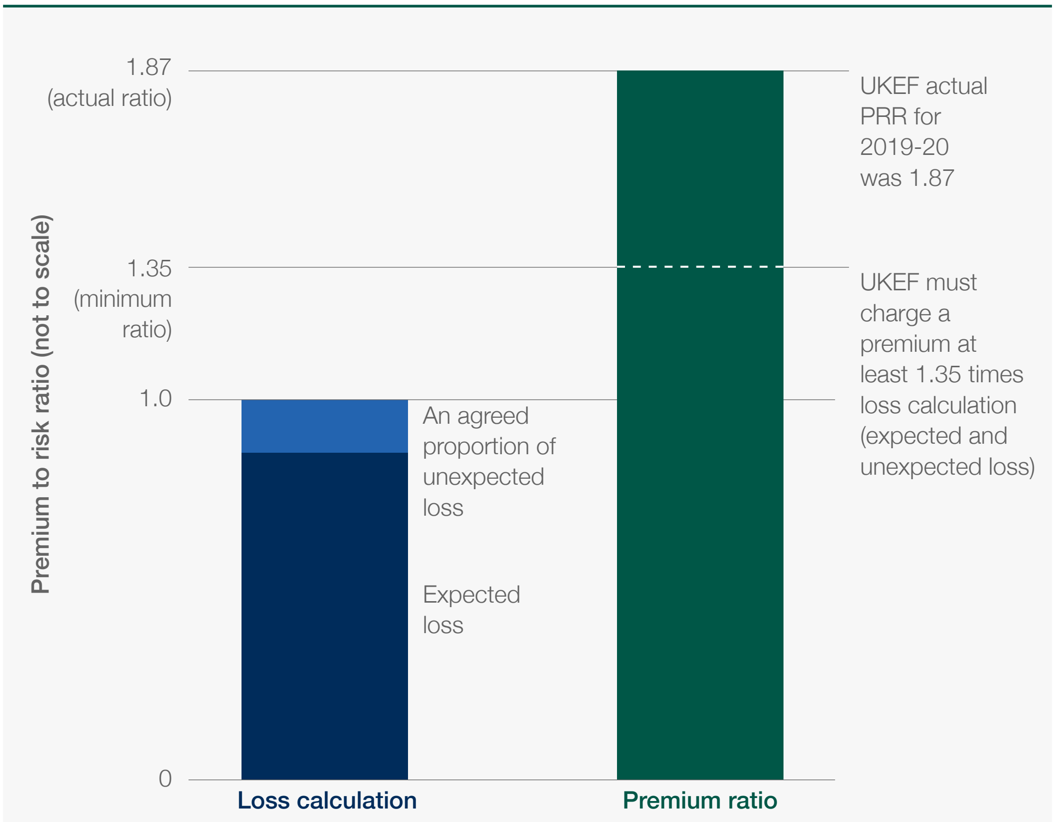
## Financial objectives

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 (PRR)

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 at least 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 2020 was 1.87 against the 1.35 ratio minimum.

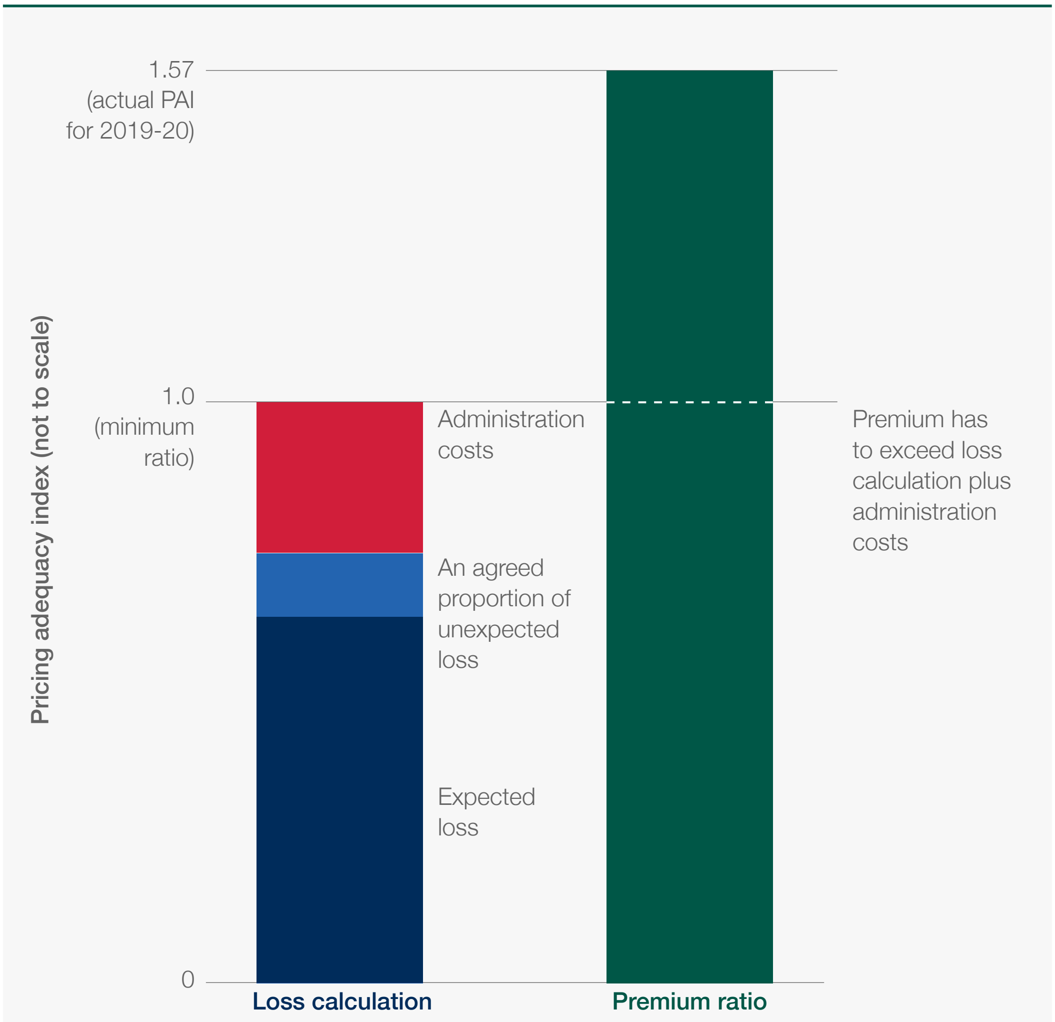


## Pricing adequacy index (PAI)

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 years
- 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 the present financial year was 1.57 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.

UKEF Export Finance Manager Anne Lockett speaking to Petford Tools MD Melvin Sinar. Support from UKEF enabled the Dudley-based firm to double its staff

### Pricing methodology

We set risk-based premium rates for all of our products using pricing methodologies and parameters that are reviewed annually by the ERiCC, 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 by 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.

## Portfolio modelling

UKEF uses its own portfolio risk simulation model (PRISM) to undertake all portfolio-level credit risk modelling and to produce portfolio loss distribution curves. The model is also used to carry out stress testing, and to simulate the extent and timing of potential gross cash outflows as a result of claims payments, to inform cashflow forecasts and liquidity management.

### Modelling assumptions

PRISM operates under a range of assumptions, including correlation matrices and credit default behaviour. It is essential to keep these assumptions as up-to-date and as robust as possible. We do this through a regular review process, with each assumption fully checked on a minimum 3-year cycle. Each review is accompanied by a report to ERiCC, with recommendations for action as appropriate. Examples of assumption reviews in 2019-20 include:

- Persistence of default. This is the time it will take for each sovereign, in the event of default, to exit default. This has a significant effect on our valuation of sovereign exposures. We investigated industry-best-practice and the latest evidence and confirmed that we did not need to change our approach
- Application of correlation assumptions. This review identified an effect causing overly high correlation levels within certain segments of the portfolio. In order to align with empirical evidence and industry-best-practice, we designed and implemented a solution that constrained the simulated risk to better match the underlying assumptions, following approval by ERiCC

### 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 ERiCC 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.

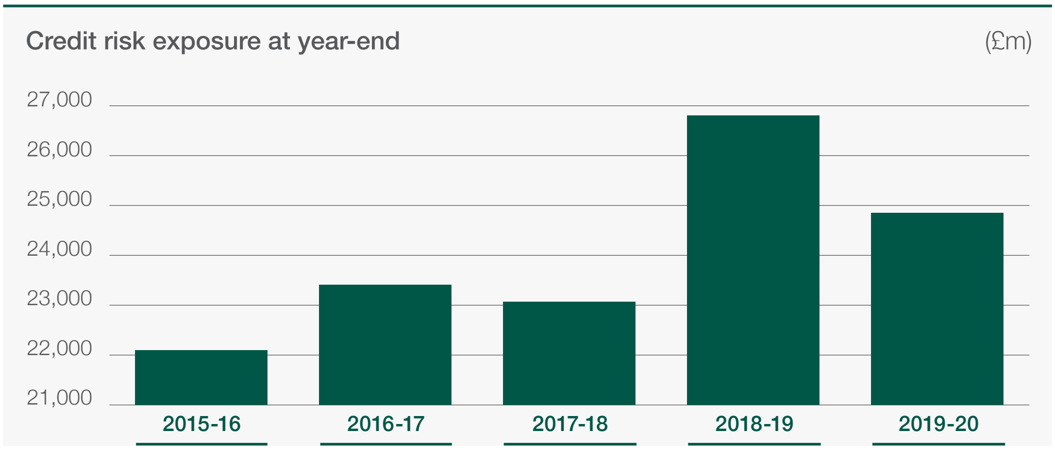
To complement existing stress testing and scenario analysis, in 2018-19 UKEF introduced reverse stress testing. Instead of quantifying the impact of scenarios on UKEF's portfolio, reverse stress tests identify the specific portfolio parameters (such as individual risk ratings and loss given default assumptions; and industry and geographic correlations) required to breach our portfolio limits and assesses events and circumstances that would cause our business model to become unviable and to design strategies to mitigate the risk of such business failure.

## Credit risk performance 2019-20

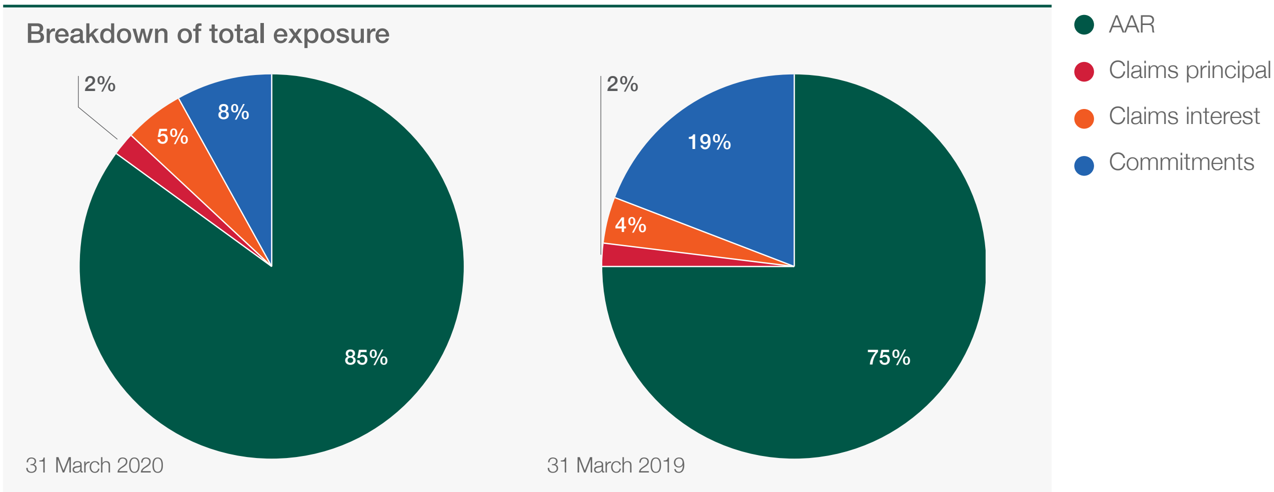
In 2019-20, we were again fully compliant with all our financial objectives relevant to the credit portfolio. A full summary of performance against financial objectives is reported on page 31.

- total exposure including commitments and legacy Account 1 exposure decreased from £26.8 billion to £24.9 billion[12] – the decrease being due to run-off of existing exposure and foreign exchange movements exceeding the new business written
- UKEF's portfolio of risks remained stable in terms of sector concentrations, while regional concentrations increased in the Middle East and Africa 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 scenarios
- UKEF's active portfolio management programme successfully placed 1 tranche in the private reinsurance market, reducing portfolio concentration in Africa, the Middle East and certain single obligors
- expected and unexpected loss rates increased, but we experienced a very low level of claims paid (see section on page 82)

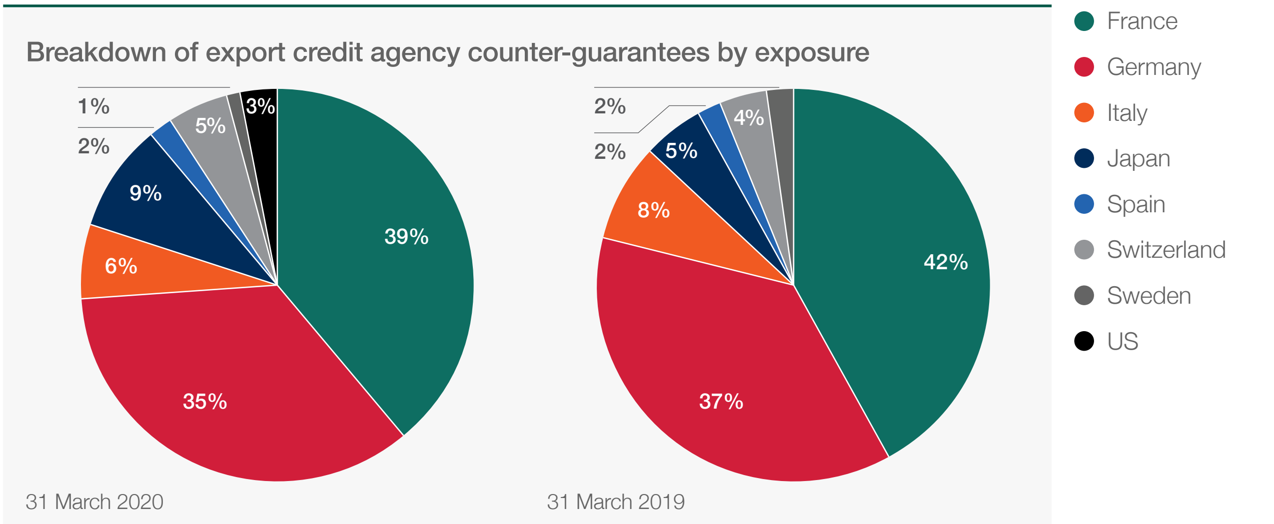
**12** This, and all data that follows in this section, is net of Account 3.




The charts below show the breakdown of this exposure between AAR, claims (principal and interest) and commitments.[13]



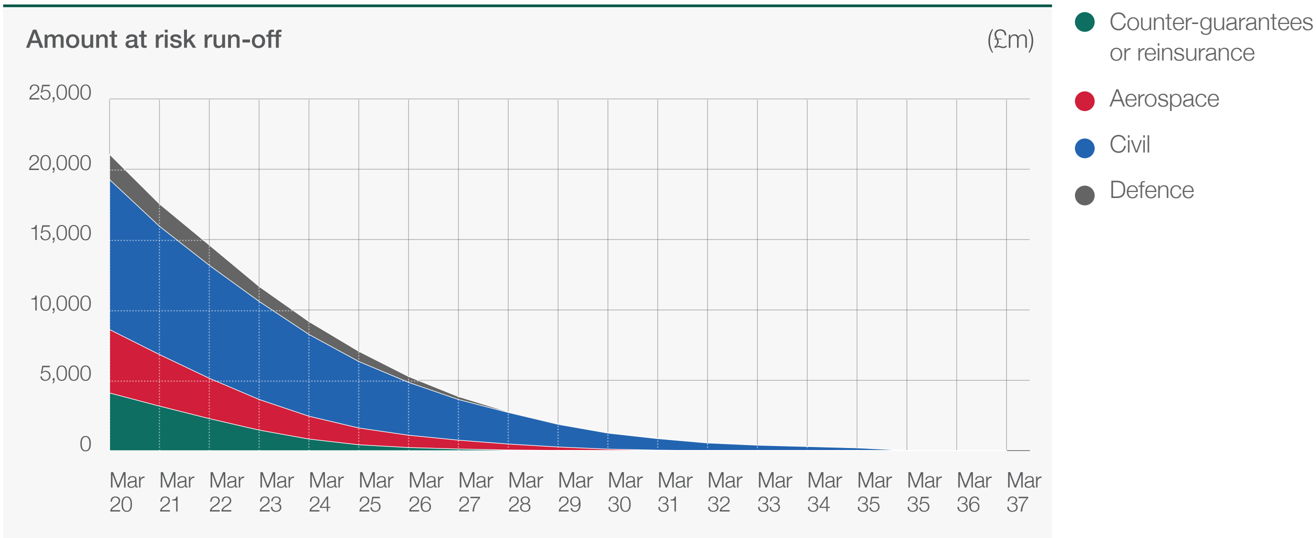

At 31 March 2020, total AAR amounted to £21.1 billion (£20.0 billion in 2019). This figure includes £3 billion of counter-guarantees provided to UKEF by other European ECAs (£3.8 billion in 2019), principally related to Airbus business, and £1.1 billion of private reinsurance used to manage risk concentrations in our portfolio (£0.9 billion in 2019).




13 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 17% will run off, with around 56% of the current portfolio expiring within 4 years.




## Risk concentrations

### Context

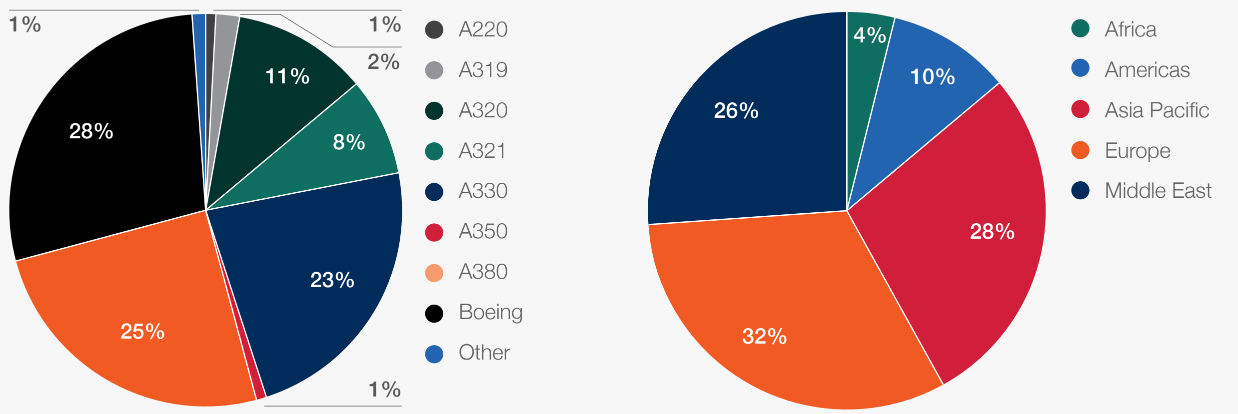
Our credit portfolio is dominated by long-dated emerging market risk, consistent with our role as the UK's official ECA. We are limited in our control over the geographic or sectoral composition of our portfolio, as we assume credit exposure in line with the needs of UK exporters rather than in the pursuit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

### Sectors

UKEF's largest risk concentration remains in aerospace, accounting for 27% of the AAR (net of ECA reinsurance/counter-guarantees) as at 31 March 2020 (32% for 2019). This sector has been significantly impacted from the consequences of the current COVID-19 crisis and resulting travel restrictions. As a result we have seen negative rating migration in this portfolio. The UKEF aerospace portfolio remains nonetheless well diversified across airlines and aircraft-leasing companies, aircraft type and geographical region, detailed below. Actual exposure is down year-on-year given run-offs and reduced levels of new business written during this financial year. Exposure is likely to rise again in 2020-21 as a result of the impact of COVID-19.

The majority of aerospace exposure is secured on the underlying aircraft.[14]

**Aerospace exposure by aircraft type and geography**



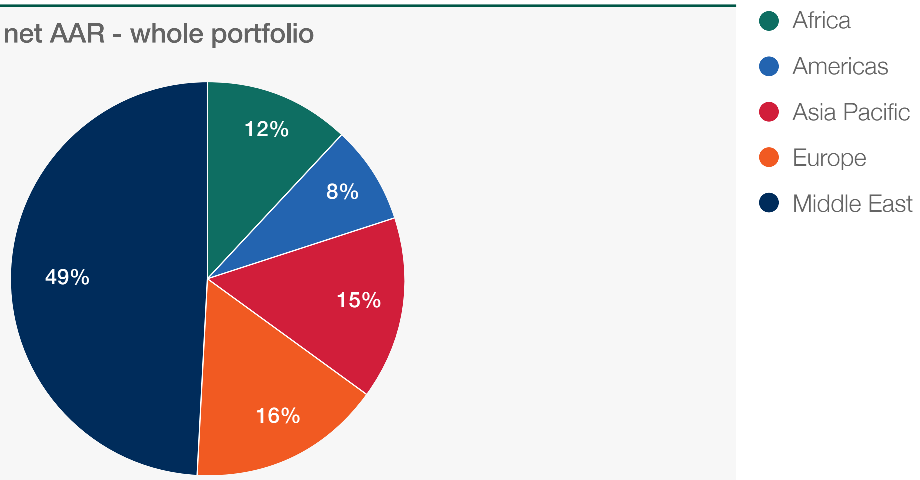

At 31 March 2020, UKEF had £2.6 billion credit exposure to commercial real estate, representing 22% of our overall AAR (net of export credit agency reinsurance/counter-guarantees), mainly in the Middle East. Other sector concentrations were to the gas and power industry (£3.6 billion AAR) and the chemicals industry (£1.7 billion AAR), spread across the Middle East, Asia and South America.

## Geography

As of 31 March 2020, the Middle East accounted for 49% of our net AAR portfolio. The majority of this resulted from support of UK exports to Oman, Dubai, Iraq and Saudi Arabia.

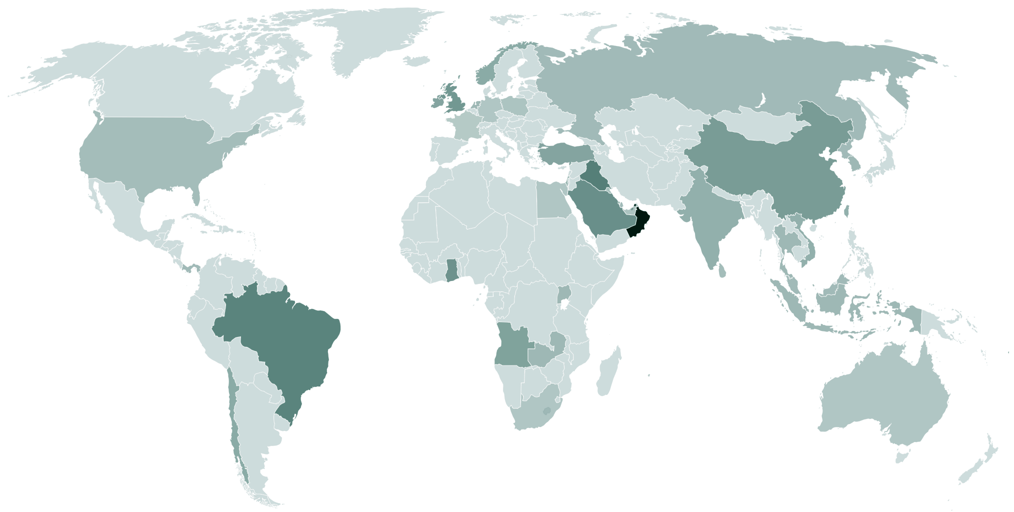
Asia Pacific accounted for 15% of net AAR, with around £1.2 billion attributable to civil aerospace business with a number of airlines. In the Americas, around £0.5 billion of exposure was attributable to the aerospace sector, and the remaining exposure largely centred on Brazil.

**Regional breakdown of net AAR - whole portfolio**




14 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.

Global AAR at 31 March 2020

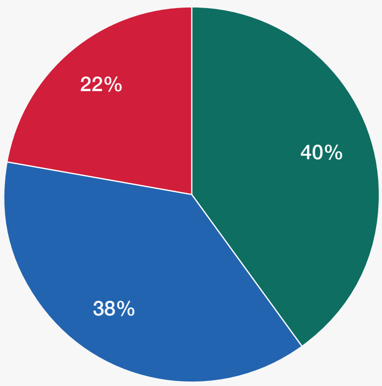


Darker shading indicates higher AAR

## Credit quality

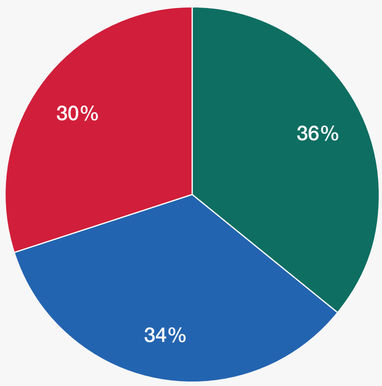
The most notable change regarding the credit risk quality of our portfolio in 2019-20, concerns the increase in the B+ or below segment. As at 31 March 2020, 40% of AAR (net of reinsurance) was rated B+ or below by UKEF (compared to 36% in 2019). This increase was in part due to new business issued in the year and in part due to a few rating downgrades in relation to existing transactions.

Net AAR by rating




31 March 2020

Net AAR by rating



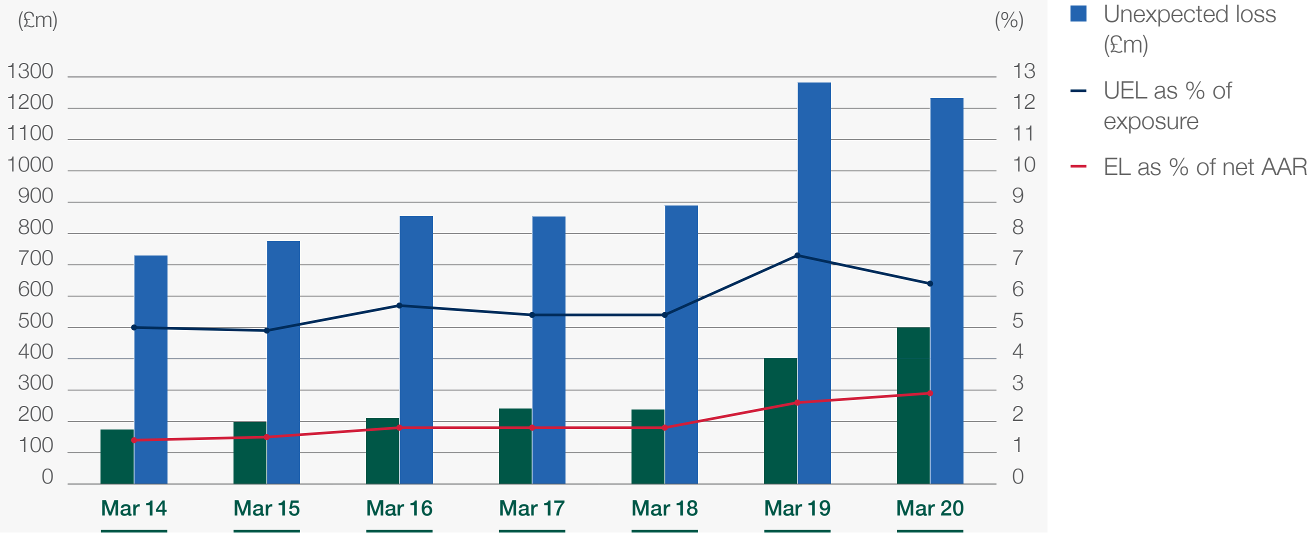

31 March 2019

- B+ or below
- BB+ to BB-
- Investment Grade

Portfolio expected loss increased, from £402 million to £499 million, representing 2.9% 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 decreased slightly to £1.2 billion as of 31 March 2020, from £1.3 billion in 2019, representing 6.4% of total exposure (7.3% in 2019). This decrease is in part due to the application of revised correlation assumptions, as indicated on page 73.

Expected loss and unexpected loss trend




## Risk appetite limit

The projected portfolio loss to the 99.1 percentile has remained at around £2 billion and is still comfortably below the financial objective limit of £5 billion set by HMT.

## Portfolio stress testing

UKEF conducts an exercise twice a year to analyse the impact of shocks on its portfolio of exposures. These are split between specific political and economic scenarios - such as a crisis in the Middle East or a collapse in oil prices - and more generic shocks, such as a 3-notch rating downgrade of sovereigns and corporates across the board or the default of major counter-parties. While our modelling framework is based around UKEF's current underlying assumption that the Covid-19 pandemic will be of moderate size, duration and intensity, under which scenario UKEF firmly remains within its Risk Appetite Limit, we have also modelled the portfolio, among a number of other scenarios,  on the basis of a severe and prolonged global pandemic. Under this very extreme modelling scenario, undertaken to the 99.1% point on the loss distribution curve, UKEF, not surprisingly, does breach its Risk Appetite Limit (to £6.6bn versus its £5bn limit). We continue to monitor the risk environment to ensure that our existing scenarios are revalidated and updated as necessary and new bespoke scenarios are designed as appropriate.

While rating migration across the UKEF portfolio has historically been relatively modest, the effects of COVID-19 have begun to accelerate this trend with rating downgrades in the aero and real estate portfolios in particular. This trend is expected to continue depending upon the severity and longevity of the pandemic.

## New claims paid in the year

Whilst UKEF experienced an increased number of claims paid over the prior year (across 7 counterparties compared to 1 in 2018-19), in absolute terms and relative to the size of the portfolio, the quantum of claims remained low during the course of 2019-20. The increase in numbers did not reflect any specific sector or country trends but did signal a turning of the economic cycle (pre-COVID). The level of new claims is mitigated by 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 quantum 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 £1.41 billion (down from £1.44 billion in 2019) of outstanding claims paid on this business refers to sovereign exposure that is subject to Paris Club rescheduling, the most significant part of which is for Sudan (including a substantial amount due to accrued interest).

The overall provision amount for this business decreased slightly on 31 March 2020 to £1.15 billion (down from £1.17 billion in 2018-19).

Outstanding claims paid on Account 2 from business issued after 1991 has reduced slightly in the year to £347 million at 31 March 2019 (down from £360 million in 2018-19) 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 have now completed paying down in accordance with agreed rescheduling.

## Recoveries

Overall recoveries (on all business, both principal and interest) amounted to £102 million as at 31 March 2020 (£100 million in 2018-19), reducing total recoverable claims (excluding interest on unrecovered claims) to £590 million (£647 million in 2018-19). The majority of recoveries (£92 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.

# Market risk management

## Context

Market risk is the risk of losses caused by 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 changes 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 currently 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 ERiCC for appropriate action. No such excess movements occurred in 2019-20.

These arrangements, along with several other reporting provisions relating to the scheme, are approved annually by the ERiCC. 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.

### Direct lending

In 2014, UKEF introduced a Direct Lending Facility. This provides loans to buyers of UK goods and services at the Commercial Interest Reference Rate (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.

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 2020 and 31 March 2019 and the outstanding commitments against them.

| | At 31 Mar 2020 | | | | At 31 Mar 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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** | 2,281 | 23,050 | 2,066 | 25,116 | 1,734 | 26,154 | 1,637 | 27,791 |
| | | | | | | | | |
| **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 | 0 | 0 | 0 |
| | | | | | | | | |
| | 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 | 1 | 0 | 1 |
| | | | | | | | | |
| **Section 6(3) amounts** | | | | | | | | |
| **Assets** | 5 | - | 4 | 4 | 10 | - | 10 | 10 |

UKEF is the most ethnically diverse department in government and has seen a fall in its gender pay gap.

# Chief Finance & Operating Officer's report

**This report summarises and highlights the department's financial performance for the year ended 31 March 2020. 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

*There may be rounding differences to the detailed underlying financial statements and notes found in the latter part of this document. Commentary is based on summarised data (in most case rounded to nearest million).*

## Overall Results

UKEF achieved a net operating income of £217 million for the year ended 31 March 2020 compared with £128 million for the year ended 31 March 2019. On an FX-adjusted basis the net operating income for the year ended 31 March 2020 was £162 million compared with £82 million for the year to 31 March 2019. The change in net operating income for the year primarily comprised of a £41 million improvement in the investment return and a higher release of excess credit funds of £41 million (see Reserving for Insurance Liabilities below for more detail).

### 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 58 to 85). During the year, sterling appreciated by approximately 2% 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 2019-20, at £41 million compared with £37 million in 2018-19. This increase was largely due to a planned increase in staff (see our people: staff and remuneration report). UKEF, however, delivered on 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 classes are, direct lending loans (see Account 5 description below) and recoverable claims (both denominated in a range of currencies, however predominately US dollars). The Account 5 direct lending loan book continued to grow and increased from £957 million in 2018-19 to £1,322 million this year. Gross recoverable claims however reduced from £647 million to £591 million as recoveries were made.

## Reserving for insurance liabilities

UKEF applies the fund basis of accounting (see the financial statements from page 155 for a fuller explanation) for its medium and long-term business. At the end of the year the (net) underwriting funds stood at £958 million compared with £896 million at the end of 2018-19. 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 2010 and 2016) was some £76 million in 2019-20. 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 2010 and 2016.

# Accounts 1 to 5

UKEF currently 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 guarantees and insurance policies issued for business since April 1991

- **Account 3** relates to guarantees and insurance issued for business since April 1991 and the provision of direct lending underwritten 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 underwritten in the normal course of Business (since 2014)

## Management commentary — 5-year summary

| | 2019-20 £m | 2018-19 £m | 2017-18 £m | 2016-17 £m | 2015-16 £m |
|---|---|---|---|---|---|
| **Overall value of guarantees and insurance policies issued and effective:** | | | | | |
| New business supported – net of reinsurance – A/c 2 | 3,499 | 3,372 | 1,865 | 2,178 | 1,507 |
| New business supported – net of reinsurance – A/c 3 | - | 2,139 | - | - | - |
| **Total new business supported – net of reinsurance** | **3,499** | **5,511** | **1,865** | **2,178** | **1,507** |
| Amounts at risk – gross of reinsurance | 21,838 | 21,538 | 16,988 | 18,859 | 17,111 |
| **Statement of comprehensive net income:** | | | | | |
| Premium income net of reinsurance | 177 | 332 | 103 | 102 | 73 |
| Staff, other administration and operating costs | 41 | 37 | 34 | 30 | 30 |
| Foreign exchange gain/(loss) | 55 | 46 | (65) | 57 | 13 |
| Net operating income – total | **217** | **128** | **5** | **149** | **106** |
| Account 1 | 57 | 35 | 9 | 63 | 33 |
| Account 2 | 88 | 45 | 22 | 70 | 64 |
| Account 3 | (1) | - | - | - | - |
| Account 4 | - | 1 | 2 | 4 | 6 |
| Account 5 | 73 | 47 | (28) | 12 | 3 |
| Net operating income – foreign exchange adjusted | 162 | 82 | 70 | 92 | 93 |
| Statement of cash flows: | | | | | |
| Claims recoveries – total | **71** | **69** | **76** | **120** | **133** |
| Account 1 | 38 | 39 | 34 | 47 | 49 |
| Account 2 | 33 | 30 | 42 | 73 | 84 |
| Interest recoveries in the year – total | **31** | **31** | **27** | **31** | **28** |
| Account 1 | 29 | 30 | 26 | 28 | 24 |
| Account 2 | 2 | 1 | 1 | 3 | 4 |
| Claims paid – total | **8** | **-** | **2** | **8** | **5** |
| Account 2 | 8 | - | 2 | 8 | 5 |
| Net cash flow from operating activities - total | **321** | **484** | **225** | **272** | **199** |
| Account 1 | 67 | 69 | 60 | 74 | 73 |
| Account 2 | 181 | 241 | 114 | 158 | 109 |
| Account 3 | (11) | 95 | - | - | - |
| Account 4 | - | 1 | 2 | 3 | 5 |
| Account 5 | 84 | 78 | 49 | 37 | 12 |
| Statement of financial position: | | | | | |
| Recoverable claims before provisioning | **591** | **647** | **701** | **800** | **876** |
| Account 1 | 402 | 433 | 463 | 515 | 539 |
| Account 2 | 189 | 214 | 238 | 285 | 337 |
| Recoverable claims after provisioning | **197** | **247** | **292** | **368** | **429** |
| Account 1 | 145 | 168 | 190 | 223 | 234 |
| Account 2 | 52 | 79 | 102 | 145 | 195 |
| Interest on unrecovered claims after provisioning | **118** | **106** | **116** | **134** | **134** |
| Account 1 | 117 | 105 | 115 | 133 | 133 |
| Account 2 | 1 | 1 | 1 | 1 | 1 |

| | | | | | |
|---|---|---|---|---|---|
| Underwriting funds – net of reinsurance | **958** | **896** | **629** | **582** | **547** |
| Account 2 | 873 | 811 | 629 | 582 | 547 |
| Account 3 | 85 | 85 | - | - | - |
| Recoverable capital loans before provisioning | **1,327** | **967** | **505** | **381** | **119** |
| Account 4 | 5 | 10 | 15 | 32 | 51 |
| Account 5 | 1,322 | 957 | 490 | 349 | 68 |

# 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 £57 million compared with £35 million in 2018-19. The change in net operating income was due to a £25 million improvement in the investment return
- recoveries of claims paid were £38 million compared with £39 million in 2018-19
- recoveries of interest on claims paid were £29 million compared with £30 million in 2018-19
- the balances for gross claims decreased from £433 million in 2018-19 to £402 million during the year, while those for net claims decreased from £168 million in 2018-19 to £145 million during the year
- interest on net unrecovered claims increased from £104 million in 2018-19 to £118 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 £3,499 million compared with £3,272 million at 31 March 2019
- net premium income was £177 million compared with £332 million in 2018-19
- net operating income was £88 million compared with £45 million in 2018-19. The change in net operating income was mainly due the release from the funds was £76 million in 2019-20 compared with £35 million in 2018-19
- claim recoveries for the year were £33 million compared with £30 million in 2018-19
- gross claims balances were £189 million compared with £214 million in 2018-19
- net claims balances were £53 million compared with £78 million in 2019-20

# Account 3

- There was no new Account 3 business issued and effective in 2019-20 compared with last year where 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.

## 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 £5 million from £10 million in 2018-19, as regular instalments were made
- net operating income was £0.1 million in 2019-20 compared with £1 million in 2018-19

## Account 5

This account relates to direct lending activity issued in the ordinary course of business.

- during the year 6 new loans (not including facility increases) were originated (6 loans were originated in 2018-19). There are now 28 loans drawn or drawing
- There is only 1 loan which has been assessed as impaired (see Note 1 of the financial statements for details of the relevant accounting policy)
- there was a net operating gain of £73 million in 2019-20 compared with net operating gain of £47 million in 2018-19. This change was largely as a result of a £12 million larger foreign exchange gain as most of the loans originated were in US dollars and a £17 million improvement in investment return.

## 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 | 2019-20 Estimate £'000 | 2019-20 Outurn £'000 | 2019-20 Variance £'000 |
|---|---|---|---|---|
| *Budget spending* | | | | |
| Departmental Expenditure Limit (DEL) | SOPS1(a) | 916 | 911 | 5 |
| Annually Managed Expenditure (AME) | SOPS1(a) | 124,842 | (217,744) | 342,586 |
| **Resource Total & Net Operating Cost / (Income)** | | **125,758** | **(216,833)** | **342,591** |
| Non Budget / Resource total | SOPS1(a) | - | - | - |
| **Net Resource Outturn & Net Operating Cost / (Income)** | | **125,758** | **(216,833)** | **342,591** |
| *Budget spending* | | | | |
| Departmental Expenditure Limit (DEL) | SOPS1(b) | 300 | 135 | 165 |
| Annually Managed Expenditure (AME) | SOPS1(b) | 836,811 | 307,710 | 529,101 |
| **Capital Total Payments / (Receipts)** | | **837,111** | **307,845** | **529,266** |

## 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 £343 million – This variance is largely due to provisions and foreign exchange movements 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 pages 84 to 85 and Note 20 of the financial statements.

## Capital – Note SoPS1(b):

AME £529 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 on pages 58 to 85 and Note 20 of the financial statements.

# 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 published ESHR policy.[1] In addition, we collaborate with other export credit agencies and financial institutions regarding ESHR matters, with the aim of establishing a 'level playing field' and sharing good practice in respect of implementing proportionate and effective ESHR risk management across these institutions.**

**Max Griffin**
Head of Environmental and Social Risk Management

During 2019-20 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 were screened for ESHR risks. Where we identified significant risks, we designated the project as either a Category A (high risk) or Category B (medium risk) and we carried out an ESHR review of these transactions.

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 the projects to which UK exports are destined align with the relevant international ESHR standards prior to our support being provided and subsequently throughout the period of UKEF support. In order to achieve this we work with the relevant parties (e.g. project sponsors and UK exporters) to establish and clarify the areas of ESHR management which may need improving to meet international standards and support robust implementation of management systems that achieve this which both mitigate negative impacts and enable positive impacts where possible. UKEF's benchmark ESHR standards are typically the International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability, covering the 8 ESHR topics indicated below:


Source: IFC Performance Standards

1 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

Our ESHR due diligence and monitoring is carried out by UKEF's professionally qualified and experienced E&S (Environmental and Social) team, supported by the E&S teams of our co-financing institutions and external ESHR consultants, where appropriate.

As well as reducing negative ESHR impacts, the E&S team considers the ESHR benefits which are inherent to many of the proposed projects we review and monitor. Examples of these benefits include:

- enhanced health and well-being within the host communities where hospitals have been supported
- improved availability of clean water and sanitation from the development of water supply and treatment projects
- provision of jobs, training and project-related economic growth made available through the construction and operation of UKEF supported projects overseas

Through ensuring the implementation of our benchmark ESHR standards, these developmental benefits may be enhanced beyond the level that would be provided without UKEF's support. Further work to define these inherent benefits and determine their alignment with the UN Sustainable Development Goals is provided below.

## ESHR due diligence

In 2019-20, 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[2] 15 category B and 3 category A projects that fell within the scope of the OECD Common Approaches and/or the Equator Principles.

UKEF's involvement had a positive impact on projects through implementing ESHR risk management systems and plans in various Category A and Category B projects supported in 2019-20, for example:

**Offshore wind farm, Taiwan** (Category A):
The project, to build and operate a wind farm off the coast of mainland Taiwan, comprising 47 wind turbine generators (WTGs), together with associated jacket WTG foundations, is UKEF's first offshore wind deal.

UKEF's E&S due diligence involvement, along with a consortium of other ECAs, led to a more rigorous impact assessment by the project sponsor, beyond Taiwanese regulatory Environmental Impact Assessment requirements.

This led to their engagement of international E&S specialist consultants who developed a more robust biodiversity management and mitigation plan to demonstrate how potential biodiversity impacts on a critically endangered population of Chinese white dolphins situated near the project area should be managed. The analysis of the Livelihood Restoration Plan developed to assess the potential impact to the local commercial Fishery Association supported the establishment of a Fishery Compensation and Cooperation Agreement to address potential loss in earnings and provide opportunities for future diversification.

2 'Supported' refers to transactions where finance documents were signed and became effective (for example, the first drawdown took place and UKEF is on cover) within the 1 April 2019 – 31 March 2020 period.

Details of the ESHR risk and impact categorisation of all cases which required an ESHR review under UKEF's ESHR Policy and for which support was issued during 2019-20 are available on UKEF's website.[3]

## ESHR monitoring

UKEF conducts ESHR monitoring of all category A and B projects where support has been issued. This allows us to track the implementation of ESHR commitments and to be satisfied that the projects continue to align with the relevant international standards for the duration of our support, during project construction, operations and, potentially, decommissioning.

Our monitoring includes reviewing self-monitoring reports produced by project developers, commissioning independent environmental and social consultants (IESCs) to monitor projects on our behalf, and 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 in order to improve and attain positive tangible ESHR outcomes. Examples of this include influencing the project developer:

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

3 https://www.gov.uk/government/publications/eshr-risk-and-impact-categorisations-2019-to-2020

The following are examples of our ongoing monitoring commitments for 2019-20 across both Category A and Category B projects

**Nghi Son Refinery & Petrochemical plant (NSRP), Vietnam** (Category A)
UKEF, along with other ECAs and lenders, conducted an E&S operations monitoring visit of the NSRP petrochemical refinery complex. Whilst the facility seemed to have made good progress on health & safety management as it transitioned from construction into the operations phase, some concerns remained regarding compliance with social requirements – particularly resettlement, where 30 households have yet to receive compensation, some 6 years post-physical resettlement.

Whilst NSRP has constantly worked with the local government authorities to settle the matter, the progress to broker resolution, address compensation and implement the Livelihood Restoration Plan (LRP) is still pending. This matter was raised strongly by the ECA group during the monitoring visit.

We have since been encouraged that NSRP (with support from the IESC), is now more actively progressing resolution of these matters. Latest actions are formalised in an updated action plan for lenders to keep them informed of implementation progress.

**Monitoring visit of Kumasi market, Kumasi airport and Bekwai hospital** (each a Category B project):
The E&S team conducted a site visit to Ghana for two projects in Kumasi (Kumasi market and Kumasi airport) and Bekwai hospital. The visit to Kumasi market focused on the relocation process to move existing traders from the current market location during the construction period. The visit to Kumasi airport and Bekwai hospital were used to assess compliance with the construction environmental and social management plans. The works are in in compliance with the approved ESIA and CMP. The E&S team identified some minor issues relating to environmental and health and safety management, including showers in need of repair and expansion of secondary containment. These were communicated to the management team and have since been rectified.

A summary of cases where we are undertaking ongoing ESHR post-issue monitoring can be found on our website.[4]

## International ESHR cooperation

In support of UKEF's objective to achieve fairer competition by seeking to establish a 'level playing field' for all OECD exporters, we work alongside other ECAs at the Environmental and Social Practitioners' Group of the OECD Export Credit Group. 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 an additional 2-year term on the Equator Principles Steering Committee in a management support role. Having served 2 terms, Equator Principles Governance rules will require UKEF to stand down from this role in June 2020.

4 https://www.gov.uk/government/publications/eshr-risk-and-impact-categorisations-2019-to-2020

During 2019-20 UKEF have led a ten-member Working Group focused on establishing the update to the Equator Principles (EPs), as first announced in 2017, with respect to the scope of their application. This process completed in November 2019 when the next iteration of the EPs, termed 'EP4', was approved by the EP Association with over 98% of EPFIs voting in favour of the update.

UKEF's E&S team were actively involved in the Equator Principles Annual General Meeting held in Singapore in October 2019, sharing experience and engaging and collaborating with EPFI colleagues. The E&S team continues to lead the EP4 Scope Working Group to develop implementation guidance which will be agreed and published before EP4 becomes mandatory, which is currently scheduled for 1 October 2020.

UKEF also participates in ESHR practitioner meetings of several multilateral financial institutions. This includes the International Finance Corporation's (IFC) Community of Learning, as well as meetings of other development and commercial banks and ECAs. UKEF attended and spoke at a number of international ESHR industry conferences this year, including at the ICC-Berne Union Sustainable Finance Working Group and the Future of Export Finance UK.

## ESHR Policy review

UKEF commenced a review process relating to our publicly stated Environmental and Social Policy and Practice Statement (E&S Policy), as we committed to doing when it was initially drafted in 2016. This review continued during 2019 as part of UKEF's ongoing consideration of ESHR and climate change factors in its activities.

## Task Force on Climate-Related Financial Disclosures

In July 2019 it was announced in the UK Government's Green Finance Strategy that UKEF will be making financial disclosures in line with the Task Force on Climate-Related Financial Disclosure (TCFD) as soon as practicable following the close of the 2020-21 financial year. A project is underway to implement the TCFD recommendations through 2020, as well as further develop the integration of climate change considerations across all the products and services that UKEF provide in alignment with wider government policy and practice, including that provided as part of the UK's hosting of the UN Climate Change Conference of Parties (COP) 26 in 2021.

The Formosa 2 offshore wind project in Taiwan will be built with British expertise thanks to UKEF support.

## UN Sustainable Development Goals (SDGs)

The UK Government was at the forefront of negotiating the Sustainable Development Goals (SDGs), unanimously agreed in 2015 by all 193 member states of the United Nations and has committed to be a leader in their delivery. The SDGs lay out a transformative agenda to tackle the world's most pressing social, environmental and economic challenges by 2030.

As a UK government department delivering support to UK exporters and their overseas buyers, UKEF has an important role to play in supporting progress towards the SDGs. This is reflected in our new Business Plan for 2020-24, where we commit to providing support, alongside Overseas Development Assistance and commercial financing (as relevant) in markets and sectors where there are demonstrable developmental and prosperity benefits with secondary benefits to the UK supply chain. You can see more about our new Business Plan on page 17.

UKEF actively contributes to the UK's progress towards and achievement of the following SDGs:


This year, we have undertaken a project to better understand UKEF's current impact on the SDGs, which has identified the role we play unlocking finance for delivery of projects in destination markets for UK exporters has clear potential for ancillary contributions to other SDGs. UKEF is actively exploring opportunities to improve sustainability at every stage of our work, both directly and indirectly.

By fulfilling our mandate and improving our understanding of the role and scale of required contribution towards the SDGs, we can ensure that UK exporters play their role in support of the SDGs whilst maintaining their competitive global standing.

### Supporting the SDGs in 2019 -20

This year, we have enhanced our product range to ensure that we can support the global sustainable development agenda. For example, our change to our foreign content policy enabled our support for Solarcentury to build 2 of Spain's largest solar plants, and we have also added a £2 billion tranche of dedicated direct lending capacity for clean growth projects. We have also been collaborating with the Department for International Development on the new Developing Market Infrastructure Programme a concessional financing facility for sustainable public-sector infrastructure projects in developing countries.

Through its marketing and origination activities, UKEF has been seeking new opportunities for UK companies to contribute to projects in sectors with clear inherent SDG benefits such as sanitation, hospitals and renewable energy. This year, for example, saw UKEF contribute to its first ever support for offshore wind as well as a number of healthcare projects in sub-Saharan Africa.

# Export Guarantees Advisory Council report

**Alistair Clark**
Chair, Export Guarantees Advisory Council

The Export Guarantees Advisory Council (EGAC) is an Expert Committee that advises the Secretary of State for International Trade and the Minister for Exports on the policies applied by UK Export Finance (UKEF) when doing business, particularly those policies related to ethical matters. These policies are guided by international agreements that relate to export credit agencies (ECAs). The Council provides advice to ministers and senior UKEF officials on bribery and corruption, environmental, social and human rights risks (ESHR), sustainable lending and transparency, including freedom of information.

2019-20 has seen some significant changes for EGAC. I took over from Andrew Wiseman as Chair of the Council in March 2019, when he reached the end of his term. I was appointed Chair having served as a member of the Council for 10 years and believe it fulfils a valuable role in providing UKEF and its ministers with strong, independent expert advice. I very much look forward to leading the Council going forward.

The work of the Council is varied. The Council's status means that it can address its views directly to ministers at any time, on any subject where it deems it appropriate to do so. The Council's main role is to review the application of ethical policies to past decisions that UKEF has made to support export transactions – we are not involved in taking decisions on cases which are currently under consideration by UKEF. We also make sure that UKEF continually informs the Council of developments related to relevant international agreements, and the policies set by ministers which guide UK Export Finance's operations, so that these can be considered by Council members in providing their advice.

Council members are appointed by the minister responsible for UKEF. It is a body of experts who act in a personal capacity. Council members 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. I would like to record thanks to members for the invaluable advice that they provide and the time that they commit to carrying out their duties.

In 2019-20, EGAC underwent a recruitment exercise to replace the members who left during the year. In addition to Andrew Wiseman, John Newgas and Anna Soulsby also reached the ends of their appointment terms. Both were valuable members of the council, and their advice and guidance was greatly appreciated by UKEF and its ministers. Dr Ben Caldecott from Oxford University, and Vanessa Havard-Williams from Linklaters were appointed as EGAC members. I welcome them to the Council and look forward to working with them.

The Council's current members are:

Chair

- **Alistair Clark**, Corporate Director, Environment and Sustainability Department, European Bank for Reconstruction and Development

Members

- **Dr Ben Caldecott**, Associate Professor and Senior Research Fellow at the University of Oxford Smith School of Enterprise and the Environment.
- **Alexandra Elson**, Senior Stakeholder Relations Adviser, Shell plc
- **Vanessa Havard-Williams**, Linklaters Partner specialist in sustainability law and policy, risk management and sustainable finance.
- **Neil Holt**, corporate anti-bribery adviser
- **John Morrison**, Executive Director, Institute for Human Rights and Business
- **Stephen Prior**, Partner, Prinia Consulting LLP and an experienced sales director in emerging markets
- **Dr Roseline Wanjiru**, Senior Lecturer and Programme Leader, Newcastle Business School

The Council met formally 3 times in 2019-20, and contributed informally to strategic policy discussions throughout the year.

## Environmental Audit Committee

In March 2019, the Council Chair appeared in front of the Environmental Audit Committee (EAC) investigation into the scale and impact of UKEF's financing of fossil fuels in developing countries. The EAC report made the following specific recommendation in respect of the Council:

> *The remit of the Export Guarantees Advisory Council (EGAC) should be expanded to include assessing how UKEF's activities contribute to the UK's climate commitments and greenhouse gas net zero targets. The EGAC should report regularly on this progress to the Secretary of State for International Trade.*

To address these recommendations the government has stated that it would carry out a review which will impact on the work of the Council to a large extent and will set the direction of our work for the future. The government agreed the following actions:

> *The Secretary of State would consider EGAC's remit to provide advice on UKEF's climate-related policies and how it applies them to the businesses that it supports;*
>
> *EGAC would review its reporting to the Secretary of State for International Trade to consider the climate-related impacts of UKEF's support;*
>
> *UKEF will describe EGAC's governance role on climate-related risks and opportunities in further detail when it issues its first climate-related disclosures statement; and*
>
> *EGAC will play an active role in advising UKEF as it develops its strategy on climate-related risks and opportunities. In order to support EGAC in this role, UKEF will seek to add further climate change expertise to EGAC through additional recruitment of a climate change expert to join EGAC.*

A transcript of the hearing and the evidence submitted by the Council is available on the parliament website:
https://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/inquiries/parliament-2017/uk-export-finance-17-19/

## EGAC Governance

Following the recommendations of the Environmental Audit Committee, the Council is re-examining its role. In June 2019, EGAC considered how lessons could be learned from other export credit advisory councils. The Council looked at the advisory council of Export Development Canada, and recommended that UKEF and its ministers look at best practice there when considering the role of EGAC. In September, the Council examined how it could work more closely with the UKEF Board. In March 2020, the minister agreed that the Chair of EGAC should be an ex-officio member of the UKEF Board. This will improve the link between the Council and the UKEF Board, and ensure that the expertise of Council members in climate change, environmental and human rights matters, anti-bribery and corruption and debt sustainability is factored into the deliberations of the UKEF Board, as these issues cut across the wider perspective of UKEF's role and remit more than ever before.

## Environmental and social risk management and the OECD

While the strategic decisions are being made on the future role of EGAC, the main business of the Council continues.

In 2020 the OECD will review some significant environmental policies which will apply to UKEF. OECD members will review the Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the "Common Approaches"). In February, EGAC discussed the review with UKEF. The Council recognises that UKEF has been fully engaged in the process so far and provided advice on UKEF's strategic approach to working with likeminded countries to discuss and agree where to strengthen the recommendations, prior to the negotiations being opened.

The OECD Coal-Fired Electricity Generation Sector Understanding (CFSU) was implemented in February 2016 and was due for review by OECD Participants in June 2020. In February, the Council discussed the UK's approach to the CFSU discussions, and recommended that UKEF use bilateral contacts to test the appetite of other countries as to what might be possible in resetting the agreement.

## Environmental, social and human rights (ESHR) policy

UKEF's Environmental and Social Risk Management (E&S) team identifies, reviews and, where support is provided, monitors ESHR risks and impacts in accordance with the OECD Common Approaches and the Equator Principles. Part of the Council's role is ensuring that the E&S team is properly equipped to carry out the necessary ESHR reviews, and in 2019-20 the Council was satisfied this was so.

While ensuring that UKEF's ESHR policies are properly applied to cases, 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 one project classified as higher ESHR risk or 'Category A' each year. In June 2019, the Council examined the environmental and social due diligence which had been carried out by UKEF in relation to its support for the Samawa and Dhi Qar Power Stations in Iraq. Both had been classified as Category A projects. The Council noted that UKEF was the only export credit agency engaged on the project and noted that UKEF had been able to exert positive influence on the project, for example where it had required a redesign of the plant to incorporate more emission reducing equipment. In February, the Council considered the policies that were applied to a Category B case in Benin. The Council recognises that UKEF can positively influence UK exporters and their projects by assisting their capability to assess and manage ESHR risks resulting from their activities.

## Climate Change

In 2019-20 the Council also held discussions in respect of UKEF's role in the development and delivery of the UK government's climate change policies. For example, the Council looked at UKEF's alignment to the UN Sustainable Development Goals (SDGs). The Council commended the approach that UKEF was taking in its considerations, noting that UKEF's statutory role is to support exports, and that UKEF would be considering both positive and negative contributions to the SDGs. We also looked at initiatives being implemented by other governments and gave advice on the approach UKEF could take. The Council also recognised the efforts UKEF undertook in 2019-20 to bring climate change awareness to the forefront of its work. In December 2019, UKEF purchased 150 licenses for staff to take an accredited online course from Imperial Business School on Climate Change Financial Risks and Opportunities. The Council is aware that climate change will continue to be a significant consideration for UKEF, and is supportive of initiatives like this to train UKEF staff.

## Anti-bribery and corruption

The Council carried out its annual consideration of the application of UKEF's anti-bribery policies and practices in December 2019. These policies are mainly derived from the 2019 OECD Recommendation on Bribery and Officially Supported Export Credits (OECD Bribery Recommendation) and UKEF's polices that originated in Government's public consultations on UKEF's anti bribery policies and practices in 2005-6.

The Council also reviewed the work UKEF is doing to strengthen its work in this area. The Council welcomed the process that had seen UKEF's Compliance function fully overhauled from February 2019. The function is led by senior civil servants with policy and legal backgrounds, and staff within this function are encouraged to obtain professional qualifications in this area.

The Council was pleased to hear that UKEF took a principal role at the first OECD workshop on anti-bribery and corruption since the adoption of the 2019 Recommendation. UKEF led a session with stakeholders including ECAs, Multilateral Development Banks, banking and business representatives, and NGOs on measures to deter bribery in international business transactions, including relevant international developments, evolving business practices and future steps.

In June 2019, the Council considered changes to the wording for buyer credit policies in respect of bribery and corruption. The revised wording was clear and the approach UKEF had taken was appropriate. The Council was pleased to see satisfactory progress being made in this area. The Council will continue to look at anti-bribery and corruption issues in 2020-21.

## Transparency

The Council conducted its annual review of UKEF's treatment of information requests made under the Freedom of Information Act (FOIA) and the Environmental Information Regulations (EIR). The Council recognised UKEF's continuing high performance in terms of responding to requests within the statutory deadline. UKEF responded in time to 99% of requests, compared to a central government average of 91%.

Overall, 2019-20 was the beginning of a transformative period for the Council. I expect 2020-21 will see a continuation of this process and with a refreshed mandate and membership, the Council's work will be refocused and strengthened.

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

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

# Accountability

# UKEF ministers and Board members

## UKEF ministers

**Rt Hon.**
**Liz Truss MP**
Secretary of State for International Trade and President of the Board of Trade

**Graham Stuart MP**
Minister for Exports

## Members of the UKEF Board and its sub-committees

**Noël Harwerth**
Chair of the UKEF Board and Remuneration Committee

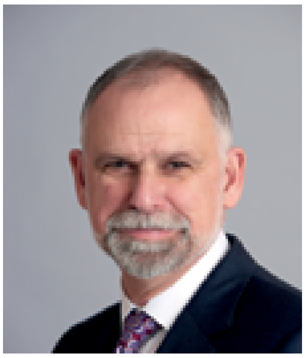
**Louis Taylor**
Chief Executive Officer

**Cameron Fox**
Chief Finance and Operating Officer

**Samir Parkash**
Chief Risk Officer

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

**Shalini Khemka**
Member of UKEF Board and Remuneration Committee. Member of the Audit Committee to December 31st 2019



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

**Justin Manson (to 30 June 2019)**
Ex-officio member of UKEF Board, UK Government Investments, Member of Audit, Risk and Remuneration Committees

**Madelaine McTernan (from 1 July 2019)**
Ex-officio member of UKEF Board, UK Government Investments, Member of Audit, Risk and Remuneration Committees

**Kimberley Wiehl**
Member of UKEF Board, Member of Risk and Remuneration Committees. Member of the Audit Committee from 1st January 2020

**Amin Mawji OBE (to 30 June 2019)**
Member of UKEF Board, Chair of Audit Committee and Member of Remuneration Committee

**John Mahon**
Ex-officio member of UKEF Board, Director General for Exports at the Department for International Trade

**Lawrence M. Weiss**
Member of UKEF Board, Member of Audit, Risk and Remuneration Committees. Chair of Audit Committee from 1 July 2019

**Alistair Clark**
Member of the UKEF Board from 21 May 2020, Chair of the Export Guarantees Advisory Council

### Register of interests

A register of interests is kept up to date to identify any potential conflicts of interest involving the senior executive directors and, if necessary, address them. At the start of Departmental Board meetings, members are asked to declare any potential conflicts of interest. Appropriate arrangements are in place to manage any conflicts identified, in line with Departmental and Cabinet Office policy. This could, for example, include recusal from Board discussions relating to those interests.

One conflict of interest was raised this year and was managed in line with the relevant procedure.

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

# Governance statement

## Introduction

**Louis Taylor**
Chief Executive Officer

As Accounting Officer for UK Export Finance (UKEF), I am responsible to ministers and Parliament for the management of UKEF's operations, including the stewardship of financial resources and assets. This Governance Statement sets out how I have discharged this responsibility for the period 1 April 2019 to 31 March 2020.

The areas covered below are:

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

## Background

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

In providing support, we seek to:

- provide value for money to the taxpayer
- engage with exporters, buyers and delivery partners such as banks, without displacing private providers
- provide a quality of service that is responsive to new business, with a focus on solutions within the bounds of acceptable risk and in accordance with our statutory purpose
- maintain the confidence of ministers, Parliament and customers
- effectively communicate what we do to interested parties
- deliver our strategy, outlined in our new Business Plan covering the next 4 years
- realise the objectives in our new business plan to ensure we are better able to meet the needs of customers while appropriately managing the risks to which this exposes UKEF

# Corporate governance framework

UKEF was set up in 1919, with its statute introduced in 1920. It is a ministerial department of state established and governed by the Export and Investment Guarantees Act 1991 (EIGA), with the formal name of the Export Credits Guarantee Department (although we operate as "UK Export Finance").

UKEF is operationally and strategically aligned with the Department for International Trade, but is a separate ministerial government department in its own right.  Both departments report to the Secretary of State for International Trade.  I am the Chief Executive and Principal Accounting Officer of UKEF.

## Statutory powers

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

## Department for International Trade

The Department for International Trade (DIT) promotes UK exports, maximises opportunities for inward investment and outward direct investment, and develops trade policy. I am one of DIT's 5 Directors General. I am also a member of the DIT Board and Executive Committee.

While a separate department from DIT, UKEF is strategically and operationally aligned with it. Both departments have the same Secretary of State.

## Ministers

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

## HM Treasury

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

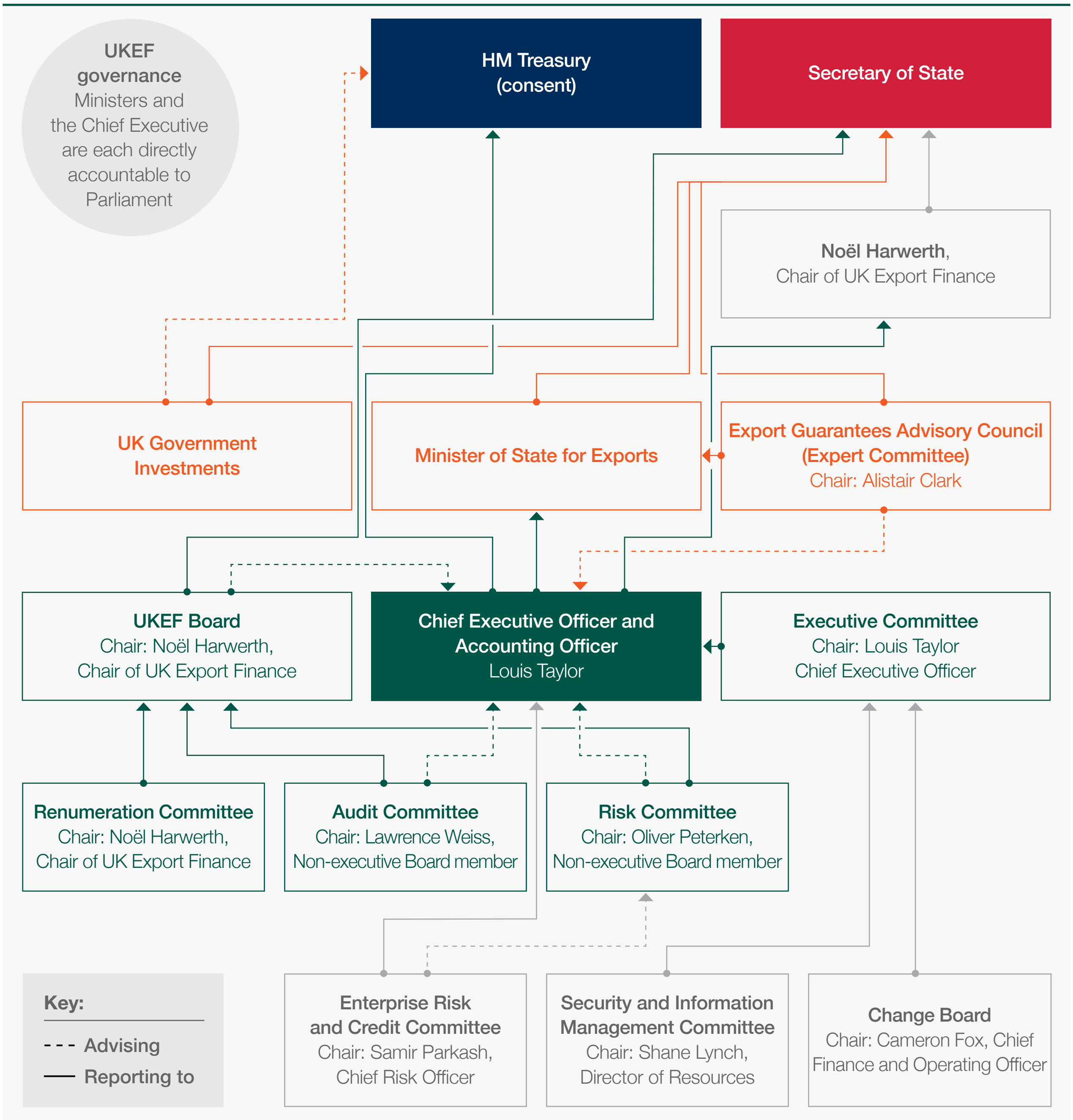
HMT seeks to protect the taxpayer from excessive loss resulting from our lending or contingent liabilities, and the UK economy from economic disbenefit. It exercises this role primarily by monitoring our performance against the financial objectives agreed by ministers and the policy framework they set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

## UK Government Investments

UK Government Investments (UKGI) is responsible for providing independent advice to the Secretary of State for International Trade on UKEF's financial performance and corporate governance matters. A UKGI representative is an ex-officio member of UKEF's Board, and HM Treasury has delegated to UKGI the monitoring of UKEF's ongoing performance in relation to the Consent. Particular areas of focus are:

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

## UKEF's Governance Structure



## Export Guarantees Advisory Council (EGAC)

EGAC is a statutory body under the Export and Investment Guarantees Act 1991. It was designated as an Expert Committee in 2016 and its role is to advise the Secretary of State for International Trade on the ethical policies that UKEF applies when doing business, particularly those related to:

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

The Council independently publishes a report of its business in the year, which is available on pages 100 to 104 and also from the Council's website.[1]

The Council does not hold any independent budget or spending authority. From April 2020, the Chair of the Council has been an ex-officio member of the UKEF Board.

## UKEF Board

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

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

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

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

UKEF is committed to ensuring that the Board and its committees operate effectively and are continually improving. During the summer of 2019 a Board effectiveness review was undertaken. Overall the review concluded that the Board and its committees operated effectively. It noted that the Board supported the executive with strategic thinking, that members challenge the executive, and that risk management was well organised within the organisation with credit risk management in particular reported to be strong and effective. The review suggested that the Board would benefit from a greater focus on strategic items at each Board meeting and from more information being provided on intra-governmental relationships. A report detailing findings and suggested improvements

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

was accepted by the Board and an action plan established for implementing key recommendations during 2019-20 and beyond.

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

## Audit Committee

The Audit Committee annual report can be found on pages 126 to 127. The Committee Chair formally reports on the Committee's activities to the Board.

## Risk Committee

The Risk Committee annual report can be found on pages 128 to 129. The Committee Chair formally reports the outcome of Risk Committee meetings to the Board.

## Remuneration Committee

The Remuneration Committee comprises at least 3 non-executive directors and is chaired by the Chair of the UKEF Board. This committee considers and decides on proposals from the Chief Executive relating to individual pay decisions as per the criteria outlined in guidance from the Cabinet Office about the remuneration of its Senior Civil Service (SCS) members. It also ensures that these recommendations take into account any requirements or guidance from the Cabinet Office, including that the average increase to the SCS pay bill is within any centrally determined budget. The Remuneration Committee also advise the board on the effectiveness of systems for identifying and developing leadership and high potential, scrutinising the incentive structure and succession planning for the Board and the senior leadership of the Department.

## Executive Committee

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

- Gordon Welsh, Business Group Director: responsible for our support for exporters and product development
- Cameron Fox, Chief Finance & Operating Officer: responsible for finance and accounting, business insight and analytics, middle office operations, operational planning, change management and information technology
- Davinder Mann, Director of Legal and Compliance: responsible for legal and financial crime compliance matters and supporting the Department in managing legal and compliance risk
- Samir Parkash, Chief Risk Officer: responsible for leading the organisation's overall approach to risk management by managing enterprise, financial and credit risk, country risk, operational risk, and related management systems and practices
- Shane Lynch, Director of Resources: responsible for all people-related issues, staff administrative functions, strategic workforce planning, commercial functions, facilities and security
- Richard Simon-Lewis, Director of Business Development, Marketing & Communications: responsible for securing global opportunities for UK exporters, raising awareness of UKEF's support among exporters and overseas buyers, and generating new business

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

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

- The Enterprise Risk and Credit Committee, chaired by the Chief Risk Officer, is responsible for advising the Chief Executive on the effective management of UKEF's credit risk exposures at the case specific and portfolio level, and operational and enterprise-wide risks across UKEF
- Change Board, chaired by the Chief Finance & Operating Officer, advises on whether UKEF's investment in maintaining and improving its infrastructure, systems and processes is appropriately and effectively targeted and managed, and represents value for money
- The Security and Information Management Committee, chaired by the Director of Resources, is responsible for ensuring the security of UKEF's people, assets, business operations, technological infrastructure and processes, so that all are managed in accordance with UKEF, legal, regulatory and Central Government requirements

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

## Governance in 2019–20

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

- all instructions given to me by ministers were in accordance with the EIGA, the Consent and applicable international agreements
- UKEF met all its financial objectives
- UKEF suffered no material operational losses
- UKEF had no major security breaches, data thefts or losses
- I met ministers regularly to brief them on issues related to UKEF, and also briefed as necessary UKGI, HM Treasury and Department for International Trade officials so that they could provide informed advice to ministers if and when required
- the appropriate balance of non-executive directors and ex-officio members on the UKEF Board was maintained
- the Executive Committee met at least twice a month throughout the year
- the UKEF Board met 8 times in the year, the Audit Committee met 5 times, the Risk Committee met 4 times and the Remuneration Committee met twice, consistent with their terms of reference

During Summer 2019, an externally facilitated evaluation of UKEF's internal executive committees (Executive Committee, Change Board, Security Committee and Credit Committee), along with the Export Guarantees Advisory Council, was conducted following a formal procurement process. It noted that committee Chairs were committed to developing good practice; that there was good debate and challenge during committee meetings; and that the committee members were open to review and to opportunities for improvement.

A report detailing findings and suggested improvements was accepted by Executive Committee and the Board and an action plan established for implementing key recommendations during 2019-20 and beyond.

## Ministerial Directions

During 2019-20, there was one Ministerial Direction, on 15 April 2019, to increase UKEF's total risk capacity for Iraq by £1 billion to enable further priority projects to be supported in this country on UKEF's standard terms of underwriting. This uplift in the risk capacity of £1 billion falls outside of UKEF's established risk framework. Therefore, it was outside my authority to approve such a rise. UKEF's risk framework is agreed as part of the HMT Consent, and business conducted outside of this would be considered 'irregular' under the terms of Managing Public Money.

In such circumstances, ministers can use their judgement of what is in the national interest to instruct UKEF to increase risk capacity for specific countries outside its normal risk framework.

The Secretary of State for International Trade consulted ministerial colleagues, including the Chancellor of the Exchequer, who concluded that raising UKEF's risk capacity for Iraq by £1 billion would be in the national interest. As a result, HMT affirmed that business underwritten under this direction was considered 'regular', i.e. that it was within UKEF's powers under the EIGA and within the HMT Consent required under that Act. Accordingly, the Secretary of State for International Trade instructed me (with the consent of HMT) to increase UKEF's risk capacity by £1 billion, subject to a number of conditions. The direction confirmed that UKEF's established risk underwriting standards were to be employed when considering support for transactions within the additional £1 billion risk capacity. All Iraq business underwritten under Account 3 will be reported as such in future annual reports. As at the laying date of these accounts no business has been underwritten under this direction.

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

The UKEF Board

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

| Name of Board member | Role | UKEF Board | Audit Committee | Risk Committee | Remuneration Committee |
|---|---|---|---|---|---|
| **Cameron Fox** | Executive Board member | 7/8 | 5/5* | 4/4* | - |
| **Noël Harwerth** | Non-executive Chair | 8/8 | 4/5* | 4/4* | 2/2 |
| **Shalini Khemka** | Non-executive Board member | 6/8 | 2/4** | - | 2/2 |
| **John Mahon** | Ex-officio Board member, Department for International Trade | 5/8 | - | - | - |
| **Justin Manson (to 30 June 2019)** | Ex-officio Board member, UK Government Investments | 3/3 | 3/3 | 1/1 | 1/1 |
| **Amin Mawji (to 30 June 2019)** | Non-executive Board member and Chair of Audit Committee | 3/3 | 3/3 | - | 1/1 |
| **Madelaine McTernan (from 1 July 2019)** | Ex-officio Board member, UK Government Investments | 5/5 | 2/2 | 3/3 | 1/1 |
| **Samir Parkash** | Executive Board member | 7/8 | 5/5* | 4/4* | - |
| **Oliver Peterken** | Non-executive Board member and Chair of Risk Committee | 8/8 | 5/5 | 4/4 | 2/2 |
| **Louis Taylor** | Executive Board member | 8/8 | 4/5* | 4/4* | 2/2* |
| **Lawrence Weiss (Chair of Audit Committee from 1 June 2019)** | Non-executive Board member and Chair of Audit Committee | 7/8 | 5/5 | 4/4 | 2/2 |
| **Kim Wiehl** | Non-executive Board member | 7/8 | 1/1*** | 2/2 | 1/2 |

* Not a member of the committee but attends its meetings
** Stood down from the Audit Committee on 1 January 2020
*** Joined the Audit Committee in January 2020

## Environmental Audit Committee inquiry into UKEF

Following the conclusion of the Environmental Audit Committee (EAC) inquiry into UKEF support for fossil fuels last year in which the Minister of State for Trade and Export Promotion, the Chair of the EGAC and I gave evidence, the Secretary of State provided the EAC with the Government's response which signalled that UKEF will continue to consider what further action it takes in respect of climate change as it develops its support for exporters in future.

Work is now underway to implement the recommendations of the Task Force on Climate-related Finance Disclosures (TCFD), as we committed to doing in the Government's Green Finance Strategy published in July 2019. The Department is also carrying out significant analysis and will implement further risk assessment as needed to ensure that it gives climate change due consideration across the full range of its schemes. As a result, I am assured that when providing support, UKEF will take account of climate change impacts proportionately and appropriately relative to its statutory mandate to support exports and its public law duties.

UKEF has further bolstered the Export Guarantee Advisory Council's (EGAC) climate change expertise through recruiting 2 additional members of the Council. This will assist EGAC in playing an active role in advising UKEF as it develops its strategy on climate-related risks and opportunities. The Chair of EGAC has been appointed to the UKEF Board as an ex-officio Member, adding expertise in environmental, climate change and social and human rights matters.

In the Government's response to the EAC, UKEF committed to developing the breadth of its ability to support the renewable energy, clean growth and climate resilience sectors. These areas continue to be a significant focus of UKEF's marketing and origination activities, with a view to increasing the proportion of business supported in these sectors. In recent months, UKEF has agreed £230 million in support for a large-scale offshore wind project in Taiwan – that will contribute significantly to Taiwan's target of generating 20% of its power from renewable sources by 2025 – and a guarantee worth £47.6 million for Solarcentury to build 2 of the largest solar plants in Spain. UKEF has a number of other renewables projects at an advanced stage in its business pipeline.

UKEF has also continued to engage in international forums in relation to the multilateral climate change agenda. Following consultation, a fourth version of the Equator Principles was adopted in November 2019, which UKEF took an active role in pushing forward as a member of the Equator Principles Steering Committee. It includes a requirement to undertake a Climate Change Risk Assessment as part of the due diligence process for all high-emitting projects which fall within the scope of the Equator Principles.
In light of the government's commitment to achieving a target of net-zero UK carbon emissions by 2050 and to our obligations under the Paris Agreement; and the announcement made by the Prime Minister at the Africa Investment Summit that the government will no longer provide any new direct official development assistance, investment, export credit or trade promotion support for coal-fired power plants or thermal coal mines overseas; UKEF is working with other government departments to develop a cross-government position on HMG's international support for the energy sector in view of the UK's domestic climate change commitments and the global energy transition.

## Third-party delivery partners

UKEF works with a network of partners, including commercial finance lenders, commercial insurance brokers, other export credit agencies, other government departments, industry bodies and intermediaries. More information about our partners and operations can be found on pages 54 to 57.

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

# Risk management and assurance

UKEF is committed to following best practice and public sector standards in areas of governance, accountability, transparency and risk management. Our approach to risk management is described in detail in the Chief Risk Officer's report on pages 58 to 85.

During 2019/20 the Executive Committee and the Board approved a new Enterprise Risk Management (ERM) framework, that provides senior management with a consistent structure and documented approach to identifying, assessing, evaluating and reporting known and emerging risks across UKEF. The framework fosters continuous monitoring, promotes good risk awareness across the organisation and encourages sound operational and strategic decision making.

## Risk culture

A strong culture of risk awareness is central to good risk management, starting with the 'tone from the top'. Senior leaders within UKEF are key influencers in inculcating the high standards of behaviour and conduct expected in all our teams. To ensure that the Board is kept apprised of UKEF's principal risks and the effectiveness of UKEF's risk management, it receives a monthly report from the Chief Risk Officer covering credit, enterprise and strategic risks. The Board also participated in a horizon scanning exercise during a strategy away-day to assist in identifying emerging risks, threats and trends. Our risk culture is reinforced by the Civil Service Code and its core values of integrity, honesty, objectivity and impartiality. It forms part of our decision-making process for strategy setting, business planning, product governance, change management, customer service, resourcing and third-party suppliers and partners.

## 3 lines of defence

All employees are responsible for identifying and managing risk within the scope of their role. UKEF has embedded a '3 lines of defence' framework across the organisation which defines clear responsibilities and accountabilities for decision-making and independent oversight and assurance.

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

## Strategic risk

UKEF utilises a forward-looking strategic risk assessment process to identify the most important current and emerging risks and issues that have the potential to impact our strategy and operations. We regularly assess the themes and issues raised by our internal risk identification, measurement and management processes, and undertake regular scanning of the external environment to identify key issues which could impact UKEF.

The strategic risk register is reviewed and updated by the Executive Committee and by the Risk Committee acting on behalf of the Board. The register captures risks that may arise across any combination of our 8 enterprise risk categories (as detailed in page 62 of the Chief Risk Officer's Report) within the enterprise risk framework and which have the potential to affect the Department's financial performance, reputation or delivery of our Business Plan.

An example of some of the strategic risks managed by UKEF Executive Committee together with the mitigating action is described in the table below.

| Strategic risk | Enterprise risk category | Mitigating action |
|---|---|---|
| Recruitment and retention of staff | Operational | Cross-skilling, up to date policies and procedures, promotion of the benefits of working in the Civil Service |
| Long term changes to oil prices | Financial | Ongoing independent monitoring and portfolio stress testing performed |
| Global pandemic | Strategic | Scenario analysis of the portfolio undertaken with robust, tested business continuity plans in place |

## Operational risk

Operational risk management (ORM) is an integral part of the Enterprise Risk Framework. Effective management of operational risk is central to achieving our strategic aim of ensuring no viable UK export fails for lack of finance or insurance. UKEF's operational risk policy and processes provide a consistent guide for the development and application of a pan-UKEF integrated approach to ORM. This in turn enables staff to make informed decisions based on a sound understanding of our risks, and gives UKEF an auditable process trail for its conduct of business.

UKEF's approach to ORM is designed to:

- embed risk management, process control and risk ownership into the 'first line' of defence
- ensure current and emerging risks are continually identified, measured and assessed in a consistent manner
- ensure potential and crystallising risks and incidents are reported and escalated
- ensure appropriate risk management action is prioritised and completed
- provide the Board and Executive Committee with regular assurance in respect of the control environment

UKEF's operational risks primarily arise from our business-as-usual activities. These risks typically involve the possibility of error or oversight leading to a financial loss (other than as a result of properly managed exposure to credit risk), a failure to properly discharge our obligations, or controls not being designed and/or applied appropriately. Examples of such failures could include:

- credit decisions being made on the basis of incorrect data
- a breach of our reporting requirements to HMT
- a data breach due to a successful cyber-attack
- a failure to obtain requisite authority to enter into a commitment

Enterprise Risk actively works with the other second and third line assurance functions and all Heads of Division across UKEF to reinforce ownership and accountability for risk management, and to ensure the appropriate design, implementation and monitoring of controls is undertaken. Risk is considered in significant strategic decisions by Executive

Committee and the Board, in major new projects by Change Board and Executive Committee, and in other prioritisation and resource allocation commitments throughout the business.

UKEF will continue to further develop its second line of defence capability in 2020-21. A key deliverable will be the introduction of a programme of assurance testing to provide senior management with assurance that that key controls are operating effectively and in accordance with defined procedures.

## Governance assurance processes

Throughout the year I meet with selected risk owners to review their operational risk registers and to discuss matters of concern and proposed remedial actions. During 2019-20 UKEF strengthened its approach to managing operational risk. This has included a revised risk and control assessment process for each division within UKEF, and introducing a bi-annual control environment attestation by all Executive Committee members to me. This has given us a more robust understanding of our risk and control environment.

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

## Financial crime compliance

UKEF faces risks of financial loss and damage to its integrity and reputation from providing support for transactions involving financial crime, including sanctions breaches, fraud, bribery and corruption. Given its role and remit, UKEF cannot guarantee that it will never support such a transaction (UKEF is not an investigatory authority with the powers necessary to detect crime). It is committed, however, to having in place and operating reasonable and proportionate processes, systems and controls to mitigate the risk of supporting such transactions. UKEF's Compliance Division is responsible for ensuring that these risks are identified and appropriately managed, and reports to the Director of Legal and Compliance.

In 2019-20, Compliance Division, Legal Division, Business Group and others worked to embed a greater understanding of the evolving nature of UKEF's financial crime risks. A risk appetite statement, agreed by the Board, is being used for assessing the appropriate and proportionate due diligence work to be completed in relation to parties and their transactions to help design reasonable and proportionate due diligence controls and processes to assess the financial crime risks relating to parties and transactions that we support. Processes and procedures have continued to develop in support of the strengthened compliance function, and a specialist new unit has been established to undertake more independent due diligence on transactions and parties. This work is iterative, and the framework and associated controls, systems and management information is expected to evolve further during the next year. The Board has been closely involved in this transition.

Training on issues related to financial crime has been provided to all staff as part of UKEF's commitment to instill a strong culture of compliance in the front line.

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

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

## Airbus Deferred Prosecution Agreement

In January 2020 the SFO and authorities in France and the United States entered into deferred prosecution agreements (DPA) and other forms of settlement with Airbus following an investigation into corrupt business practices. The DPAs cover a range of jurisdictions and cover commercial, defence and space divisions.

Following this extensive enquiry, in accordance with court judgements and following UKEF's own due diligence into the company's reform process, I am satisfied that significant and meaningful reform has taken place in the company since the events referred to in the DPAs.

UKEF support for future Airbus transactions will continue to be subject to an enhanced due diligence framework for an extended period.

## Cyber security & information risks

Each government department is required to have a nominated board member, or executive director, to discharge oversight and responsibility for security risk management. For UKEF, this is the Director of Resources who is also the Senior Information Risk Owner (SIRO). The SIRO has Executive Committee-level responsibility for information risks, including cyber (information assurance) security risks. He also chairs the Security & Information Management Committee.

During 2019-20 UKEF adopted a new security framework. The framework provided an overview of our approach to ensuring the information assurance of our people, processes and technology. The framework includes a description of the pan-government security environment, overarching principles, and a commentary on UKEF's approach to the mandatory security outcomes set out by the Cabinet Secretary.

To enhance the Department's cyber security capability a dedicated protective monitoring role has been created to identify vulnerabilities and threats to our IT infrastructure.

The Government has implemented a "clusters" model for security, which groups several departments so they can share appropriate best practice across their cluster. UKEF is a member of Cluster 4 which is led by the Foreign and Commonwealth Office (FCO). UKEF is an active member of Cluster 4, and both the Director of Resources and the Head of Security are part of the cluster's formal governance arrangements. The cluster is supporting UKEF in upskilling staff in security essentials, including modules on cyber security and information risks. The Department has also benefited from developing closer working relationships with key government stakeholders including the Centre for Protection of National Infrastructure, the police and the National Cyber Security Centre (NCSC) to improve the control environment.

The Government Security Group undertakes an annual “Department Security Health Check”. In February 2020 UKEF was assessed as having exceeded the standards on all 4 technical areas (cyber, personnel, physical and incident management). This has been independently assessed and verified by an external NCSC cyber security professional organisation.

UKEF has an Information Management Framework which provides a high-level view of the Department’s information management structure and direction for information management practice, as well as roles and responsibilities for managing information. The Department has a Data Protection Policy which sets out what UKEF is required to do to ensure that all staff who process personal data do so in accordance with the General Data Protection Regulation.

UKEF’s Information Asset Register is maintained by the Business Insight Centre and is available on the staff intranet. All staff are required to undertake role-specific training on managing information.

Procedures are in place to respond to requests for information from the public under information legislation that gives the public rights of access.

## Business Continuity Plan

UKEF has also enhanced its ability to respond to an actual or threatened disruption of service delivery with incident management and business continuity planning, training and simulation with quarterly strategic training and tabletop exercises.

## Preparation for COVID-19

As the COVID-19 outbreak began to spread, the department accelerated elements of business continuity planning including:

- extensive communications with staff, line managers and Heads of Division
- staff testing their readiness to work from home, including their ability to access all systems and run all processes
- a number of processes (invoicing, payment of expenses) were re-worked to allow them to be run remotely
- IT operations colleagues conducted tests of UKEF’s Virtual Private Network (VPN) and Firewall to assess their ability to manage a significant increase in remote traffic (i.e. the entire Department working remotely)

As a result, all of UKEF's staff are technically able to work remotely with all systems and processes are functioning as expected.

### Internal audit

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

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

The Audit Committee, acting on behalf of the Board, approves the internal audit charter. Based on IAAD's continued engagement throughout 2019-20, the Head of Internal Audit's opinion in relation to the adequacy and effectiveness of the framework of governance, risk management and control was 'Moderate'. This opinion raised thematic issues which are consistent with the contents of this governance statement, including requirements for a more formally documented and evidenced first line of defence, strengthened second line of defence, improved data and records management, and the implementation of a standard framework for the ownership and management of the department's policies.

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

## Whistleblowing policy

We have a whistleblowing and raising-a-concern policy in place. This policy is based on guidance provided by the Civil Service employee policy, one of the expert services for the Civil Service. This was last updated in March 2018.

No disclosures were made under the policy in 2019-20.

## Significant risks and mitigating measures

### First line of defence controls

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

I am grateful to our Internal Audit team for identifying that, despite recent initiatives, we still do not have a fully comprehensive framework in place for documenting the ownership and management of the Department's policies. Work is now well-advanced in developing and implementing a policy management and ownership framework.

## Data and records management

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

However, more work is required to ensure that we can provide timely and error-free information for a multitude of uses across the organisation.

Members of the Executive Committee are currently overseeing a long-term organisation-wide strategic solution to effectively manage and mitigate the risks relating to data and records management.

## Corporate Governance Code for Central Government Departments

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

**Louis Taylor**
**Chief Executive and Accounting Officer**
**19 June 2020**

# Statement of Accounting Officer's responsibilities

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable

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

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

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

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

**Louis Taylor**
**Chief Executive and Accounting Officer**
**19 June 2020**

# Audit Committee report

**The Audit Committee report should be read in conjunction with the Governance Statement which can be found on pages 108 to 123.**

**Lawrence Weiss**
Chair, Audit Committee

UK Export Finance's Audit Committee Terms of Reference require the Committee to consist of at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board.

Currently, I preside as Chair, alongside Oliver Peterken and Kimberley Wiehl, and all of us meet the relevant requirements for independence to serve on this committee. Madelaine McTernan is also a member, representing UK Government Investments (UKGI) on behalf of the Secretary of State for International Trade. At the end of June 2019, Amin Mawji stepped down as Chair of the Committee and Justin Manson stepped down as a member. At the end of 2019, Shalini Khemka also stepped down as member of the Committee.

Although not members of the Audit Committee, the Accounting Officer, Chief Finance and Operating Officer, Chief Risk Officer, Head of Internal Audit, and a representative of External Audit normally attend meetings. The Audit Committee may ask any or all of those who normally attend but who are not members to withdraw, so as to facilitate open and frank discussion of particular matters. The Chair of the UK Export Finance Board regularly participates in Audit Committee meetings as an observer.

The Audit Committee Terms of Reference also provide that at least one member of the Committee:

- should have significant, recent and relevant financial experience
- be a member of the Risk Committee to help facilitate coordination between the committees

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

## Key tasks and responsibilities

In general, the Audit Committee:

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

## Activities this year

During 2019-20,  the following topics were discussed:

- post-balance sheet events
- how accounting standards are set in Government and the role of HM Treasury
- planning for the change from LIBOR to risk-free-rates
- the Digital Trade Finance Service
- operational risk
- IAAD work plans, IAAD findings and management implementation of remedial actions
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements
- compliance processes in relation to bank delegation
- changes to accounting policies relating to new products, financial reporting changes, the deferment of the application of IFRS 9 and 17
- UKEF's incident reporting, and the year-end Control Environment Certification process from Heads of Department

The Audit Committee meets at least 4 times in each year. In 2019-20 it met 5 times.

**Lawrence Weiss**
**Chair, Audit Committee**
**19 June 2020**

# Risk Committee report

**The Risk Committee report should be read in conjunction with the Governance Statement which can be found on pages 108 to 123.**

**Oliver Peterken**
Chair, Risk Committee

UK Export Finance's Risk Committee Terms of Reference require the Committee to be made up of at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board.

Currently, I preside as Chair alongside Lawrence Weiss and Kimberley Wiehl, and all of us meet the relevant requirements for independence to serve on this committee. Madelaine McTernan is also a member, representing UK Government Investments (UKGI). Madelaine replaced Justin Manson, who stepped down from the Risk Committee at the end of June 2019.

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

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

## Key tasks and responsibilities

In general, the Risk Committee:

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

## Activities this year:

During 2019-20, the following topics were discussed:

- the review of the exposure management framework
- risk governance improvements
- enterprise, operational and strategic risks
- a new operational risk framework
- stress testing and reverse stress testing
- active portfolio management
- the process of new product approval
- UKEF's financial institution risk exposure
- management of reinsurer credit risks
- early warning indicators

The Risk Committee meets at least 4 times in each year. In 2019-20 it met 4 times.

**Oliver Peterken**
**Chair, Risk Committee**
**19 June 2020**


To celebrate our 100 year anniversary, we held a number of events for our customers, stakeholders and staff. Through them, as well as through fundraising for sporting feats, UKEF staff raised almost £20,000 for our partner charity Centrepoint.

# Our people: staff and remuneration report

**Shane Lynch**
Resources Director

Our strong business performance this year would not have been possible without the continued commitment of our staff, who combine commercial focus and deep technical expertise with a strong public service ethos. Through their work, they support the prosperity of companies and communities across the UK. But when the story of 2019-20 is recalled in years to come, it will be remembered for the final months of the financial year, when the COVID-19 pandemic caused devastating social and economic disruption.

The manner in which our staff responded is a source of great personal pride to my colleagues and I on our Executive Committee. Preparations started well before the pandemic with quarterly Incident Management Team sessions throughout 2019 where various business disruption scenarios were role played. Business continuity plans were continuously updated, IT systems tested, and tools put in place to support remote working.

In March 2020 the entire workforce transitioned to home working at short notice with minimal disruption to our business activities. That our staff did this whilst balancing their own health concerns, caring responsibilities, and even bereavements, is a testament to their dedication and commitment. Our people represent the very best of what the Civil Service has to offer.

In 2019-20, UKEF's headcount reached a 10-year high, evidence of the growing demand for UKEF's products and services. Our ambition is to expand the workforce further during 2020-21 as we head towards 400 UK-based staff.

We continue to embed our delivery model, which has seen a significant investment in business development functions. That has been a factor in the organisation delivering another strong financial performance and building a pipeline of business for the years ahead.

We increased our overseas network of export finance specialists to 10 markets during 2019-20 with new hires completed in India, Mexico and Kenya. The network is projected to double in size during 2020-21, subject to COVID-19 restrictions, with target markets including Egypt, Morocco, USA, South Africa, China, Colombia, Qatar and Indonesia.

The increase in headcount during 2019-20 had a significant impact on teams that provide support through the employee lifecycle. Resourcing activity remained high, with 121 campaigns completed. We exceeded our aspiration that each staff member completes 5 days of development per year for the second year running with the average being 5.2 days. Given the increase in the size of the workforce, this equated to an increase of 11.2% of training hours delivered.

We significantly enhanced our cyber and personnel capabilities, improving our ability to protect both our staff and our assets. This work has been done in conjunction with partners across government, and we will continue to work collaboratively to ensure the highest standards are maintained.

Diversity and inclusion remain a priority, we are very proud that with 30.9% of staff identifying as being from Black, Asian and minority ethnic (BAME) groups, we are the most ethnically diverse ministerial department in government. For the third year running, we have seen a fall in our gender pay gap, but we recognise that there is more to do in this area and improving the female representation of our workforce will be a key priority in 2020-21.

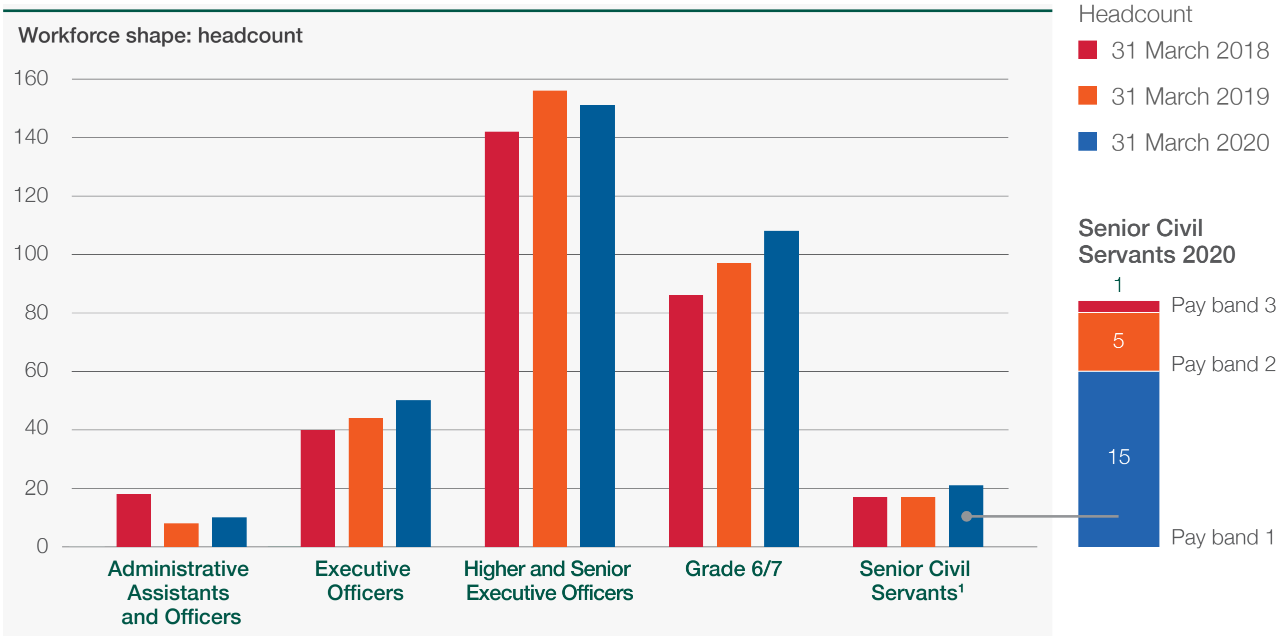
Our ambition is to have the most engaged workforce in the Civil Service, and we achieved our second-highest ever staff engagement score of 64% in the annual Civil Service People Survey, an impressive achievement considering it was against a backdrop of a very challenging workload as the business ran at close to full capacity.

As part of our centenary celebrations, UKEF partnered with Centrepoint, a homelessness charity supporting vulnerable young people, and staff supported a range of fundraising events including the 100 mile RideLondon cycle, a sleep-out at the Olympic Park, scavenger hunts and talent competitions, raising almost £20,000 in the process.

Looking ahead, we launched our new People Strategy in April 2020 and have ambitious growth plans which will further enhance our ability to support our customers and drive UK exports forward in what we hope are better days ahead.

## Workforce snapshot

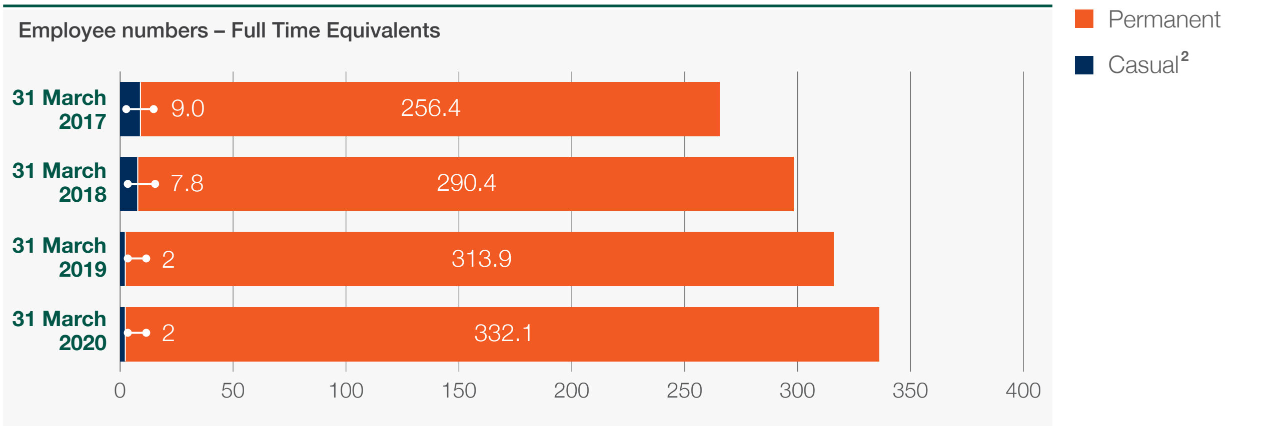
As of 31 March 2020, the directly employed workforce stood at 340 (334.1 FTE). This represents an increase of 5.6% over the previous 12 months and 39.3% over the last 4 years. A strong performance from the UKEF recruitment team has seen vacancy levels fall to their lowest rate in a decade and the department is close to its maximum budgeted headcount.

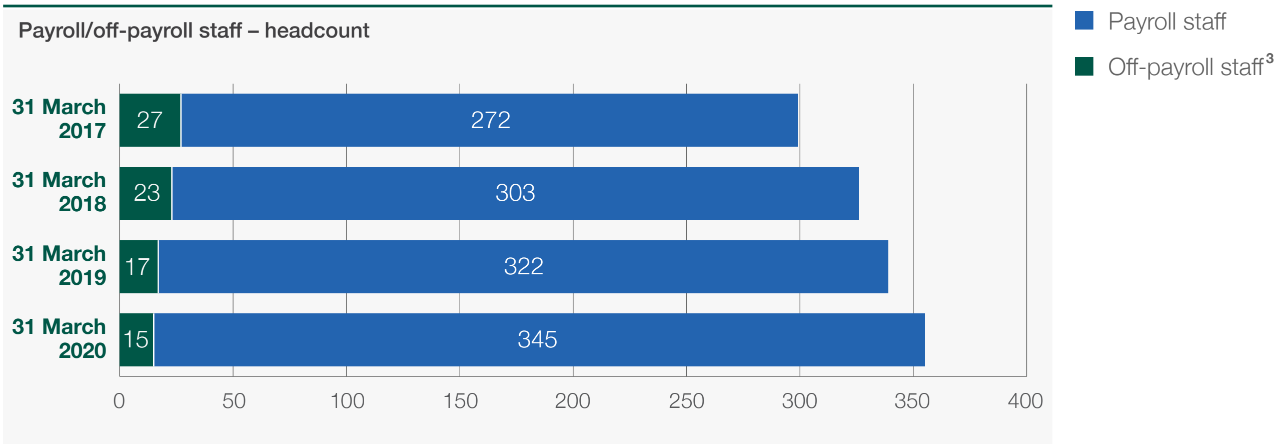


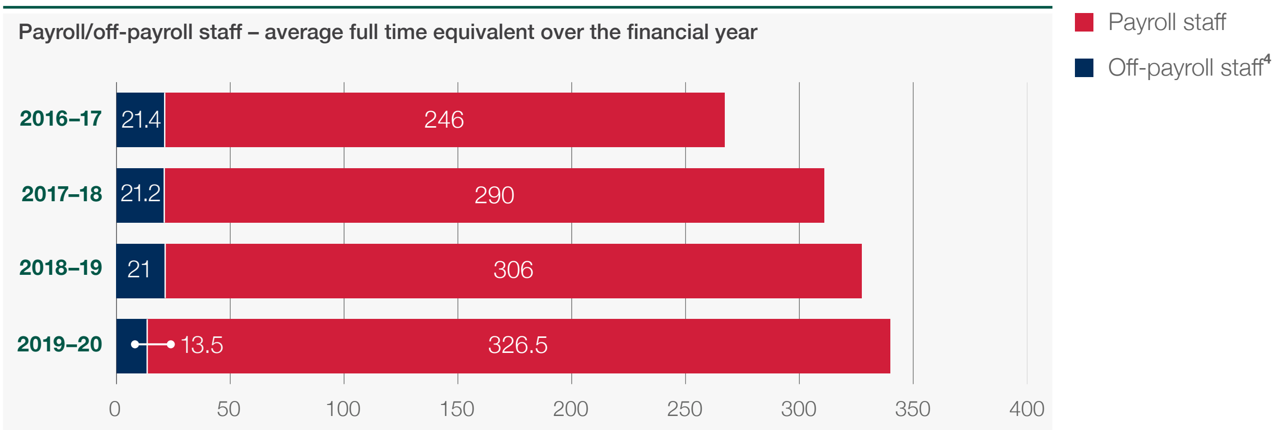

1 21 Senior Civil Servants as at 31 March 2020: SCS3: 1; SCS2: 5; SCS1: 15.

UKEF's total staff costs for 2019-20 were £24.461 million (2018-19 £21.438 million) as detailed in Notes 7 and 8 to the accounts; of which £24.087 million relates to staff with a permanent contract and £0.374 million relates to staff on other contracts. The employment costs relating to UKEF's ministers and special advisers are disclosed in the Department of International Trade's Annual Report and Accounts.

A further 14 off-payroll staff were engaged on average per month, predominately supporting our IT and Transformation, Change & Innovation teams. In 2015 we were set the ambitious target of reducing our contingent labour spend by 50% over the 4-year life of our financial settlement: that target was delivered during 2019-20 with expenditure falling by 55% from £3.6 million to under £1.6 million.



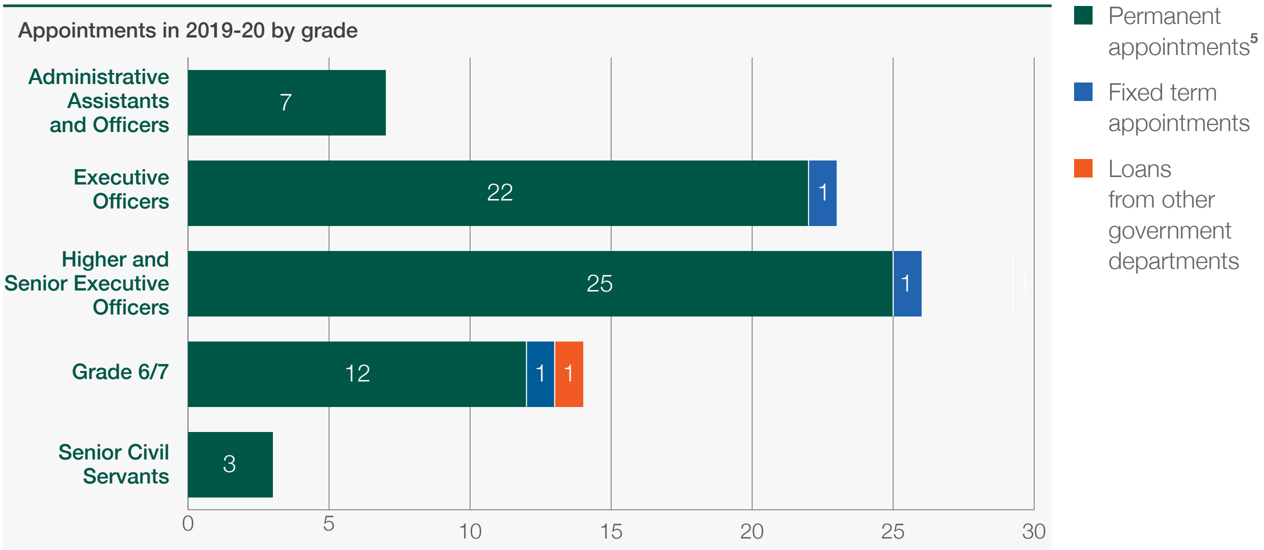

2 Casual refers to those employees engaged on a fixed-term appointment of less than 12 months.
3 Non-payroll staff encompasses consultants and contingent labour i.e. interim managers, specialist contractors and agency staff.
4 Non-payroll staff encompasses consultants and contingent labour i.e. interim managers, specialist contractors and agency staff.

# Recruitment

The recruitment market remained relatively challenging during 2019-20. The total number of recruitment campaigns delivered in 2019-20 was 121 which resulted in 73 new joiners to UKEF and a further further 48 internal moves where employees benefited from either promotion or lateral career development. Over 46% of our hires came from the private sector, reflecting the uniquely commercial nature of UKEF's work within the Civil Service. A further 40% of vacancies were filled by UKEF staff promotions, a testament to the talent available within the department, and our ability to offer career progression to staff.

Much of our recruitment activity was driven by consistently high staff turnover rates, exit interview data has highlighted our pay offering as the primary driver behind this. Staff were lost in equal measures to the financial services sector and the relatively buoyant Civil Service jobs market.

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




5 This includes permanent transfers from other Government Departments.

## Diversity & Inclusion

The Civil Service Diversity & Inclusion Strategy was launched in November 2017 and sets out an aspiration that the Civil Service become the most inclusive employer in the UK. We share this ambition and want to ensure that we are supporting all our employees to realise their full potential. We strive to create an environment that is inclusive while valuing and embracing diversity, building a great place to work. During 2019-20 we were part of the inaugural pan Civil Service Inclusion Survey and had the highest response rate of any department and achieved a top quartile score for our inclusivity.

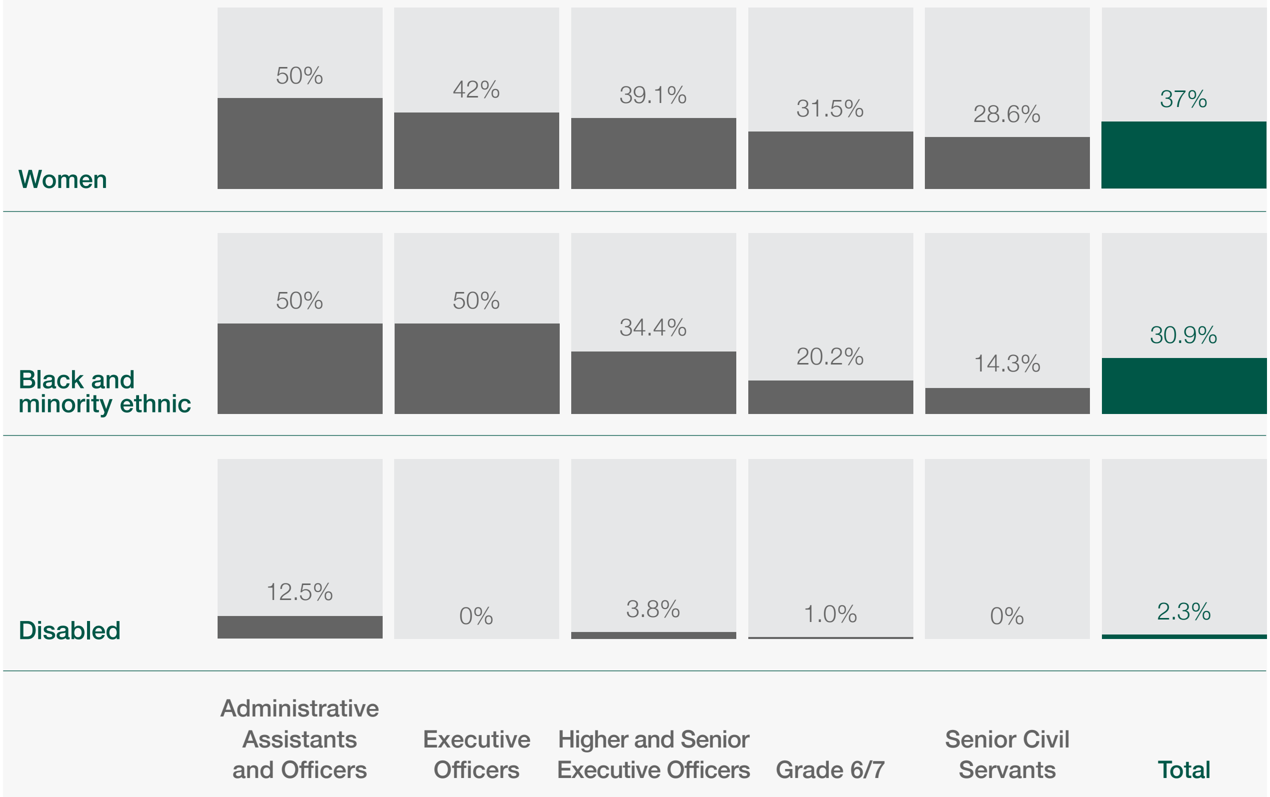
Our current workforce is the most diverse on ethnicity in our recent history. UKEF is now leading the way amongst government departments with 30.9% of staff identifying as being from BAME groups, compared to 12.7% for the wider Civil Service. 37.0% of our staff are female and we recognise that this is an area for improvement.

Our recruitment process is a key enabler for a more diverse workforce. The selection process is anonymised to protect against bias, and we offer a guaranteed interview scheme to disabled applicants. All UKEF staff are required to complete training on diversity, inclusion and unconscious bias.

We also reduced both our mean and median gender pay gaps for the third year in succession, but recognise that there is significant room for improvement. Increasing the proportion of female hires, particularly in senior roles, remains a priority area of work.

Our staff have an essential role to play in creating an inclusive working environment and our staff networks have become important agents for change.

**UKEF staff diversity as of 31 March 2020**



## Learning and development

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

Based on our assessment of the 2017-20 Business Plan, we focussed our efforts on the department's 5 agreed learning and development priorities:

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

We also continue to develop technical training programmes to develop skills that are unique within government to UKEF, including legal awareness, compliance, underwriting, credit risk analysis and project financing.

During 2019-20 the average number of days spent on formal learning and development activities per employee was 5.2 days (5.1 days in 2018-19) with a total of 12,484 hours of learning delivered, up 11% from 11,227 hours in 2018-19. The average spend per head was £1,143 (£981 in 2018-19).

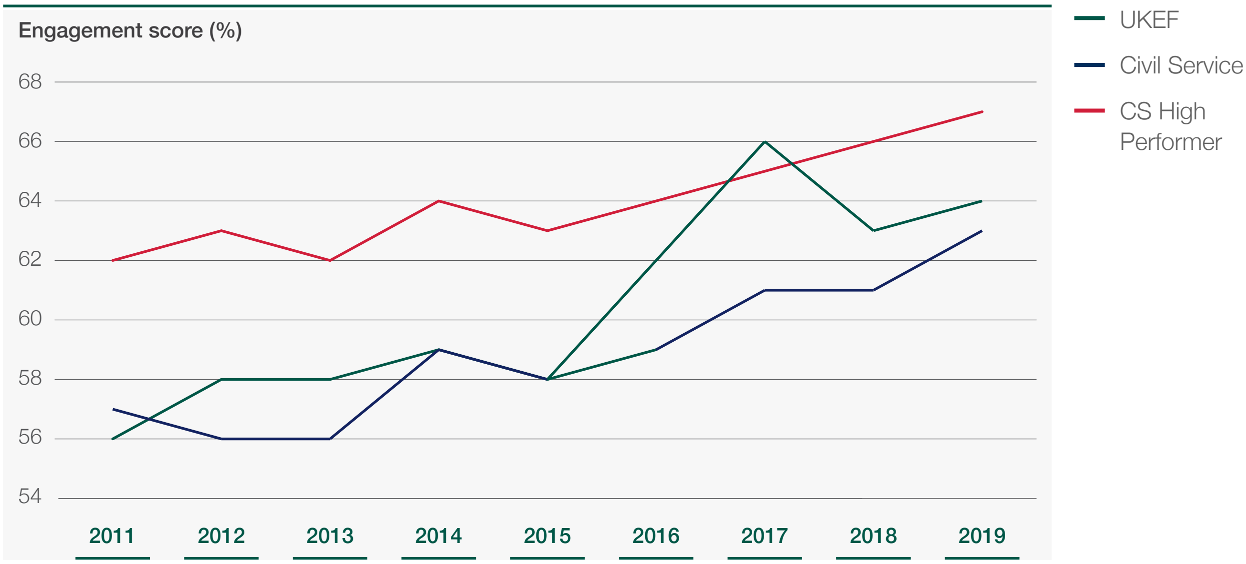
This year's figures represent an excellent performance by our Learning & Development team and demonstrate UKEF's commitment to creating a strong learning culture where all staff have the opportunity to develop their experience, skills and knowledge.

## Engagement

We achieved our second highest ever staff engagement score of 64% in the annual Civil Service People Survey.

UKEF's score for "Organisational objectives and purpose" was 92%, which was the highest in the 11-year history of the survey and in the top 5% of the Civil Service. We also achieved strong increases under "Leadership and Managing Change" and our highest ever score for "Learning & Development".

Our ambition continues to be a high performing government department and we will use the feedback from this year's survey to further improve our performance.




## Health, safety and wellbeing

UKEF has an employee assistance programme that supports employees in addressing challenges across their work, family and personal lives, as well as an occupational health service to ensure we put in place any reasonable adjustments to support employees in the workplace. UKEF offers a range of benefits designed to support staff wellbeing, including a cycle to work scheme, eye tests, workstation assessments, flu vaccinations and annual health screening.

We have seen a significant reduction in our sickness levels from 7.2 days per employee in 2015-16 to 4.3 days in 2019-20. This is below the ONS reported average for the public sector (5.6 days).

| | 31 March 2020 | 31 March 2019 | 31 March 2018 |
|---|---|---|---|
| Average working days lost | 4.3 | 2.98 | 3.50 |
| % staff with no sickness absence | 58.4% | 55.7% | 52% |

## Trade union facility time

Our recognised trade union is the Public and Commercial Services Union (PCS). Union representatives meet HR colleagues formally on a monthly basis. There are also bi-annual meetings between trade union representatives and senior management, led by the Chief Executive Officer.

HR tracks attendance at these meetings and they equated to an estimated 185 hours of facility time between 4 staff, with an estimated cost of £5,411 during 2019-20. This equates to each of the four trade union officials spending 2% of their working hours on facility time, and time spent on paid trade union activities as a percentage of total paid facility time hours is estimated to be 100%.

## Reward and recognition

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

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

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

All pay remits must be approved by a secretary of state or responsible minister, and each department, through its Accounting Officer, is responsible for the propriety and regularity of the pay award to staff. UKEF operated its 2019-20 pay award and performance awards within the guidance set by HM Treasury.

UKEF also operates an in-year reward scheme to recognise exceptional pieces of work, effort or activity that support UKEF in achieving its overall objectives. We made 234 awards to employees through this scheme in 2019-20.

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

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

## Remuneration Committee

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

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

As of 31 March 2020, the membership was:

- **Noël Harwerth**, non-executive Chair
- **Lawrence M. Weiss**, non-executive Board member
- **Oliver Peterken**, non-executive Board member
- **Shalini Khemka**, non-executive Board member
- **Kimberley Wiehl**, non-executive Board member
- **Madelaine McTernan**, ex-officio Board member

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

## Salary and pension entitlements for directors

The salary and pension entitlements of the Management Board level Executive Directors of UKEF are set out below. This table includes current Directors and former Directors who left the department during the financial year. These disclosures have been subject to external audit.

| Officials | Salary £'000 | | Bonus payments £'000 | | Pension Benefits[6] £'000 | | Total £'000 | |
|---|---|---|---|---|---|---|---|---|
| | 2019-20 | 2018-19 | 2019-20 | 2018-19 | 2019-20 | 2018-19 | **2019-20** | **2018-19** |
| **Louis Taylor** Chief Executive | 250-255 | 250-255 | 30-35 | 10-15 | n/a | 24 | **280-285** | **285-290** |
| **Cameron Fox** Chief Finance & Operating Officer | 135-140 | 135-140 | 0 | 0 | 54 | 64 | **190-195** | **195-200** |
| **Samir Parkash** Chief Risk Officer *Start 14/06/2018* | 195-200 | 155-160 (195-200 FTE) | 0 | 0 | n/a | n/a | **195-200** | **155-160 (195-200 FTE)** |

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

Bonuses are based on attained performance levels and are made as part of the appraisal process. The Cabinet Office set the parameters for SCS performance awards. Due to the nature of the performance appraisal cycle, bonuses are paid in the year following that for which the performance has been assessed; therefore, the bonuses reported in 2019-20 relate to performance in 2018-19.

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

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

## Pay multiples

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

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

| | 2019-20 | 2018-19 |
|---|---|---|
| Band of highest paid director's remuneration[7] (£000) | 280-285 | 265-270 |
| Median total[8] (£) | 43,604 | 41,283 |
| Remuneration ratio[9] | 6.5 | 6.5 |

In both 2019-20 and the previous year, no employees received remuneration in excess of the highest paid director. Employee remuneration ranged from £22,938 - £285,000 (2018-19, £22,448-£265,000).

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

7 The banded, full time equivalent, annualised of the highest paid director as at 31 March 2020.
8 The median, full time equivalent total remuneration of the staff, excluding the highest paid director as at 31 March 2020.
9 The pay multiple (ratio) between the highest paid director and all other staff.

## Civil Service pensions

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

Pensions growth and CETV are only shown against Defined Benefit schemes such as those within PCSPS, where there is a specifically defined pension plan on retirement. Partnership, as a Defined Contribution (money-purchase-type) scheme, cannot guarantee any growth apart from the employer and employee contributions.

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

| Pension benefits[10] | Accrued pension at pension age as at 31/3/20 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31 March 2020 | CETV at 31 March 2019 | Real increase in CETV | Employer contribution to partnership pension account |
|---|---|---|---|---|---|---|
| Officials | £'000 | £'000 | £'000 | £'000 | £'000 | Nearest £100 |
| **Louis Taylor** Chief Executive | 0 | 0 | 0 | 639 | 0 | 37,600 |
| **Cameron Fox** Chief Finance & Operating Officer | 16 | 3 | 178 | 137 | 25 | 0 |
| **Samir Parkash** Chief Risk Officer | 0 | 0 | 0 | 0 | 0 | 29,400 |

### Accrued pension

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

10 Louis Taylor and Samir Parkash chose not to be covered by the Civil Service pension arrangements during the reporting year.

## Cash equivalent transfer values

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

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

## Real increase in CETV

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

## Staff pension costs

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as "alpha" – are unfunded multi-employer defined benefit schemes but UK Export Finance is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2016. More information can be found in the Civil Superannuation accounts, which are prepared by the Cabinet Office and published on the Civil Service Pensions website: www.civilservice.gov.uk/pensions

For 2019-20, employers' contributions of £4,078,546 were payable to the PCSPS and CSOPS (2018-19 £2,974,808) at 1 of 4 rates in the range 26.6% to 30.3% of pensionable pay, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation and rates were increased for the 2019-20 year. The contribution rates are set to meet the cost of the benefits accruing during 2019-20 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £249,694 (2018-19: £187,258) were paid to a single provider, Legal & General. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay. The employer also matches employees' contributions of up to 3% of pensionable pay. In addition, employer contributions of £8,972 (2018-19: £6,547), 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

## Fees paid to non-executive directors

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

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

| Non-executive member | Fees for 2019-20<br>£000 | Fees for 2018-19<br>£000 |
|---|---|---|
| **Noël Harwerth**<br>Chair of UKEF Board<br>Member of Remuneration Committee | 45-50 | 45-50 |
| **Lawrence M. Weiss**<br>Member of UKEF Board<br>Member of Risk and Remuneration Committees,<br>Chair of Audit Committee | 15-20 | 10-15 |
| **Amin Mawji OBE**<br>Member of UKEF Board<br>Chair of Audit Committee<br>Member of Remuneration Committee<br>*left 30 June 2019* | 5-10 | 15-20 |
| **Kimberley Wiehl**<br>Member of UKEF Board<br>Member of Audit, Risk and Remuneration Committees | 10-15 | 5-10 (10-15 FTE) |
| **Oliver Peterken**<br>Member of UKEF Board<br>Chair of Risk Committee<br>Member of Audit and Remuneration Committee | 15-20 | 15-20 |
| **Shalini Khemka**<br>Member of UKEF Board<br>Member of Audit Committee | 10-15 | 10-15 |

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

## Off-payroll engagements

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

The tables below provide information on those off-payroll engagements paid more than £245 per day during 2019-20.

Off payroll engagements that had lasted longer than 6 months as at 31 March 2020

| | |
|---|---|
| Number of existing engagements at 31 March 2020 | 6 |
| of which, had existed for | |
| less than 1 year | 1 |
| between 1 and 2 years | 0 |
| between 2 and 3 years | 1 |
| between 3 and 4 years | 2 |
| 4 years or more at the time of reporting | 2 |
| **Total** | **6** |

Tax assurance for new off-payroll engagements

| | |
|---|---|
| Number of new engagements, plus those that reached six months duration, between 1 April 2019 and 31 March 2020 | 7 |
| Declared Inside IR35 | 0 |
| Outside IR35 | 7 |
| No. on Department Payroll | 0 |
| Nos reassessed, assurance not received | 0 |

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

| | |
|---|---|
| No. of off-payroll engagements of board members, and/or senior officials with significant financial responsibility during the year | 0 |
| No. of individuals that have been “deemed” board members and or senior officials with significant financial responsibility during the year. | 14 |

**Cost of off-payroll engagements**
The total cost for 2019-20 including engagements of individuals whose daily cost was less than £245 per day was £1,484,188 (2018-19: £2,101,721).

**Expenditure on consultancy**
Total expenditure on consultancy in 2019-20 amounted to £1,140,281 (2018-19, £543,583).

Over the course of 2019-20 UKEF undertook a number of planning and change activities which benefited from the support of external consultancy, this included work on UKEF's Target Operating Model (TOM) and Financial Crimes Compliance. These activities increased the consultancy spend in 2019-20.

## Compensation for loss of office

No members of staff left under voluntary exit terms during 2019-20.

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

| Exit package cost band | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band |
|---|---|---|---|---|---|---|
| | 2019-20 | | | 2018-19 | | |
| <£10,000 | - | - | - | - | 1 | 1 |
| £10,000 - £25,000 | - | - | - | - | 2 | 2 |
| £25,000 - £50,000 | - | - | - | - | 1 | 1 |
| £50,000 - £100,000 | - | - | - | - | - | - |
| £100,000 - £150,000 | - | - | - | - | - | - |
| £150,000 - £200,000 | - | - | - | - | - | - |
| **Total no. of exit packages** | - | - | - | - | 4 | 4 |
| **Total cost /£k** | 0 | 0 | 0 | - | 69 | 69 |

Ill health retirement costs are met by the pension scheme and are not included in the table above. During 2019-20 no individuals retired early on ill-health grounds (2018-19: 0); the total additional accrued pension liabilities in the year amounted to £0 for 2019-20 (2018-19: £0).

# Parliamentary Accountability and Audit

## Statement of Parliamentary Supply

### For the year ended 31 March 2020

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

Vikoma received over £300,000 of UKEF support to help contain and clean-up oil spills in marine and industrial centres around the world

# Summary of Resource and Capital Outturn 2019-20

| | | | | | | | | 2019-20 | 2018-19 |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimate | | | Outturn | | | | Outturn |
| | | Voted | Non-Voted | Total | Voted | Non-Voted | Total | Voted outturn compared with Estimate: savings/ (excess) | Total |
| | Note | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Departmental Expenditure Limit** | | | | | | | | | |
| - Resource | SOPS1(a) | 916 | - | 916 | 911 | - | 911 | 5 | 1,288 |
| - Capital | SOPS1(b) | 300 | - | 300 | 135 | - | 135 | 165 | 79 |
| **Annually Managed Expenditure** | | | | | | | | | |
| - Resource | SOPS1(a) | 124,842 | - | 124,842 | (217,744) | - | (217,744) | 342,586 | (128,993) |
| - Capital | SOPS1(b) | 836,811 | - | 836,811 | 307,710 | - | 307,710 | 529,101 | 426,448 |
| **Total Budget** | | **962,869** | **-** | **962,869** | **91,012** | **-** | **91,012** | **871,857** | **298,822** |
| Total Resource | | 125,758 | - | 125,758 | (216,833) | - | (216,833) | 342,591 | (127,705) |
| Total Capital | | 837,111 | - | 837,111 | 307,845 | - | 307,845 | 529,266 | 426,527 |
| **Total** | | **962,869** | **-** | **962,869** | **91,012** | **-** | **91,012** | **871,857** | **298,822** |

## Net cash requirement 2019-20

| | | 2019-20 | 2019-20 | | 2018-19 |
|---|---|---|---|---|---|
| | | Estimate | Outturn | Outturn compared with Estimate: savings/ (excess) | Outturn |
| | Note | £'000 | £'000 | £'000 | £'000 |
| **Total** | SOPS2 | **558,434** | **(12,730)** | **571,164** | **(57,649)** |

## Administration Costs 2019-20

| | 2019-20 | 2019-20 | 2018-19 |
|---|---|---|---|
| | Estimate | Outturn | Outturn |
| | £'000 | £'000 | £'000 |
| **Total** | **(384)** | **(384)** | **-** |

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

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

The Notes on pages 160 to 201 form part of the Statement of Parliamentary Supply.

# SoPS1 Analysis of net outturn by section

## SoPS1(a) Resource

| | | | | | | | | | | | 2019-20 | 2018-19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Outturn | Estimate | Outturn compared with Estimate: savings/ (excess) | Outturn compared with Estimate, adjusted for virements | Outturn |
| | Administration | | | Programme | | | Total | Total | | | Total |
| | Gross | Income | Net | Gross | Income | Net | Net | Net | | | Net |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Voted spending in Departmental Expenditure Limit (DEL)** | | | | | | | | | | | |
| A Export Credit Guarantees and Investments | 39,374 | (39,758) | (384) | 1,995 | (700) | 1,295 | 911 | 916 | 5 | 5 | 1,288 |
| Total | 39,374 | (39,758) | (384) | 1,995 | (700) | 1,295 | 911 | 916 | 5 | 5 | 1,288 |
| **Voted spending in Annually Managed Expenditure (AME)** | | | | | | | | | | | |
| B Export Credits | - | - | - | 64,251 | (199,263) | (135,012) | (135,012) | 13,881 | 148,893 | 148,893 | (74,420) |
| C Fixed Rate Export Finance Assistance | - | - | - | 373 | (640) | (267) | (267) | 707 | 974 | 974 | (290) |
| D Loans and interest equalisation | - | - | - | - | (493) | (493) | (493) | (478) | 15 | 15 | (799) |
| E Direct Lending | - | - | - | - | (81,972) | (81,972) | (81,972) | 110,732 | 192,704 | 192,704 | (53,484) |
| Total | - | - | - | 64,624 | (282,368) | (217,744) | (217,744) | 124,842 | 342,586 | 342,586 | (128,993) |
| **Total Resource** | 39,374 | (39,758) | (384) | 66,619 | (283,068) | (216,449) | (216,833) | 125,758 | 342,591 | 342,591 | (127,705) |

# Explanation of variances between Resource Estimate and outturn:

**A. Voted spending in RDEL** – UKEF operates (with HM Treasury approval) a zero net RDEL regime for Administration costs whereby a proportion of UKEF's trading income is treated as negative RDEL to fund administration costs. As part of the Spending Review 2015 SR(15) UKEF has a maximum amount of income (agreed per year over the 4 years) which can be used to fully offset expenditure. Also, annually (as part of the Supply Estimates process) HM Treasury then approve the maximum amount of UKEF's trading income that can be treated as negative RDEL based on its expected level of activity and affordability. This arrangement is in place as it reflects the fact that UKEF prices premium written to cover risk and administration costs.

Typically, a net RDEL outturn of zero shows UKEF is covering its Administration costs from the premium that was written. In 2019-20, however, a small part of RDEL Administration budget, £384 thousand, was transferred to DIT to cover UKEF share of the International Export Finance Executives (IEFE) network's running costs. IEFE network is jointly run with DIT with each party contributing 50% towards the running costs.

Although, initially IEFE budget stayed with UKEF, it subsequently transferred to DIT as part of the Supplementary Estimate 2019-20. This meant that UKEF's net RDEL Admin in 2019-20 became negative due to the previously agreed treatment of the departmental income used to offset the operating costs.

In 2019-20 UKEF received RDEL Programme budget of £2 million towards the GREAT Marketing campaign, of which £1.3 million came from DIT (in addition to UKEF RDEL settlement) and £0.7 million came from UKEF RDEL settlement. RDEL Programme budget is ring fenced to be used solely for GREAT Marketing related activities. UKEF share of RDEL Programme budget is funded from its premium income.

**B.** **Export Credits £149 million** – the variance largely relates to a change in economic outlook with regard to the recoverability of insurance assets as well as foreign exchange movements.

**E.** **Direct Lending £193 million** – this variance relates to foreign exchange movements on expected lending activity which cannot be forecast with certainty and which is unhedged. A more detailed explanation of UKEF's foreign exchange risk can be found in the Chief Risk Officer's Report in the Performance section of the Annual Report and Note 20 of the financial statements.

## SoPS1(b) Capital

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | 2019-20 | 2018-19 |
| | | | Outturn | Estimate | | Outturn |
| | Gross | Income | Net | Net | Net total compared with Estimate | Net |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Voted spending in Departmental Expenditure Limit (DEL)** | | | | | | |
| A Export Credit Guarantees and Investments | 135 | - | 135 | 300 | 165 | 79 |
| Total | 135 | - | 135 | 300 | 165 | 79 |
| **Voted spending in Annually Managed Expenditure (AME)** | | | | | | |
| D Loans and interest equalisation | - | (5,142) | (5,142) | (4,610) | 532 | (4,995) |
| E Direct Lending | 383,651 | (70,799) | 312,852 | 841,421 | 528,569 | 431,443 |
| Total | 383,651 | (75,941) | 307,710 | 836,811 | 529,101 | 426,448 |
| **Total Capital** | 383,786 | (75,941) | 307,845 | 837,111 | 529,266 | 426,527 |

# Explanation of variances between Capital Estimate and outturn:

**E.** **Direct Lending £529 million** – this variance relates to the fact the Direct Lending facility had a lower take up than the headroom provided (to meet possible demand) in the Estimate. More details of UKEF's risks including foreign currency and liquidity risk can be found in the Chief Risk Officer's Report in the Performance section of the Annual Report and Note 20 of the financial statements.

# SoPS2 Reconciliation of Net Resource Outturn to Net Cash Requirement

| | SOPS Note | 2019-20 Estimate £'000 | 2019-20 Outturn £'000 | 2019-20 Variance £'000 |
|---|---|---|---|---|
| **Resource Outturn** | SOPS1(a) | 125,758 | (216,833) | 342,591 |
| **Capital Outturn** | SOPS1(b) | 837,111 | 307,845 | 529,266 |
| **Accruals to cash adjustments:** | | | | |
| *Adjustments to remove non-cash items:* | | | | |
| Depreciation & amortisation of Equipment and Intangible Assets | | (430) | (310) | (120) |
| Net foreign exchange differences & other non cash items | | (168,989) | 97,214 | (266,203) |
| New provisions and adjustments to previous provisions | | (466,160) | (57,195) | (408,965) |
| *Adjustments to reflect movements in working balances:* | | | | |
| Increase/(Decrease) in receivables | | 197,802 | (45,942) | 243,744 |
| (Increase)/Decrease in payables | | 33,194 | (97,518) | 130,712 |
| Use of provisions | | 148 | 9 | 139 |
| **Net cash requirement** | | **558,434** | **(12,730)** | **571,164** |

# Parliamentary Accountability Disclosures

These disclosures are subject to audit.

## Other Parliamentary Accountability Disclosures

In 2019-20 UKEF has not made any special payments or gifts, and does not have any remote contingent liabilities.

There are also no losses, individually or in aggregate in excess of £300,000 which would require separate disclosure during the year or that have been recognised since that date.

Louis Taylor
Chief Executive and Accounting Officer
19 June 2020

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

## Opinion on financial statements

I certify that I have audited the financial statements of the Export Credits Guarantee Department (trading as UK Export Finance) for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The financial statements comprise: The Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

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

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2020 and of the Department's net operating income for the year then ended
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder

## Emphasis of Matter – Significant Uncertainty

Without qualifying my opinion, I draw your attention to the disclosures made in Note 1(B) to the financial statements concerning the significant uncertainty attached to the final outcome of the underwriting activities. I also draw your attention to the disclosures made in Note 24 to the financial statements concerning the consequential impacts of COVID-19 on the world-wide economy which introduces further uncertainty.

The long-term nature of the risk underwritten means that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts in future years. Details of the impact of this on the financial statements are provided in Note 1(B) and Note 24 to the financial statements.

## Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2020 and shows that those totals have not been exceeded
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them

## Basis of opinions

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

## Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Export Credits Guarantee Department's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate
- the Export Credits Guarantee Department have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Export Credits Guarantee Department's ability to continue to adopt the going concern basis

## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Export Credits Guarantee Department's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- conclude on the appropriateness of the Export Credits Guarantee Department's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Export Credits Guarantee Department's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause Export Credits Guarantee Department to cease to continue as a going concern

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

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

## Other Information

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

## Opinion on other matters

In my opinion:

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

## Matters on which I report by exception

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

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

## Report

I have no observations to make on these financial statements.

**Gareth Davies**
**Comptroller and Auditor General**
**22 June 2020**

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

# Financial statements

**UK Export Finance 2019-20 at 31 March 2020**

# Statement of Comprehensive Net Income

## For the year ended 31 March 2020

| | Note | 2019-20 £'000 | 2018-19 £'000 |
|---|---|---|---|
| **Export Credit Guarantees and Insurance** | | | |
| **Income** | | | |
| Gross premium income | | 207,169 | 381,189 |
| Less ceded to reinsurers | | (29,748) | (48,757) |
| Net premium income | 3(a) | 177,421 | 332,432 |
| Net investment return | 3(b) | 41,675 | 17,041 |
| Net claims credit & provision for likely claims | 5 | 7,274 | 13,818 |
| Net foreign exchange gain | 6 | 11,148 | 13,969 |
| **Total income** | | **237,518** | **377,260** |
| **Expenses** | | | |
| Changes in insurance liabilities (net of reinsurance) | 18 | (62,107) | (266,750) |
| Staff costs | 7 | (18,878) | (17,241) |
| Other administration and operating costs | 8 | (13,003) | (12,819) |
| **Total expenses** | | **(93,988)** | **(296,810)** |
| **Net income arising from Export Credit Guarantees and Insurance Activities** | | **143,530** | **80,450** |
| **Export Finance Assistance** | | | |
| **Income** | | | |
| Net investment return | 3(b) | 39,084 | 22,611 |
| Net foreign exchange gain | 6 | 43,648 | 31,962 |
| **Total income** | | **82,732** | **54,573** |
| **Expenses** | | | |
| Staff costs | 7 | (5,583) | (4,197) |
| Other administration and operating costs | 8 | (3,846) | (3,121) |
| **Total expenses** | | **(9,429)** | **(7,318)** |
| **Net Income arising from Export Finance Assistance Activities** | | **73,303** | **47,255** |
| **Net operating income for the year** | | **216,833** | **127,705** |

All income and expenditure is derived from continuing operations.

The Notes on pages 160 to 201 form part of these accounts.

# Statement of Financial Position

## As at 31 March 2020

| | Note | 31 March 2020 £'000 | 31 March 2019 £'000 |
|---|---|---|---|
| **Non-current assets:** | | | |
| Equipment and intangible assets | | 318 | 493 |
| Financial assets | | | |
| Fair value through profit or loss | 9(a) | 339 | 414 |
| Loans and receivables | 9(b) | 961,852 | 732,275 |
| Insurance contracts | | | |
| Insurance assets | 10 | 246,866 | 289,624 |
| Reinsurers' share of insurance liabilities | 11 | 359,302 | 379,046 |
| Insurance and other receivables | 12 | 18,000 | 9,875 |
| **Total non-current assets** | | **1,586,677** | **1,411,727** |
| **Current assets:** | | | |
| Financial assets | | | |
| Fair value through profit or loss | 9(a) | 440 | 693 |
| Loans and receivables | 9(b) | 152,367 | 85,001 |
| Insurance contracts | | | |
| Insurance assets | 10 | 68,709 | 62,338 |
| Insurance and other receivables | 12 | 15,685 | 10,665 |
| Cash and cash equivalents | 13 | 137,730 | 187,649 |
| **Total current assets** | | **374,931** | **346,346** |
| **Total assets** | | **1,961,608** | **1,758,073** |
| **Current liabilities:** | | | |
| Financial liabilities | | | |
| Fair value through profit or loss | 15 | (125) | (391) |
| Consolidated Fund Payable | 16 | (137,730) | (187,649) |
| Provisions | 17(b) & (c) | (3,770) | (1,644) |
| Insurance and other payables | 17(a) | (29,580) | (24,494) |
| **Total current liabilities** | | **(171,205)** | **(214,178)** |
| **Non-current assets plus net current assets** | | **1,790,403** | **1,543,895** |
| **Non-current liabilities** | | | |
| Financial liabilities | | | |
| Fair value through profit or loss | 15 | (123) | (277) |
| Insurance contracts | | | |
| Insurance liabilities | 18 | (1,317,500) | (1,275,137) |
| **Total non-current liabilities** | | **(1,317,623)** | **(1,275,414)** |
| **Assets less liabilities** | | **472,780** | **268,481** |
| | | | |
| **Taxpayers' equity** | | | |
| Exchequer Financing | | (3,106,838) | (3,230,474) |
| Cumulative Trading Surplus | | 3,791,771 | 3,648,241 |
| General Fund | | (212,153) | (149,286) |
| **Total taxpayers' equity** | | **472,780** | **268,481** |

The Notes on pages 160 to 201 form part of these accounts.

Louis Taylor
Chief Executive and Accounting Officer
19 June 2020

# Statement of Cash Flows

## For the year ended 31 March 2020

| | Note | 2019-20 £'000 | 2018-19 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net operating income | | 216,833 | 127,705 |
| Adjustments for non-cash transactions: | | | |
| Depreciation & amortisation | | | |
| Depreciation of equipment | 8 | 310 | 272 |
| Other: | | | |
| Audit fees | 8 | 196 | 196 |
| Amortised loans & receivables income | 9(b) | (44,202) | (30,576) |
| Net unrealised foreign exchange (gain) / loss on net assets other than cash | 6 | (53,208) | (44,247) |
| Provisions: | | | |
| Insurance liabilities net of reinsurance movement | 18 | 62,107 | 266,750 |
| Financial guarantees provision movement | 17(c) | 2,135 | 49 |
| Claims provision movement | 10(a) | (9,428) | (13,867) |
| Interest on claims provision movement | 10(b) | (3,004) | 22,083 |
| Early retirement and dilapidation movement | | (9) | (187) |
| Impairment of uninsured Capital Loans | 9(b) | 5,385 | 8,255 |
| Movements in Working Capital other than cash: | | | |
| Claims assets before provisions | 10(a) | 63,743 | 68,270 |
| Interest on claims assets before provisions | 10(b) | (6,986) | (7,019) |
| Loans & receivables | 9(b) | 93,977 | 85,715 |
| Insurance & other receivables | | (11,395) | 4,226 |
| Insurance & other payables | | 4,213 | (3,459) |
| Financial assets held at fair value | 9(a) | 328 | 810 |
| Financial liabilities held at fair value | 15 | (420) | (800) |
| **Net cash inflow/(outflow) from operating activities** | | 320,575 | 484,176 |
| **Cash flows from investing activities** | | | |
| Purchase of equipment and intangibles | | (135) | (79) |
| Export Finance Assistance loans: | | | |
| Advances | 9(b) | (383,651) | (485,615) |
| Recoveries | 9(b) | 75,941 | 59,167 |
| **Net cash inflow/(outflow) from investing activities** | | (307,845) | (426,527) |
| **Net cash inflow from operating and investing activities** | | 12,730 | 57,649 |
| **Cash flows from financing activities** | | | |
| Receipts from the Consolidated Fund (Supply): | | | |
| relating to the current year | | 125,000 | 130,000 |
| **Net cash inflow/(outflow) from financing activities** | | 125,000 | 130,000 |
| **Net increase in cash and cash equivalents in the year before adjusting payments to the Consolidated Fund** | | 137,730 | 187,649 |
| Payments to the Consolidated Fund: | | | |
| relating to the prior year | 13 | (187,649) | (81,660) |
| **Net increase/(decrease) in cash and cash equivalents in the year** | | (49,919) | 105,989 |
| Cash and cash equivalents at the beginning of the year | 13 | 187,649 | 81,660 |
| **Cash and cash equivalents at the end of the year** | **13** | **137,730** | **187,649** |

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

The Notes on pages 160 to 201 form part of these accounts.

# Statement of Changes in Taxpayers' Equity

## For the year ended 31 March 2020

| | Note | Exchequer financing £'000 | Cumulative trading surplus £'000 | General fund £'000 | Total reserves £'000 |
|---|---|---|---|---|---|
| Balance at 1 April 2018 | | (3,287,351) | 3,567,791 | (82,211) | 198,229 |
| **Changes in taxpayers' equity for 2018-19** | | | | | |
| **Non-Cash Adjustments:** | | | | | |
| Auditors' remuneration | 8 | 196 | - | - | 196 |
| **Movements in Reserves:** | | | | | |
| Transfers between reserves | | 114,330 | - | (114,330) | - |
| Recognised in Statement of Comprehensive Net Income | | - | 80,450 | 47,255 | 127,705 |
| ***Total recognised income and expense for 2018-19*** | | *114,526* | *80,450* | *(67,075)* | *127,901* |
| Amounts arising in year payable to the consolidated fund | | (57,649) | - | - | (57,649) |
| **Balance at 31 March 2019** | | (3,230,474) | 3,648,241 | (149,286) | 268,481 |
| **Changes in taxpayers' equity for 2019-20** | | | | | |
| **Non-Cash Adjustments:** | | | | | |
| Auditors' remuneration | 8 | 196 | - | - | 196 |
| **Movements in Reserves:** | | | | | |
| Transfers between reserves | | 136,170 | - | (136,170) | - |
| Recognised in Statement of Comprehensive Net Income | | - | 143,530 | 73,303 | 216,833 |
| ***Total recognised income and expense for 2019-20*** | | *136,366* | *143,530* | *(62,867)* | *217,029* |
| Amounts arising in year payable to the consolidated fund | 13 | (12,730) | - | - | (12,730) |
| **Balance at 31 March 2020** | | **(3,106,838)** | **3,791,771** | **(212,153)** | **472,780** |

The Notes on pages 160 to 201 form part of these accounts.

# Notes to the Departmental Accounts

## 1 Accounting policies

### (A) Basis of preparation

The financial statements have been prepared in accordance with the 2019-20 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

In accordance with IFRS 4 Insurance Contracts, UKEF has applied existing accounting practices for insurance contracts. Additionally, UKEF has taken advantage of the option in IAS 39 Financial Instruments: Recognition and Measurement and has elected to continue to regard some financial guarantee contracts as insurance contracts. This relates to contracts for products that are both financial guarantee contracts and insurance contracts by definition but were historically accounted for as insurance contracts. An election was made for such contracts to continue being accounted for as insurance contracts under IFRS 4. Further details are given in policy Note 1(D) below.

The primary economic environment within which UKEF operates is the United Kingdom and, therefore, its functional and presentational currency is Pounds Sterling. Items included in the UKEF financial statements are measured and presented in Pounds Sterling.

#### Future accounting developments

The 2019-20 FReM applies financial reporting Standards that are effective for the financial year.

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

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

- IFRS 9 Financial Instruments – this Standard is designed to replace IAS 39 Financial Instruments: Recognition and Measurement and amends some of the requirements of IFRS 7 Financial Instruments – Disclosures. UKEF has not determined the detailed impact however the changes to loan impairments particularly will require changes to UKEF systems and may lead to increased volatility in reported numbers. Whilst the effective date of IFRS 9 was for annual periods beginning on or after 1 January 2018, the Standard will be effective for UKEF for annual periods beginning on or after January 2023. This is because UKEF has utilised a temporary exemption from applying IFRS 9 as detailed below. The International Accounting Standards Board (IASB) has decided to extend to 2023 the temporary exemption for insurers to apply IFRS 9 so that both IFRS 9 and IFRS 17 can be applied at the same time (see below).

  In September 2016, the IASB issued amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduce a temporary exemption that enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2023 and continue to apply IAS 39 to financial instruments. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

The department met the eligibility criteria of the temporary exemption from IFRS 9 and deferred the application of IFRS 9 until the effective date of the new insurance contracts Standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2023. The department performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 March 2016 when UKEF's insurance liabilities were significant compared to the total amount of liabilities and the percentage of liabilities connected with insurance was greater than 90%. The liabilities connected with insurance that are not liabilities arising from contracts within the scope of IFRS 4 mainly relate to UKEF's liability to consolidated fund. The impact of the adoption of IFRS 9 on UKEF's financial statements will be largely dependent on the interaction with the new insurance contracts standard IFRS 17. As such it is not possible to fully assess the effect of the adoption of IFRS 9.

UKEF is required to retest its eligibility for the temporary exemption of IFRS 9, if, and only if, there is a significant change in its business activities. UKEF's activities have not changed and the Department continues to apply the temporary exemption from IFRS 9~~.~~ The increase in the carrying value of UKEF's loan book, in relation to its direct lending activity, is not considered a significant change in business activities for the purposes of the temporary exemption.

- IFRS 17 Insurance Contracts – this Standard is designed to replace IFRS 4 Insurance Contracts. IFRS 4 allows entities to use different accounting policies to measure insurance contracts. IFRS 17 removes these inconsistencies and requires entities to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty. Entities will also be required to recognise profit as insurance services are delivered and to provide information about the insurance contract profits that are expected to be recognised in the future. These changes will necessitate a shift from UKEF's fund basis of accounting for insurance contracts. The application of IFRS 17 in the public sector has yet to be confirmed by the FReM. There is therefore still some uncertainty about how it may affect UKEF. The effective date of IFRS 17 is for annual periods beginning on or after 1 January 2023.

As at the date of issuing these financial statements, Management have undertaken an initial assessment of the impact of IFRS 9 and IFRS 17 on UKEF. Both these standards are expected to have a major impact on UKEF's accounting policies, data, systems and processes, as the vast majority of the Department's portfolio is in scope of one of them. As a result, the Department has started a multi-year *Financial Reporting Changes* Programme, involving cross-departmental functions, to implement the two Standards. Management continues to assess the impact of these new standards as part of the ongoing programme to implement the changes. Currently, Management is considering the accounting judgements and options to determine the Departments future accounting policies and their financial impact. This will then determine the full implementation direction.

**Major FReM changes for 2019-20**

UKEF has reviewed the major FReM changes for 2019-20 and determined there are no changes that will have a significant impact on the Department's 2019-20 financial statements.

## (B) Use of significant judgement and estimates

The preparation of these financial statements includes the use of significant judgments and estimates and assumptions which affect the reported amounts of assets, liabilities, income and expenses, and related disclosure of contingent assets and liabilities in the financial statements.

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

All estimates are based on management's knowledge of current facts and circumstances, assumptions based upon that knowledge, and management's predictions of future events and actions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, possibly significantly. There have been no major changes in these assumptions in the current year.

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

Due to the long-term nature of the risk underwritten, the outcome of UKEF's activities is subject to considerable uncertainty, primarily as a result of:

- **Unpredictability of claims payments and recoveries including interest on unrecovered claims** – losses that might arise are very difficult to assess and calculate with any degree of confidence, particularly over the longer term; the protracted underwriting cycle, which can be several decades if a Paris Club recovery is involved, means that the actual outturn may not be known for many years; and
- **The narrow base of risk –** UKEF has a far narrower risk base than would normally apply in commercial insurance, which makes the underwriting outcome more vulnerable to changes in risk conditions. As the UK's export credit agency (ECA), UKEF's role and mandate result in the department's portfolio following where UK companies win business and where there are gaps in private sector provision of finance. This demand-led approach, and the small number of more significant large transactions underwritten per year, can result in risk concentrations.

Although the financial results cannot be established with certainty, UKEF sets provisions for unrecovered claims based upon current perceptions of risk and employing a substantial degree of experience and judgement. The level of such provisions has been set on the basis of information which is currently available. The provision rates are made on a case-by-case basis and are approved by UKEF's Enterprise Risk and Credit Committee. Paris Club developments and related provision rates are also monitored and approved by the Enterprise Risk and Credit Committee. Whilst UKEF considers that claims provisions and related recoveries are fairly stated, the ultimate liability will vary as a result of subsequent information and events. This may result in significant adjustments to the amounts provided. These estimates and methods of estimation are reviewed annually and, if adjustments prove necessary, they will be reflected in future accounts.

## (C) Summary of significant accounting policies

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of UKEF for the purpose of giving a true and fair view has been selected. These have been applied consistently in dealing with items considered material to the accounts.

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

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

## (D) Insurance contracts

### Product classification

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

### Fund Basis of Accounting for insurance contracts

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

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

### Liability adequacy test

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

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

- **Political**: risks associated with a sovereign country which could potentially affect every supported transaction in that country due to both political risks and economic risks; and
- **Buyer**: risks directly associated with buyers, borrowers or guarantors, e.g. insolvency.

### Premium income

Premium income for the underwriting year is recognised as detailed below:

- **Project Business:** the income on all guarantees and insurance contracts, excluding Overseas Investment Insurance, that becomes effective during the year (including income for which deferred payment terms have been agreed);
- **Overseas Investment Insurance**: the amount due in the financial year in which the annual cover commences; and
- **Reinsurance provided under Co-operation Agreements with other Export Credit Agencies:** premiums due based on notifications received in the year from the lead export credit agency.

### Interest receivable – underwriting activities

UKEF determines that, based on its experience over recent years, interest on unrecovered claims is as likely to be recovered as the outstanding claims to which it relates. As a result, interest is provisioned at the same rate as the claim to which it applies.

### Insurance assets

Claims: these are recognised when authorised.

Recoveries: where a realistic prospect of full or partial recovery exists, the estimated recovery proceeds, net of estimated expenses in achieving the recovery, are included as assets in the Statement of Financial Position, as “Recoverable Claims”. When UKEF considers that it is no longer practicable or cost effective to pursue recovery, recoverable claims are formally abandoned; the amounts are deducted from recoverable assets and written off to the Statement of Comprehensive Net Income for the year if and to the extent that existing provisions are not adequate to cover such amounts.

### Reinsurance assets

UKEF cedes reinsurance to the private sector and to other national export credit agencies. Reinsurance premiums ceded and movements in the reinsurers’ share of insurance liabilities are included within the relevant expense and income accounts in the Statement of Comprehensive Net Income.

Reinsurance assets represent insurance premiums ceded to reinsurers, less any claims made by UKEF on reinsurance contracts. Reinsurance assets include the reinsurers’ share of insurance liabilities and are recognised on the same basis as the underlying insurance liabilities recognised in the Statement of Financial Position. UKEF’s reinsurance assets are reviewed for impairment. Any impairment losses identified are recognised through the Statement of Comprehensive Net Income.

## (E) Net investment return

Investment return comprises interest income receivable for the year, movement in provisions for amortised cost on loans and receivables, residual margin payments to counterparty lenders, and changes in unrealised gains and losses on financial assets classified as ‘fair value through profit or loss’.

Interest income is recognised as it accrues. UKEF receives the following types of interest:

- Moratorium Interest – interest on Paris Club sovereign country rescheduled balances. This includes interest on both Original Debt and Capitalised Interest;
- Late (Penalty) Interest – interest on arrears of the above;
- Interest on direct funded loans;

- Default Interest – interest on non-Paris Club balances; and
- Bank Interest – interest on balances held with commercial banks. The majority of UKEF funds are deposited with the Government Banking Service and do not earn interest.

UKEF pays the following type of interest:

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

## (F) Foreign exchange

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

## (G) Consolidated Fund Payable

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

## (H) Exchequer financing

To reflect the long-term nature of UKEF's activities, and recognising that cash flows from operating and investing activities in a particular year may not always be sufficient to service operating commitments, a cumulative balance with the Exchequer is maintained and disclosed on the face of the Statement of Financial Position. The balance moves from year to year in response to the cash flows and accrued income arising from UKEF's operating and investing activities.

## (I) Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded. UKEF recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. Further information can be found in the Our People: Staff and Remuneration Report section of the Annual Report.

## (J) Financial assets

### Recognition and measurement

Financial assets are recognised and derecognised on the relevant trade date and are classified into the following specified categories:

i. Fair value through profit or loss and

ii. Loans and receivables.

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

All financial assets classified as ‘fair value through profit or loss’ are carried at fair value, with any change in the fair value recognised in the Statement of Comprehensive Net Income. ‘Fair value through profit or loss’ financial assets include derivative instruments that are not designated as effective hedging instruments. Fair value is determined in the manner described in Note 9. All derivatives are carried as assets when the fair values are positive (or as liabilities when the fair values are negative). The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the Statement of Financial Position, as they do not represent the potential gain or loss associated with such transactions.

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

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

#### Impairment of financial assets

Financial assets other than those at ‘fair value through profit or loss’, are regularly assessed for indicators of impairment on an incurred loss basis. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the financial asset have been affected. Amongst the criteria that UKEF’s Enterprise Risk and Credit Committee will use to assess if there is objective evidence of an impairment loss include:

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

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

### (K) Financial liabilities

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

### (L) Financial guarantee contracts

Liabilities under financial guarantee contracts not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

### (M) Provisions

UKEF makes provisions for liabilities and charges where, at the Statement of Financial Position date, a legal or constructive liability exists (i.e. a present obligation from past events exists) where the outflow of economic benefits is probable and where a reasonable estimate can be made. The obligation is normally the amount that the entity would rationally pay to settle the obligation at the Statement of Financial Position date or to transfer it to a third party at that time. If the effect is material, expected future cash flows are discounted using the appropriate rate set by HM Treasury.

### (N) Contingent liabilities

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

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

## 2 Segmental information

UKEF applies IFRS 8 – *Operating Segments* considering UKEF's legal and regulatory reporting requirements. These form the basis of the operating results that are regularly reviewed by the chief operating decision maker. The chief operating decision maker is the Accounting Officer who is responsible for allocating resources and assessing performance of the operating segments.

UKEF's operations are categorised into one of the following Accounts:

- **Account 1** – guarantees and insurance issued for business prior to April 1991, and insurance issued by the Insurance Services Group of UKEF (which was privatised on 1 December 1991) for which UKEF retains all contingent liabilities ('Insurance Services Business').
- **Account 2** – relates to the credit risk arising from guarantees and insurance issued for business since April 1991.
- **Account 3** – guarantees and loans issued for business since April 1991 on the written instruction of Ministers, which UKEF's Accounting Officer had advised did not meet normal underwriting criteria.
- **Account 4** – the provision of Fixed Rate Export Finance (FREF) to banks (now closed to new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements.
- **Account 5** – Provision of Direct Lending (underwriting in the normal course of Business) (since 2014).

### i. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2020

| | Account 1 £'000 | Account 2 £'000 | Account 3 £'000 | Account 4 £'000 | Account 5 £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Income** | | | | | | |
| Gross premium income | - | 207,169 | - | - | - | 207,169 |
| Less ceded to reinsurers | - | (29,730) | (18) | - | - | (29,748) |
| Net premium income | - | 177,439 | (18) | - | - | 177,421 |
| Net investment return income | 39,789 | 1,886 | - | 760 | 38,324 | 80,759 |
| Claims credit | 10,868 | - | - | - | - | 10,868 |
| Changes in insurance liabilities net of reinsurance | - | - | 18 | - | - | 18 |
| Net foreign exchange gain | 7,130 | 4,018 | - | - | 43,648 | 54,796 |
| **Total income** | **57,787** | **183,343** | **-** | **760** | **81,972** | **323,862** |
| **Expenses** | | | | | | |
| Claims charge & provision for likely claims | - | (3,594) | - | - | - | (3,594) |
| Changes in insurance liabilities net of reinsurance | - | (62,125) | - | - | - | (62,125) |
| Staff costs | (294) | (17,825) | (759) | (441) | (5,142) | (24,461) |
| Other administration and operating costs | (202) | (12,281) | (520) | (304) | (3,542) | (16,849) |
| **Total expenses** | **(496)** | **(95,825)** | **(1,279)** | **(745)** | **(8,684)** | **(107,029)** |
| **Net income / (loss)** | **57,291** | **87,518** | **(1,279)** | **15** | **73,288** | **216,833** |

## ii. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2019

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

## iii. Additional segmental information

For the year ended 31 March 2020, there was one customer (the parties paying the premium) who accounted for more than 10% of the total premium revenue, net of amounts ceded to reinsurers. This customer accounted for net premium income of £42.4 million.

All premium income arose from exports by companies resident in the United Kingdom and therefore no geographical analysis of premium income is presented.

## iv. Segmental Statement of Financial Position at 31 March 2020

| | Account 1 £'000 | Account 2 £'000 | Account 3 £'000 | Account 4 £'000 | Account 5 £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Non-current assets:** | | | | | | |
| Equipment and intangible assets | - | 318 | - | - | - | 318 |
| Financial assets | | | | | | |
| Fair value through income | - | - | - | 339 | - | 339 |
| Loans & receivables | - | - | - | 2,342 | 959,510 | 961,852 |
| Insurance contracts | | | | | | |
| Insurance assets | 220,129 | 26,737 | - | - | - | 246,866 |
| Reinsurers' share of insurance liabilities | - | 333,113 | 26,189 | - | - | 359,302 |
| Insurance and other receivables | - | 18,000 | - | - | - | 18,000 |
| **Total non-current assets** | **220,129** | **378,168** | **26,189** | **2,681** | **959,510** | **1,586,677** |
| **Current assets:** | | | | | | |
| Financial assets | | | | | | |
| Fair value through income | - | - | - | 440 | - | 440 |
| Loans & receivables | - | - | - | 2,456 | 149,911 | 152,367 |
| Insurance contracts | | | | | | |
| Insurance assets | 42,319 | 26,390 | - | - | - | 68,709 |
| Insurance and other receivables | - | 15,703 | - | - | (18) | 15,685 |
| Cash and cash equivalents | 67,248 | 179,907 | (10,724) | 5,148 | (103,849) | 137,730 |
| **Total current assets** | **109,567** | **222,000** | **(10,724)** | **8,044** | **46,044** | **374,931** |
| **Total assets** | **329,696** | **600,168** | **15,465** | **10,725** | **1,005,554** | **1,961,608** |
| **Current liabilities:** | | | | | | |
| Financial liabilities | | | | | | |
| Financial liabilities held at fair value | - | - | - | (125) | - | (125) |
| Consolidated Fund (Payable) / Receivable | (67,248) | (179,907) | 10,724 | (5,148) | 103,849 | (137,730) |
| Provisions | - | (3,770) | - | - | - | (3,770) |
| Insurance and other payables | (449) | (29,116) | - | 4 | (19) | (29,580) |
| **Total current liabilities** | **(67,697)** | **(212,793)** | **10,724** | **(5,269)** | **103,830** | **(171,205)** |
| **Non-current assets plus net current assets** | **261,999** | **387,375** | **26,189** | **5,456** | **1,109,384** | **1,790,403** |
| **Non-current liabilities** | | | | | | |
| Financial liabilities | | | | | | |
| Financial liabilities held at fair value | - | - | - | (123) | - | (123) |
| Insurance liabilities | - | (1,206,128) | (111,372) | - | - | (1,317,500) |
| **Total non-current liabilities** | **-** | **(1,206,128)** | **(111,372)** | **(123)** | **-** | **(1,317,623)** |
| **Assets less liabilities** | **261,999** | **(818,753)** | **(85,183)** | **5,333** | **1,109,384** | **472,780** |
| | | | | | | |
| **Taxpayers' equity** | | | | | | |
| Exchequer Financing | (1,446,170) | (2,801,945) | (185,593) | 4,682 | 1,322,188 | (3,106,838) |
| Cumulative Trading Surplus | 1,708,169 | 1,983,192 | 100,410 | - | - | 3,791,771 |
| General Fund | - | - | - | 651 | (212,804) | (212,153) |
| **Total taxpayers' equity** | **261,999** | **(818,753)** | **(85,183)** | **5,333** | **1,109,384** | **472,780** |

## v. Segmental Statement of Financial Position at 31 March 2019

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

# 3 Premium Income & Net investment return

## 3(a) Premium Income

| | 2019-20 £'000 | 2018-19 £'000 |
|---|---|---|
| **Underwriting Premium Income:** | | |
| **Insurance contracts premium receivable (IFRS4)** | | |
| **Current Underwriting Year:** | | |
| Gross Premium | 200,400 | 378,029 |
| Less ceded to reinsurers | (8,118) | (38,571) |
| **Net Premium income** | **192,282** | **339,458** |
| **Previous Underwriting Years:** | | |
| Gross Premium | 77 | 129 |
| Less ceded to reinsurers | (21,630) | (10,186) |
| **Net Premium income** | **(21,553)** | **(10,057)** |
| **Summary** | | |
| Gross Premium | 200,477 | 378,158 |
| Less ceded to reinsurers | (29,748) | (48,757) |
| **Net Premium income** | **170,729** | **329,401** |
| **Financial guarantees premium amortised (IAS 39)** | | |
| **Summary** | | |
| Gross Premium | 6,692 | 3,031 |
| Less ceded to reinsurers | - | - |
| **Net Premium income** | **6,692** | **3,031** |
| **Total Net premium income** | **177,421** | **332,432** |

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

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

## 3(b) Net Investment Return

| | Note | Account 1 £'000 | Account 2 £'000 | 2019-20 Total £'000 | 2018-19 Total £'000 |
|---|---|---|---|---|---|
| **Export Credit Guarantees and Insurance** | | | | | |
| Interest income | 4 | 39,789 | 1,392 | 41,181 | 16,782 |
| Other income | | - | 494 | 494 | 259 |
| **Total Income** | | **39,789** | **1,886** | **41,675** | **17,041** |
| **Net Income** | | **39,789** | **1,886** | **41,675** | **17,041** |

| | Note | Account 4 £'000 | Account 5 £'000 | 2019-20 Total £'000 | 2018-19 Total £'000 |
|---|---|---|---|---|---|
| **Export Finance Assistance** | | | | | |
| Amortised loans & receiveables income | 9(b) | 493 | 43,709 | 44,202 | 30,576 |
| Gain in fair value of derivatives | | 640 | - | 640 | 1,189 |
| **Total Income** | | **1,133** | **43,709** | **44,842** | **31,765** |
| Impairment of loans & receivables | 9(b) | - | (5,385) | (5,385) | (8,255) |
| Loss in fair value of derivatives | | (373) | - | (373) | (899) |
| **Total Costs** | | **(373)** | **(5,385)** | **(5,758)** | **(9,154)** |
| **Net Income** | | **760** | **38,324** | **39,084** | **22,611** |

## 4 Interest receivable

| | Note | Account 1 £'000 | Account 2 £'000 | 2019-20 Total £'000 | 2018-19 Total £'000 |
|---|---|---|---|---|---|
| Interest arising from claims | | | | | |
| - interest charged in the year | 10(b) | 27,259 | 10,513 | 37,772 | 38,440 |
| - net increase / (decrease) in provisions for unrecovered interest | 10(b) | 12,128 | (9,124) | 3,004 | (22,083) |
| Interest arising from claims net of provisions | | 39,387 | 1,389 | 40,776 | 16,357 |
| Other Interest | | 402 | 3 | 405 | 425 |
| **Interest credit for the year** | | **39,789** | **1,392** | **41,181** | **16,782** |

Other Interest includes bank interest on balances with commercial banks.

## 5 Net claims credit and provision for likely claims

| | Note | Account 1 £'000 | Account 2 £'000 | 2019-20 Total £'000 | 2018-19 Total £'000 |
|---|---|---|---|---|---|
| Amounts authorised and paid in the year | 10(a) | - | (7,678) | (7,678) | (310) |
| Expected recoveries on claims authorised and paid in the year | | - | 3,954 | 3,954 | 91 |
| Provision on claims authorised and paid in the year | | - | (3,724) | (3,724) | (219) |
| Net change in provisions for claims authorised and paid in previous years | | 10,868 | 2,284 | 13,152 | 14,086 |
| **Claims credit/(charge) for the year** | 10(a) | **10,868** | **(1,440)** | **9,428** | **13,867** |
| Change in provision for claims on financial guarantees | 17(c) | - | (2,154) | (2,154) | (49) |
| **Net claims credit & provision for likely claims** | | **10,868** | **(3,594)** | **7,274** | **13,818** |

There is no reinsurance element included within the figures above.

## 6 Net foreign exchange gain / (loss)

| | Note | Account 1 £'000 | Account 2 £'000 | 2019-20 Total £'000 | 2018-19 Total £'000 |
|---|---|---|---|---|---|
| **Export Credit Guarantees and Insurance** | | | | | |
| Net foreign exchange gain/(loss) arising on: | | | | | |
| - recoverable claims after provisions | 10(a) | 4,328 | 735 | 5,063 | 8,760 |
| - recoverable interest on claims after provisions | 10(b) | 2,866 | 9 | 2,875 | 4,268 |
| - insurance premium receivables | | - | 1,750 | 1,750 | (859) |
| - financial guarantees provisions | | - | 19 | 19 | - |
| - insurance payables | | (64) | (64) | (128) | 116 |
| - cash | | - | 1,569 | 1,569 | 1,684 |
| **Net foreign exchange gain/(loss) for year** | | **7,130** | **4,018** | **11,148** | **13,969** |

| | Note | Account 5 £'000 | Total £'000 | Total £'000 |
|---|---|---|---|---|
| **Export Finance Assistance** | | | | |
| Net foreign exchange gain/(loss) arising on: | | | | |
| - loans & receivables | 9(b) | 44,393 | 44,393 | 31,845 |
| - payables | | (745) | (745) | 117 |
| **Net foreign exchange gain/(loss) for year** | | **43,648** | **43,648** | **31,962** |

| | Total £'000 | Total £'000 |
|---|---|---|
| **Summary:** | | |
| Net foreign exchange gain/(loss) for year on cash assets | 1,588 | 1,684 |
| Net foreign exchange gain/(loss) for year on net assets other than cash | 53,208 | 44,247 |
| **Net foreign exchange gain / (loss) for year** | **54,796** | **45,931** |

Day-to-day transactions are converted at the rates prevailing on the original transaction date. Assets and liabilities are re-valued at the year-end rates. The table below shows the exchange rates applicable on the principal currencies.

| **Currency** | **Currency equivalent to £1** 31 March 2020 | 31 March 2019 |
|---|---|---|
| Euro | 1.13 | 1.16 |
| Japanese Yen | 133.75 | 144.26 |
| US Dollars | 1.24 | 1.30 |

## 7 Staff costs

| | 2019-20<br>£'000 | 2018-19<br>£'000 |
|---|---|---|
| Salaries and Wages | 18,005 | 16,360 |
| Social Security Costs | 2,112 | 1,909 |
| Early Retirement Payments | 10 | 188 |
| Other Pension Costs | 4,344 | 3,168 |
| **Total Costs before provision movements** | 24,471 | 21,625 |
| Early Retirement Provision utilisation & adjustment | (10) | (187) |
| **Total Staff Costs** | **24,461** | **21,438** |
| | | |
| **Of which:** | | |
| Export Credit Guarantees and Insurance | 18,878 | 17,241 |
| Export Finance Assistance | 5,583 | 4,197 |

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

## 8 Other administration and operating costs

| | 2019-20<br>£'000 | 2018-19<br>£'000 |
|---|---|---|
| Agency Staff | 1,484 | 2,102 |
| Training | 346 | 318 |
| Recruitment | 136 | 139 |
| Travel & Subsistence | 1,022 | 833 |
| Accomodation | 2,587 | 2,464 |
| IT Other | 4,005 | 3,406 |
| Project Costs | 1,679 | 881 |
| Legal | 490 | 439 |
| Marketing & Business Promotion | 1,988 | 1,926 |
| Depreciation | 310 | 272 |
| Irrecoverable VAT | 1,372 | 1,570 |
| Other Administration | 1,430 | 1,590 |
| **Total Other Administrative Costs** | **16,849** | **15,940** |
| | | |
| **Of which:** | | |
| Export Credit Guarantees and Insurance | 13,003 | 12,819 |
| Export Finance Assistance | 3,846 | 3,121 |
| | | |
| **Included in the above figures:** | | |
| Audit Fees | 196 | 196 |

# 9 Financial assets

## 9(a) Fair value through profit or loss

| | 31 March 2020 £'000 | 31 March 2019 £'000 |
|---|---|---|
| Interest rate derivatives in relation to Export Finance Loan Guarantees | 779 | 1,107 |
| **Total** | **779** | **1,107** |
| | | |
| Falling due: | | |
| - within one year | 440 | 693 |
| - after more than one year | 339 | 414 |

All interest rate derivatives are categorised as level 2 instruments, with their fair values determined using valuation techniques and pricing models commonly employed by market participants, and market-observable inputs.

## 9(b) Loans & receivables

| | 31 March 2020 £'000 | 31 March 2019 £'000 |
|---|---|---|
| Loans & receivables | 1,114,219 | 817,276 |
| **Total** | **1,114,219** | **817,276** |
| | | |
| Falling due: | | |
| - within one year | 152,367 | 85,001 |
| - after more than one year | 961,852 | 732,275 |

| | Note | Account 4 £'000 | Account 5 £'000 | Total £'000 |
|---|---|---|---|---|
| **Movements:** | | | | |
| **Balance at 1 April 2018** | | **15,110** | **407,267** | **422,377** |
| Loans advanced | 21 | - | 485,615 | 485,615 |
| Loans recovered | | (4,995) | (54,172) | (59,167) |
| Net foreign exchange gain/(loss) | | - | 31,845 | 31,845 |
| Amortised income | | 799 | 29,777 | 30,576 |
| Other movement in working capital | | (887) | (84,828) | (85,715) |
| Impairment provision | | - | (8,255) | (8,255) |
| **Balance at 31 March 2019** | | **10,027** | **807,249** | **817,276** |
| Loans advanced | 21 | - | 383,651 | 383,651 |
| Loans recovered | | (5,142) | (70,799) | (75,941) |
| Net foreign exchange gain/(loss) | | - | 44,393 | 44,393 |
| Amortised income | | 493 | 43,709 | 44,202 |
| Other movement in working capital | | (580) | (93,397) | (93,977) |
| Impairment provision | | - | (5,385) | (5,385) |
| **Balance at 31 March 2020** | | **4,798** | **1,109,421** | **1,114,219** |
| | | | | |
| **Of which:** | | | | |
| Capital loans recoverable | | 4,682 | 1,322,188 | 1,326,870 |
| Net interest receivable | | 116 | 5,200 | 5,316 |
| Unamortised income | | - | (204,326) | (204,326) |
| Impairment Provisions | | - | (13,641) | (13,641) |
| | | | | |
| Falling due: | | | | |
| - within one year | | 2,456 | 149,911 | 152,367 |
| - after more than one year | | 2,342 | 959,510 | 961,852 |

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

The fair value of Export Finance Loans for Account 4 was £5,177,000 (2018-19: £10,841,000) and Account 5 £1,601,747,000 (2018-19: £1,012,297,000).

## 10 Insurance assets

| | 31 March 2020 £'000 | 31 March 2019 £'000 |
|---|---|---|
| Recoverable claims | 197,228 | 246,480 |
| Interest on unrecovered claims | 118,347 | 105,482 |
| **Total** | **315,575** | **351,962** |
| | | |
| Falling due: | | |
| - within one year | 68,709 | 62,338 |
| - after more than one year | 246,866 | 289,624 |

Insurance assets are shown at their expected recoverable amount. The majority of the balances are subject to market rates of interest.

## 10(a) Recoverable claims

| | Account 1 £'000 | Account 2 £'000 | Total £'000 |
|---|---|---|---|
| **Recoverable claims - gross** | | | |
| Balance at 1 April 2018 | 462,541 | 238,781 | 701,322 |
| Claims & recoverable expenditure approved in the year | - | 310 | 310 |
| Recoveries made in the year | (39,196) | (29,384) | (68,580) |
| Recoveries abandoned in the year | (33) | 1 | (32) |
| Net foreign exchange movements | 10,065 | 3,665 | 13,730 |
| **Balance at 31 March 2019** | **433,377** | **213,373** | **646,750** |
| Claims & recoverable expenditure approved in the year | - | 7,678 | 7,678 |
| Recoveries made in the year | (38,474) | (32,947) | (71,421) |
| Recoveries abandoned in the year | 1 | (1,104) | (1,103) |
| Net foreign exchange movements | 6,789 | 1,972 | 8,761 |
| **Balance at 31 March 2020** | **401,693** | **188,972** | **590,665** |
| | | | |
| **Recoverable claims - provisions** | | | |
| Balance at 1 April 2018 | 272,282 | 136,917 | 409,199 |
| Release of provisions in the year | (9,859) | (4,008) | (13,867) |
| Recoveries abandoned in the year | (33) | 1 | (32) |
| Net foreign exchange movements | 3,094 | 1,876 | 4,970 |
| **Balance at 31 March 2019** | **265,484** | **134,786** | **400,270** |
| (Release)/increase of provisions in the year | (10,868) | 1,440 | (9,428) |
| Recoveries abandoned in the year | 1 | (1,104) | (1,103) |
| Net foreign exchange movements | 2,461 | 1,237 | 3,698 |
| **Balance at 31 March 2020** | **257,078** | **136,359** | **393,437** |
| | | | |
| **Net recoverable claims as at:** | | | |
| **- 31 March 2020** | **144,615** | **52,613** | **197,228** |
| - 31 March 2019 | 167,893 | 78,587 | 246,480 |
| - 31 March 2018 | 190,259 | 101,864 | 292,123 |

There are no recoverable claims on Accounts 3 and 4.

## 10(b) Interest on unrecovered claims

| | Account 1 £'000 | Account 2 £'000 | Total £'000 |
|---|---|---|---|
| **Interest on unrecovered claims - gross** | | | |
| Balance at 1 April 2018 | 993,900 | 138,104 | 1,132,004 |
| Interest charged in the year | 27,581 | 10,859 | 38,440 |
| Interest received in the year | (29,826) | (1,595) | (31,421) |
| Recoveries abandoned in the year | (3,369) | - | (3,369) |
| Net foreign exchange movements | 16,034 | 271 | 16,305 |
| **Balance at 31 March 2019** | **1,004,320** | **147,639** | **1,151,959** |
| Interest charged in the year | 27,259 | 10,515 | 37,774 |
| Interest received in the year | (29,037) | (1,751) | (30,788) |
| Recoveries abandoned in the year | - | (2) | (2) |
| Net foreign exchange movements | 12,474 | 213 | 12,687 |
| **Balance at 31 March 2020** | **1,015,016** | **156,616** | **1,171,632** |
| | | | |
| **Interest on unrecovered claims - provisions** | | | |
| Balance at 1 April 2018 | 878,452 | 137,274 | 1,015,726 |
| Increase in provisions in the year | 12,829 | 9,254 | 22,083 |
| Recoveries abandoned in the year | (3,369) | - | (3,369) |
| Net foreign exchange movements | 11,791 | 246 | 12,037 |
| **Balance at 31 March 2019** | **899,703** | **146,774** | **1,046,477** |
| (Decrease) / Increase in provisions in the year | (12,128) | 9,124 | (3,004) |
| Recoveries abandoned in the year | - | (2) | (2) |
| Net foreign exchange movements | 9,608 | 204 | 9,812 |
| **Balance at 31 March 2020** | **897,183** | **156,100** | **1,053,283** |
| | | | |
| **Net interest on unrecovered claims as at:** | | | |
| **- 31 March 2020** | **117,833** | **516** | **118,349** |
| - 31 March 2019 | 104,617 | 865 | 105,482 |
| - 31 March 2018 | 115,448 | 830 | 116,278 |

## 11 Reinsurers' share of insurance liabilities

| | £'000 |
|---|---|
| Balance at 1 April 2018 | 371,715 |
| Movements summary: | |
| Addition to the underwriting funds in the year | 41,529 |
| Net decrease in open credit funds | (44,004) |
| Other fund movements | 10,889 |
| Net decrease in insurance liabilities on closed funds | (1,083) |
| *Total Movements* | *7,331* |
| **Balance at 31 March 2019** | **379,046** |
| Movements summary: | |
| Addition to the underwriting funds in the year | 8,117 |
| Net decrease in open cash funds | (1,500) |
| Net decrease in open credit funds | (47,664) |
| Other fund movements | 21,630 |
| Net decrease in insurance liabilities on closed funds | (327) |
| *Total Movements* | *(19,744)* |
| **Balance at 31 March 2020** | **359,302** |

Movements are summarised within Note 18.

## 12 Insurance and other receivables

| | 31 March 2020 £'000 | 31 March 2019 £'000 |
|---|---|---|
| **Export Credit Guarantees and Insurance:** | | |
| Insurance premium receivables | 30,874 | 18,689 |
| Insurance prepayments and accrued income | 2,706 | 1,657 |
| Other receivables | 105 | 194 |
| **Total** | 33,685 | 20,540 |
| | | |
| Falling due: | | |
| - within one year | 15,685 | 10,665 |
| - after more than one year | 18,000 | 9,875 |

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

## 13 Cash and cash equivalents

| | £'000 |
|---|---|
| Balance at 1 April 2018 | 81,660 |
| Net cash inflow to UKEF | 57,649 |
| Receipts from the Consolidated Fund: | |
| in respect of amounts received in the current year | 130,000 |
| Payments to the Consolidated Fund: | |
| in respect of amounts received in the previous year | (81,660) |
| **Balance at 31 March 2019** | **187,649** |
| Net cash inflow to UKEF | 12,730 |
| Receipts from the Consolidated Fund: | |
| in respect of amounts received in the current year | 125,000 |
| Payments to the Consolidated Fund: | |
| in respect of amounts received in the previous year | (187,649) |
| **Balance at 31 March 2020** | **137,730** |

| **Cash and cash equivalents comprise:** | **31 March 2020 £'000** | **31 March 2019 £'000** |
|---|---|---|
| Government Banking Service | 63,072 | 35,875 |
| Commercial banks and cash in hand | 74,658 | 151,774 |
| **Total** | **137,730** | **187,649** |

## 14 Reconciliation of Net Cash Requirement to decrease in cash

| | **2019-20 £'000** | **2018-19 £'000** |
|---|---|---|
| Net cash inflow from operating and investing activities | 12,730 | 57,649 |
| Receipts from the Consolidated Fund relating to the current year | 125,000 | 130,000 |
| Amounts due to the Consolidated Fund | 137,730 | 187,649 |
| Payments to the Consolidated Fund relating to the prior year | (187,649) | (81,660) |
| **(Decrease) / Increase in cash** | **(49,919)** | **105,989** |

## 15 Financial liabilities at fair value

| | **31 March 2020 £'000** | **31 March 2019 £'000** |
|---|---|---|
| Interest rate derivatives in relation to Export Finance Loan Guarantees | 103 | 202 |
| Interest rate derivative contracts entered into for hedging purposes | 145 | 466 |
| **Total** | **248** | **668** |
| Falling due: | | |
| - within one year | 125 | 391 |
| - after more than one year | 123 | 277 |

All interest rate derivatives are categorised as level 2 instruments, with their fair values determined using valuation techniques and pricing models commonly employed by market participants, and market-observable inputs.

## 16 Consolidated Fund Payable

| | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---|---|---|
| Amounts payable to the Consolidated Fund | 137,730 | 187,649 |
| **Total** | **137,730** | **187,649** |
| Falling due: | | |
| - within one year | 137,730 | 187,649 |

The balance due within one year represents UKEF's bank balance as at 31 March 2020.

## 17 Insurance and other payables

### 17(a) Insurance liabilities

| | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---|---|---|
| **Export Credit Guarantees and Insurance:** | | |
| Insurance payables - amounts due to policyholders | 104 | 9,399 |
| Income Tax and National Insurance | 551 | 532 |
| Deferred income and other payables | 28,910 | 14,562 |
| **Total** | 29,565 | 24,493 |
| **Export Finance Assistance:** | | |
| Other payables | 15 | 1 |
| **Total** | 15 | 1 |
| **Total** | **29,580** | **24,494** |
| Falling due: | | |
| - within one year | 29,580 | 24,494 |

### 17(b) Provisions for early retirement

| | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---|---|---|
| Early Departure Provision | - | 9 |
| **Total** | **-** | **9** |
| Falling due: | | |
| - within one year | - | 9 |
| - after more than one year | - | - |

### 17(c) Provisions for financial guarantees

| | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---|---|---|
| Provisions for likely claims on financial guarantees | 3,770 | 1,635 |
| **Total** | **3,770** | **1,635** |
| Falling due: | | |
| - within one year | 3,770 | 1,635 |
| - after more than one year | - | - |

The movement in the provision for financial guarantees includes £2,154,000 (2018-19: £49,000) (see Note 5) and (£19,000) (2018-19: nil) movement on foreign currencies.

## 18 Insurance liabilities

Each underwriting fund for an underwriting year is set at the higher of (i) the current Expected Loss, as defined below, on amounts at risk on unexpired insurance contracts, or (ii) accumulated premiums plus interest earned, less administration costs and provisions made for the unrecoverable proportion of paid claims. Premium income credited to a provision is net of any reinsurance premium ceded to re-insurers where UKEF, as lead insurer, has reinsured a proportion of the total contract risk.

The Expected Loss is management's best estimate of the mean of possible future losses on UKEF's insurance contracts.

Under the Fund Basis of Accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until three years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until nine years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year). After this period, any excess of the net Underwriting Fund over the current ‘expected loss’ on amounts at risk on unexpired guarantees or policies written in the relevant year is released to income. Underwriting funds for those and prior years will be equal to the ‘expected loss’ on unexpired guarantees or insurance policies for the relevant underwriting year.

The following movements in underwriting funds have occurred in the year:

| | Account 2 £'000 | Account 3 £'000 | Total £'000 |
|---|---|---|---|
| **Insurance liabilities - Gross of reinsurance** | | | |
| Balance at 1 April 2018 | 1,001,056 | - | 1,001,056 |
| Movements: | | | |
| Addition to the underwriting funds in the year | 244,220 | 111,372 | 355,592 |
| Release of excess funds - cash | - | - | - |
| Release of excess funds - credit | (78,954) | - | (78,954) |
| Other fund movements | 730 | - | 730 |
| Change in insurance liabilities on closed funds | (3,287) | - | (3,287) |
| *Total Movements* | *162,709* | *111,372* | *274,081* |
| **Balance at 31 March 2019** | **1,163,765** | **111,372** | **1,275,137** |
| Movements: | | | |
| Addition to the underwriting funds in the year | 169,844 | - | 169,844 |
| Release of excess funds - cash | (1,687) | - | (1,687) |
| Release of excess funds - credit | (123,455) | - | (123,455) |
| Other fund movements | (488) | - | (488) |
| Change in insurance liabilities on closed funds | (1,851) | - | (1,851) |
| *Total Movements* | *42,363* | - | *42,363* |
| **Balance at 31 March 2020** | **1,206,128** | **111,372** | **1,317,500** |
| | | | |
| **Insurance liabilities - Net of reinsurance** | | | |
| Balance at 1 April 2018 | 629,341 | - | 629,341 |
| Movements: | | | |
| Addition to the underwriting funds in the year | 228,862 | 85,201 | 314,063 |
| Release of excess funds - cash | - | - | - |
| Release of excess funds - credit | (34,950) | - | (34,950) |
| Other fund movements | (10,159) | - | (10,159) |
| Change in insurance liabilities on closed funds | (2,204) | - | (2,204) |
| *Total Movements* | *181,549* | *85,201* | *266,750* |
| **Balance at 31 March 2019** | **810,890** | **85,201** | **896,091** |
| Movements: | | | |
| Addition to the underwriting funds in the year | 161,727 | - | 161,727 |
| Release of excess funds - cash | (187) | - | (187) |
| Release of excess funds - credit | (75,791) | - | (75,791) |
| Other fund movements | (22,100) | (18) | (22,118) |
| Change in insurance liabilities on closed funds | (1,524) | - | (1,524) |
| *Total Movements* | *62,125* | *(18)* | *62,107* |
| **Balance at 31 March 2020** | **873,015** | **85,183** | **958,198** |

| | Account 2 £'000 | Account 3 £'000 | Total £'000 |
|---|---|---|---|
| **Summary of movements:** | | | |
| ***2018-19*** | | | |
| *Gross changes in insurance liabilities* | *162,709* | *111,372* | *274,081* |
| *Reinsurers' share of changes in insurance liabilities* | *18,840* | *(26,171)* | *(7,331)* |
| ***Changes in insurance liabilities (net of reinsurance)*** | ***181,549*** | ***85,201*** | ***266,750*** |
| ***2019-20*** | | | |
| *Gross changes in insurance liabilities* | *42,363* | - | *42,363* |
| *Reinsurers' share of changes in insurance liabilities* | *19,762* | *(18)* | *19,744* |
| ***Changes in insurance liabilities (net of reinsurance)*** | ***62,125*** | ***(18)*** | ***62,107*** |

Movements in reinsurance are analysed within Note 11.

## Schedule of Expected Loss

As part of its liability adequacy testing process, UKEF assesses the carrying value of its insurance liabilities against a schedule of Expected Loss. The Expected Loss does not take into account any additional margins that are required to compensate UKEF for the inherent risk that actual losses may significantly exceed the Expected Loss. The derived Expected Loss is not therefore regarded by UKEF to be a reliable estimate of the likely eventual outturn (with insufficient information available for open fund years to determine definitively and with a high degree of confidence the level of claims that will be ultimately experienced) and is presented for indicative purposes. Credit funds up to and including 2010-11 and cash fund years up to and including 2016-17 are closed years.

| | 2010-11 fund year £'000 | 2011-12 fund year £'000 | 2012-13 fund year £'000 | 2013-14 fund year £'000 | 2014-15 fund year £'000 | 2015-16 fund year £'000 | 2016-17 fund year £'000 | 2017-18 fund year £'000 | 2018-19 fund year £'000 | 2019-20 fund year £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accounts 2 & 3** | | | | | | | | | | |
| **Credit funds** | | | | | | | | | | |
| At end of year | 34,350 | 32,460 | 33,987 | 34,208 | 46,367 | 28,315 | 32,214 | 43,848 | 127,410 | 72,685 |
| One year later | 28,410 | 28,421 | 26,790 | 34,184 | 44,703 | 29,114 | 26,001 | 49,578 | 110,027 | - |
| Two years later | 24,153 | 20,398 | 26,204 | 35,429 | 48,413 | 21,070 | 24,134 | 42,298 | - | - |
| Three years later | 15,338 | 21,011 | 24,580 | 35,278 | 36,502 | 17,589 | 26,603 | - | - | - |
| Four years later | 13,602 | 17,117 | 22,511 | 20,860 | 44,479 | 17,535 | - | - | - | - |
| Five years later | 10,628 | 15,215 | 13,443 | 17,559 | 30,047 | - | - | - | - | - |
| Six years later | 8,044 | 8,331 | 8,158 | 21,376 | - | - | - | - | - | - |
| Seven years later | 3,714 | 3,727 | 10,272 | - | - | - | - | - | - | - |
| Eight years later | 1,678 | 3,831 | - | - | - | - | - | - | - | - |
| Nine years later | 602 | - | - | - | - | - | - | - | - | - |
| **Cash funds** | | | | | | | | | | |
| At end of year | 311 | 71 | 8,860 | 69 | 261 | 480 | 689 | 383 | 6,365 | 91 |
| One year later | 1 | 12 | 7,314 | 14 | 291 | - | 16 | 100 | 2,575 | - |
| Two years later | 1 | 12 | 7,583 | 171 | 78 | - | - | 62 | - | - |
| Three years later | 1 | - | 9,438 | 27 | 40 | - | - | - | - | - |
| Four years later | - | - | 4,462 | - | 18 | - | - | - | - | - |
| Five years later | - | - | 3,928 | - | 20 | - | - | - | - | - |
| Six years later | - | - | 3,335 | - | - | - | - | - | - | - |
| Seven years later | - | - | 2,354 | - | - | - | - | - | - | - |
| Eight years later | - | - | - | - | - | - | - | - | - | - |
| Nine years later | - | - | - | - | - | - | - | - | - | - |
| **Credit fund total** | 602 | 3,831 | 10,272 | 21,376 | 30,047 | 17,535 | 26,603 | 42,298 | 110,027 | 72,685 |
| **Cash fund total** | - | - | 2,354 | - | 20 | - | - | 62 | 2,575 | 91 |
| **Expected Loss total** | **602** | **3,831** | **12,626** | **21,376** | **30,067** | **17,535** | **26,603** | **42,360** | **112,602** | **72,776** |
| **Summary** | | | | | | | | | | **340,378** |

| **Expected Loss Summary:** | funds 2010-11 to 2019-20 open £'000 | funds 2010-11 to 2019-20 closed £'000 | funds 2010-11 to 2019-20 total £'000 | funds years to 2009-10 closed £'000 | funds grand total £'000 |
|---|---|---|---|---|---|
| Accounts 2 & 3: | | | | | |
| Credit fund total | 334,674 | 602 | 335,276 | 1,574 | 336,850 |
| Cash fund total | 2,728 | 2,374 | 5,102 | 14 | 5,116 |
| **Expected Loss total** | **337,402** | **2,976** | **340,378** | **1,588** | **341,966** |

The 2018-19 credit fund year includes £4,796,000 Expected Loss relating to Account 3.

## 19 Exchequer financing

The resources consumed by UKEF in respect of its export finance activities and trading operations are supplied annually by Parliament through the "Supply Procedure" of the House of Commons. The Estimate voted on in the "Supply Procedure" also sets an annual ceiling on UKEF's voted net cash requirement. By the provisions of Section 14(2) of the Export and Investment Guarantees Act, 1991 (the "Act"), UKEF is able to pay claims direct from the Consolidated Fund in the event that sufficient funds have not been voted for the purpose by Parliament.

## 20 Risk management: financial instruments and insurance contracts

This Note describes the nature and extent of the risks for UKEF arising from financial instruments and insurance contracts and how UKEF manages them. UKEF has established a risk management framework that seeks to identify, consider and manage the risks it faces in line with its risk appetite, minimising its exposure to unexpected financial loss and facilitating the achievement of its business objectives.

Full details of UKEF's approach to managing financial risk can be found in the *Chief Risk Officer's Report* in the Performance section of the Annual Report.

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

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

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

b) **Credit risk**;

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

d) **Liquidity risk;** and

e) **Risk measurement.**

### 20(a) Market risk

Market risk is the risk of adverse financial impact due to changes in the fair value or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates (and other prices). UKEF is exposed to market risk through its holdings of interest rate derivatives held in support of its Fixed Rate Export Finance (FREF) scheme. In addition, UKEF has a significant exposure to foreign currency risk, primarily due to holding US dollar denominated assets in the form of loans and receivables and net unrecovered claims. UKEF is not authorised by HM Treasury to hedge its exposure to foreign currency risk (refer Note 20(a)(ii) and 20(c)(iii)). In addition, there is some foreign exchange market risk which is explained in Note 20(a)(ii).

UKEF has established principles and policies to be followed in respect of management of the key market risks to which it is exposed.

### 20(a)(i) Interest rate risk

Interest rate risk arises primarily from the operation of the FREF scheme, under which UKEF supports the provision of fixed rate finance to overseas borrowers. Such official financing support is provided by a number of governments or export credit agencies pursuant to the OECD Arrangement on Officially Supported Export Credits (the OECD Arrangement). The minimum fixed interest rates which may be supported under the OECD Arrangement in this manner are called Commercial Interest Reference Rates (CIRR).

Support is provided in the form of interest make up (IMU) arrangements between UKEF and the lending bank under Export Finance Loans. These IMU arrangements are effectively interest rate swaps between UKEF and the lending bank. The lending bank provides funding for the export loan at a floating rate (usually LIBOR plus a margin). UKEF makes up the difference when the lender's floating rate, inclusive of margin, is higher than the agreed fixed rate. Conversely, where the floating rate, inclusive of margin, is lower than the fixed rate, UKEF receives the difference from the lender.

UKEF seeks to limit its exposure to interest rate risk through the use of effective hedging instruments such as interest rate swaps.

Sensitivities to movements in interest rates were:

| | 1% increase in interest rates £'000 | 1% decrease in interest rates £'000 |
|---|---|---|
| **As at 31 March 2020** | | |
| Interest rate swap arrangements on Export Finance Loan Guarantees | (6) | 45 |
| Interest rate derivative contracts entered into for hedging purposes | - | - |
| **Net impact on profit or loss** | **(6)** | **45** |
| | | |
| **As at 31 March 2019** | | |
| Interest rate swap arrangements on Export Finance Loan Guarantees | (26) | 29 |
| Interest rate derivative contracts entered into for hedging purposes | 74 | (75) |
| **Net impact on profit or loss** | **48** | **(46)** |

Sensitivities to movements at 5% increase and decrease in interest rate volatility were nil (2018-19: nil) for interest rate swap arrangements.

The maturity profile of UKEF's interest rate derivatives, expressed at their notional value, is as follows:

| | One year or less £'000 | Between one and five years £'000 | After five years £'000 | Total £'000 |
|---|---|---|---|---|
| **As at 31 March 2020** | | | | |
| Interest rate swap arrangements on Export Finance Loan Guarantees | 2,387 | 5,098 | - | 7,485 |
| Interest rate derivative contracts entered into for hedging purposes | 2,017 | 1,720 | - | 3,737 |
| **As at 31 March 2019** | | | | |
| Interest rate swap arrangements on Export Finance Loan Guarantees | 4,599 | 8,818 | - | 13,417 |
| Interest rate derivative contracts entered into for hedging purposes | 18,394 | 3,513 | - | 21,907 |

## 20(a)(ii) Foreign currency risk

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

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

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

| | Pound Sterling £'000 | US dollar £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| **As at 31 March 2020** | | | | |
| Financial assets: | | | | |
| Fair value through profit or loss | 17 | 755 | 7 | 779 |
| Account 4 loans at amortised cost | 4,798 | - | - | 4,798 |
| Account 5 loans at amortised cost | - | 901,239 | 208,182 | 1,109,421 |
| Insurance and other receivables | 27,816 | 635 | 5,234 | 33,685 |
| Financial liabilities: | | | | |
| Fair value through profit or loss | (102) | (81) | (65) | (248) |
| Insurance and other payables | (28,277) | - | (1,303) | (29,580) |
| Financial Commitments: | | | | |
| Account 5 amounts available | 25,297 | 544,317 | 327,208 | 896,822 |
| **As at 31 March 2019** | | | | |
| Financial assets: | | | | |
| Fair value through profit or loss | 54 | 990 | 63 | 1,107 |
| Account 4 loans at amortised cost | 10,027 | - | - | 10,027 |
| Account 5 loans at amortised cost | - | 737,702 | 69,547 | 807,249 |
| Insurance and other receivables | 6,938 | 910 | 12,692 | 20,540 |
| Financial liabilities: | | | | |
| Fair value through profit or loss | (322) | (244) | (102) | (668) |
| Insurance and other payables | (24,494) | - | - | (24,494) |
| Financial Commitments: | | | | |
| Account 5 amounts available | - | 233,232 | 414,340 | 647,572 |

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

## 20(b) Credit Risk

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

UKEF has implemented policies and procedures that seek to minimise credit losses on the credit risk it takes. Full details can be found in the *Chief Risk Officer's Report* in the Performance section of the Annual Report.

### 20(b)(i) Credit risk

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

| | Investment grade £'000 | Non-investment grade £'000 | Total £'000 |
|---|---|---|---|
| **As at 31 March 2020** | | | |
| **Account 5: Direct Lending** | | | |
| Loans at amortised cost | 376,795 | 732,626 | 1,109,421 |
| Commitments | 38,421 | 858,401 | 896,822 |
| **As at 31 March 2019** | | | |
| **Account 5: Direct Lending** | | | |
| Loans at amortised cost | 306,014 | 501,235 | 807,249 |
| Commitments | 111,506 | 536,066 | 647,572 |

### 20(b)(ii) Credit concentration risk

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

| | Europe £'000 | Americas £'000 | Middle East and Africa £'000 | Asia Pacific £'000 | Total £'000 |
|---|---|---|---|---|---|
| **As at 31 March 2020** | | | | | |
| **Account 5: Direct Lending** | | | | | |
| Loans at amortised cost | 5,582 | 47,618 | 1,056,221 | - | 1,109,421 |
| Commitments | - | - | 896,822 | - | 896,822 |
| **As at 31 March 2019** | | | | | |
| **Account 5: Direct Lending** | | | | | |
| Loans at amortised cost | 10,446 | 54,401 | 742,402 | - | 807,249 |
| Commitments | - | - | 647,572 | - | 647,572 |

### 20(c) Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. The main insurance risk facing UKEF is credit risk accepted by it through the underwriting process. It is defined as the risk of financial loss resulting from the default of an obligor under a contingent liability or a legitimate claim under a policy of insurance or indemnity.

## Underwriting funds

Under the Fund Basis of Accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until three years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until nine years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year). Any excess of the net underwriting fund over the current Expected Loss on amounts at risk on unexpired guarantees or policies written in the relevant year is released to profit or loss. Underwriting funds for those and prior years will be equal to the Expected Loss on unexpired guarantees or policies for the relevant underwriting year.

The Expected Loss on UKEF's portfolio is calculated as the statistical mean of possible future losses, calculated based on the assessment of Probability of Default (PoD) and assumptions of the Loss Given Default (LGD). The PoD is the statistical likelihood of default by an obligor over a given time horizon and is dependent upon the credit standing of the obligor. The LGD is the value of claims not expected to be recoverable in the event of default. The percentage derived is applied to the amount at risk in order to determine the Expected Loss on an insurance contract.

## 20(c)(i) Credit risk

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

Full details of the policies and procedures that have been implemented to seek to minimise credit risk can be found in the *Chief Risk Officer's Report* in the Performance section of the Annual Report.

The following table provides information regarding the credit exposure of Amounts at Risk and Expected Loss within the UKEF Account 2 and Account 3 portfolio as at 31 March 2020:

| | Investment grade £'000 | Non-investment grade £'000 | Total £'000 |
|---|---|---|---|
| **Amounts at Risk, gross of reinsurance** | | | |
| **Account 2: Insurance Contracts** | | | |
| Asset-backed | 4,397,587 | 2,544,239 | 6,941,826 |
| Other | 3,094,244 | 7,642,998 | 10,737,242 |
| **Total** | **7,491,831** | **10,187,237** | **17,679,068** |
| **Account 3: Insurance Contracts** | | | |
| Other | 3,400,712 | - | 3,400,712 |
| **Total** | **3,400,712** | **-** | **3,400,712** |
| **Account 2: Financial Guarantees** | | | |
| **Total** | **8,994** | **749,687** | **758,681** |
| **Amounts at Risk, net of reinsurance** | | | |
| **Account 2: Insurance Contracts** | | | |
| Asset-backed | 1,902,383 | 2,544,239 | 4,446,622 |
| Other | 1,491,336 | 7,642,998 | 9,134,334 |
| **Total** | **3,393,719** | **10,187,237** | **13,580,956** |
| **Account 3: Insurance Contracts** | | | |
| Other | 2,214,192 | - | 2,214,192 |
| **Total** | **2,214,192** | **-** | **2,214,192** |
| **Account 2: Financial Guarantees** | | | |
| **Total** | **8,994** | **749,687** | **758,681** |
| **Expected Loss, gross of reinsurance** | | | |
| **Account 2: Insurance Contracts** | | | |
| Asset-backed | 42,881 | 95,146 | 138,027 |
| Other | 45,597 | 224,099 | 269,696 |
| **Total** | **88,478** | **319,245** | **407,723** |
| **Account 3: Insurance Contracts** | | | |
| Other | 7,250 | - | 7,250 |
| **Total** | **7,250** | **-** | **7,250** |
| **Account 2: Financial Guarantees** | | | |
| **Total** | **31** | **27,982** | **28,013** |
| **Expected Loss, net of reinsurance** | | | |
| **Account 2: Insurance Contracts** | | | |
| Asset-backed | 9,801 | 95,146 | 104,947 |
| Other | 8,124 | 224,098 | 232,222 |
| **Total** | **17,925** | **319,244** | **337,169** |
| **Account 3: Insurance Contracts** | | | |
| Other | 4,796 | - | 4,796 |
| **Total** | **4,796** | **-** | **4,796** |
| **Account 2: Financial Guarantees** | | | |
| **Total** | **31** | **27,982** | **28,013** |

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

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

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

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

## Insurance Assets – unrecovered claims

When a default event occurs, UKEF will seek to recover the amount of any claims paid under the insurance policy or guarantee. The total amount of the unrecovered claim is recorded within unrecovered claims, with a provision made for any amount estimated to be irrecoverable. Such provisions are determined on a case-by-case or, for sovereign risk, sometimes on a country by country basis and are derived from assessments of the likely recovery. Provisions are arrived at by using a variety of information including payment performance, expected Paris Club treatment, International Monetary Fund/World Bank debt sustainability analysis, and UKEF's own assessment of the economic risk.

Additionally, for certain unrecovered claims (e.g. related to guarantees for aerospace asset-backed financing), the amounts estimated as being recoverable will also be partly dependent upon the value of the underlying assets. These are determined on the basis of industry standard worst-case values provided by an independent valuer. Individual provisions on unrecovered claims within the aerospace portfolio are assessed on a case-by-case basis. For cases where the aircraft remain with the airline during and following a debt restructuring, the calculation of provisions, using a portfolio risk model, aligns the calculation of provisions and Expected Loss as closely as possible with the calculation of Expected Loss for performing cases. For cases where aircraft are remarketed and sold or placed on an operating lease following repossession from the original airline, provisions are based upon the current value of the exposure, less expected recoveries net of estimated future costs.

For claims paid under insurance contracts written in underwriting years still open, provisions are charged against the balance of the underwriting fund for the relevant underwriting year. Any excess of provisions over the available underwriting fund for the year is charged to net income. Any provisions against paid claims on insurance contracts written in years where the underwriting funds have been released are charged directly to net income.

The following table provides information regarding the credit exposure of the recoverable claims and related interest as at 31 March 2020.

| | Investment grade £'000 | Non-investment grade £'000 | Total £'000 |
|---|---|---|---|
| **Recoverable claims - gross** | | | |
| Account 1 | 6,193 | 395,500 | 401,693 |
| Account 2 | 44,321 | 144,651 | 188,972 |
| **Total** | **50,514** | **540,151** | **590,665** |
| **Recoverable claims - net of provisions** | | | |
| Account 1 | 6,167 | 138,448 | 144,615 |
| Account 2 | 42,068 | 10,545 | 52,613 |
| **Total** | **48,235** | **148,993** | **197,228** |
| **Interest on unrecovered claims - gross** | | | |
| Account 1 | 32 | 1,014,984 | 1,015,016 |
| Account 2 | 203 | 156,413 | 156,616 |
| **Total** | **235** | **1,171,397** | **1,171,632** |
| **Interest on unrecovered claims - net of provisions** | | | |
| Account 1 | 32 | 117,803 | 117,835 |
| Account 2 | 203 | 311 | 514 |
| **Total** | **235** | **118,114** | **118,349** |

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2019:

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

## 20(c)(ii) Credit concentration risk

UKEF assesses its concentration risk, and its exposure to catastrophic loss, through controls which set limits for exposure to individual countries. Additionally, the Enterprise Risk and Credit Committee reviews large corporate risks on a case-by-case basis taking into account UKEF's risk appetite for new business in a given country and the rating and financial profile of the corporate concerned.

Information is presented based upon the geographical location of the ultimate obligor.

The table below provides an indication of the concentration of credit risk within the UKEF Account 2 and Account 3 portfolios as at 31 March 2020.

| | Europe £'000 | Americas £'000 | Middle East and Africa £'000 | Asia Pacific £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Amounts at Risk, gross of reinsurance** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Asset-backed | 3,621,058 | 440,816 | 1,358,536 | 1,521,416 | 6,941,826 |
| Other | 2,084,493 | 902,453 | 6,450,765 | 1,299,531 | 10,737,242 |
| **Total** | **5,705,551** | **1,343,269** | **7,809,301** | **2,820,947** | **17,679,068** |
| **Account 3: Insurance Contracts** | | | | | |
| Other | 1,186,520 | - | 2,214,192 | - | 3,400,712 |
| **Total** | **1,186,520** | **-** | **2,214,192** | **-** | **3,400,712** |
| **Account 2: Financial Guarantees** | | | | | |
| **Total** | **758,681** | **-** | **-** | **-** | **758,681** |
| **Amounts at Risk, net of reinsurance** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Asset-backed | 1,431,983 | 414,152 | 1,358,536 | 1,241,951 | 4,446,622 |
| Other | 533,520 | 850,519 | 6,450,764 | 1,299,531 | 9,134,334 |
| **Total** | **1,965,503** | **1,264,671** | **7,809,300** | **2,541,482** | **13,580,956** |
| **Account 3: Insurance Contracts** | | | | | |
| Other | - | - | 2,214,192 | - | 2,214,192 |
| **Total** | **-** | **-** | **2,214,192** | **-** | **2,214,192** |
| **Account 2: Financial Guarantees** | | | | | |
| **Total** | **758,681** | **-** | **-** | **-** | **758,681** |
| **Expected Loss, gross of reinsurance** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Asset-backed | 58,456 | 24,294 | 14,050 | 41,227 | 138,027 |
| Other | 48,208 | 15,583 | 165,088 | 40,817 | 269,696 |
| **Total** | **106,664** | **39,877** | **179,138** | **82,044** | **407,723** |
| **Account 3: Insurance Contracts** | | | | | |
| Other | 2,454 | - | 4,796 | - | 7,250 |
| **Total** | **2,454** | **-** | **4,796** | **-** | **7,250** |
| **Account 2: Financial Guarantees** | | | | | |
| **Total** | **28,013** | **-** | **-** | **-** | **28,013** |
| **Expected Loss, net of reinsurance** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Asset-backed | 37,126 | 24,420 | 14,050 | 29,351 | 104,947 |
| Other | 11,597 | 14,720 | 165,088 | 40,817 | 232,222 |
| **Total** | **48,723** | **39,140** | **179,138** | **70,168** | **337,169** |
| **Account 3: Insurance Contracts** | | | | | |
| Other | - | - | 4,796 | - | 4,796 |
| **Total** | **-** | **-** | **4,796** | **-** | **4,796** |
| **Account 2: Financial Guarantees** | | | | | |
| **Total** | **28,013** | **-** | **-** | **-** | **28,013** |

The following table provides an indication of the concentration of credit risk within the UKEF Account 2 portfolio as at 31 March 2019:

| | Europe £'000 | Americas £'000 | Middle East and Africa £'000 | Asia Pacific £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Amounts at Risk, gross of reinsurance** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Asset-backed | 4,677,866 | 584,056 | 985,707 | 1,907,360 | 8,154,989 |
| Other | 1,952,001 | 1,167,377 | 5,704,251 | 949,136 | 9,772,765 |
| **Total** | **6,629,867** | **1,751,433** | **6,689,958** | **2,856,496** | **17,927,754** |
| **Account 3: Insurance Contracts** | | | | | |
| Other | 1,111,650 | - | 2,284,993 | - | 3,396,643 |
| **Total** | **1,111,650** | **-** | **2,284,993** | **-** | **3,396,643** |
| **Account 2: Financial Guarantees** | | | | | |
| **Total** | **213,514** | **-** | **-** | **-** | **213,514** |
| **Amounts at Risk, net of reinsurance** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Asset-backed | 1,689,642 | 569,215 | 985,707 | 1,599,555 | 4,844,119 |
| Other | 569,624 | 1,114,046 | 5,704,251 | 949,137 | 8,337,058 |
| **Total** | **2,259,266** | **1,683,261** | **6,689,958** | **2,548,692** | **13,181,177** |
| **Account 3: Insurance Contracts** | | | | | |
| Other | - | - | 2,284,993 | - | 2,284,993 |
| **Total** | **-** | **-** | **2,284,993** | **-** | **2,284,993** |
| **Account 2: Financial Guarantees** | | | | | |
| **Total** | **213,514** | **-** | **-** | **-** | **213,514** |
| **Expected Loss, gross of reinsurance** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Asset-backed | 72,166 | 8,553 | 8,365 | 18,872 | 107,956 |
| Other | 35,055 | 23,577 | 161,180 | 23,190 | 243,002 |
| **Total** | **107,221** | **32,130** | **169,545** | **42,062** | **350,958** |
| **Account 3: Insurance Contracts** | | | | | |
| Other | 4,447 | - | 9,340 | - | 13,787 |
| **Total** | **4,447** | **-** | **9,340** | **-** | **13,787** |
| **Account 2: Financial Guarantees** | | | | | |
| **Total** | **14,590** | **-** | **-** | **-** | **14,590** |
| **Expected Loss, net of reinsurance** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Asset-backed | 43,280 | 8,553 | 8,365 | 18,872 | 79,070 |
| Other | 9,906 | 23,577 | 161,180 | 23,190 | 217,853 |
| **Total** | **53,186** | **32,130** | **169,545** | **42,062** | **296,923** |
| **Account 3: Insurance Contracts** | | | | | |
| Other | - | - | 9,340 | - | 9,340 |
| **Total** | **-** | **-** | **9,340** | **-** | **9,340** |
| **Account 2: Financial Guarantees** | | | | | |
| **Total** | **14,590** | **-** | **-** | **-** | **14,590** |

## 20(c)(iii) Foreign currency risk

## Insurance assets – unrecovered claims

A material proportion of UKEF's insurance guarantees and policies are written in US Dollars, exposing UKEF to significant foreign currency risk. As noted above, UKEF is not permitted to hedge its exposure to foreign currency.

The following table sets out the underlying currency of UKEF's insurance assets at 31 March 2020:

| | Pounds Sterling £'000 | US Dollar £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| **Recoverable claims** | | | | |
| - Gross | 431,223 | 155,878 | 3,564 | 590,665 |
| - Provisions | (320,717) | (69,391) | (3,329) | (393,437) |
| **Interest on unrecovered claims** | | | | |
| - Gross | 916,372 | 238,486 | 16,774 | 1,171,632 |
| - Provisions | (843,819) | (192,786) | (16,678) | (1,053,283) |
| **Net insurance assets at 31 March 2020** | **183,059** | **132,187** | **331** | **315,577** |

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2020 is as follows:

- 10% increase would increase the carrying value by £12,017,000 (31 March 2019 by £14,652,000).
- The sensitivity of insurance assets denominated in other currencies is not considered significant.

The following table sets out the underlying currency of UKEF's insurance assets at 31 March 2019:

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

## 20(d) Liquidity risk

Liquidity risk is the risk that a business, though solvent on a Statement of Financial Position basis, either does not have the financial resources to meet its obligations as they fall due, or can secure those resources only at excessive cost. As a Department of HM Government, UKEF has access to funds required to meet its obligations as they fall due, drawing on funds from the Exchequer (see Note 19) as required.

The scheduled maturity profile of UKEF's insurance contracts and financial guarantees, expressed in terms of total Amounts at Risk and the dates at which those periods of risk expire, is set out in the following table:

| | One year or less | Between one and five years | Between five and ten years | Between ten and fifteen years | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **As at 31 March 2020:** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Gross Amounts at Risk | 2,432,554 | 9,748,690 | 4,710,907 | 786,917 | 17,679,068 |
| Less: Amounts at Risk ceded to reinsurers | (251,888) | (3,142,556) | (691,447) | (12,221) | (4,098,112) |
| **Net amounts at risk** | **2,180,666** | **6,606,134** | **4,019,460** | **774,696** | **13,580,956** |
| **Account 3: Insurance Contracts** | | | | | |
| Gross Amounts at Risk | 67,774 | 1,156,287 | 2,118,544 | 58,107 | 3,400,712 |
| Less: Amounts at Risk ceded to reinsurers | (26,062) | (422,433) | (733,057) | (4,968) | (1,186,520) |
| **Net amounts at risk** | **41,712** | **733,854** | **1,385,487** | **53,139** | **2,214,192** |
| **Account 2: Financial Guarantees** | | | | | |
| Gross Amounts at Risk | 296,495 | 462,186 | - | - | 758,681 |
| Less: Amounts at Risk ceded to reinsurers | | | | | |
| **Net amounts at risk** | **296,495** | **462,186** | **-** | **-** | **758,681** |
| **As at 31 March 2019:** | | | | | |
| **Account 2: Insurance Contracts** | | | | | |
| Gross Amounts at Risk | 2,056,600 | 10,327,581 | 4,912,606 | 630,967 | 17,927,754 |
| Less: Amounts at Risk ceded to reinsurers | (255,864) | (3,439,109) | (1,028,686) | (22,918) | (4,746,577) |
| **Net amounts at risk** | **1,800,736** | **6,888,472** | **3,883,920** | **608,049** | **13,181,177** |
| **Account 3: Insurance Contracts** | | | | | |
| Gross Amounts at Risk | 59,544 | 621,416 | 2,620,529 | 95,154 | 3,396,643 |
| Less: Amounts at Risk ceded to reinsurers | (20,918) | (215,953) | (866,643) | (8,136) | (1,111,650) |
| **Net amounts at risk** | **38,626** | **405,463** | **1,753,886** | **87,018** | **2,284,993** |
| **Account 2: Financial Guarantees** | | | | | |
| Gross Amounts at Risk | 105,996 | 105,598 | 1,920 | - | 213,514 |
| Less: Amounts at Risk ceded to reinsurers | | | | | |
| **Net amounts at risk** | **105,996** | **105,598** | **1,920** | **-** | **213,514** |

By the nature of some of UKEF's products significant payments could be required within a few days in the event of default. The necessary arrangements for this have been pre-agreed with HM Treasury.

## 20(e) Risk measurement

UKEF uses its own portfolio risk simulation model (PRISM) to undertake all portfolio-level credit risk modelling, and to monitor and report on its potential future exposure for its Account 2 and Account 3 insurance business. See Portfolio Modelling section, page 75 for more information.

### Stress testing and scenario analysis

We use PRISM to conduct regular scenario analysis and stress testing of the Account 2 portfolio as a central part of UKEF's risk management framework, using criteria endorsed by the Enterprise Risk and Credit Committee (ERiCC) and reviewed by the Board and Risk Committee. These simulate specific potential events, such as financial crises by geographical region or industry sector deterioration, and movements in the main factors that determine the insurance risk faced by the organisation (for more details see the *Chief Risk Officer's Report* in the Performance section).

The following table sets out the impact of stress tests on credit ratings, persistence of default and recovery rates, on: (i) total Expected Loss, and (ii) Statement of Comprehensive Net Income, which for insurance contracts takes account of the utilisation of the underwriting fund.

| | Across the board ratings downgrade by | | Increased persistence | Reduced recovery rates |
|---|---|---|---|---|
| | 1 notch | 2 notches | + 2 years | -20% |
| | £'000 | £'000 | £'000 | £'000 |
| **As at 31 March 2020:** | | | | |
| **Account 2: Insurance Contracts** | | | | |
| - Increase in Expected Loss | 162,925 | 322,392 | 18,971 | 124,014 |
| - Decrease in net income for the year | (2,677) | (25,849) | (0) | (1,578) |
| **Account 3: Insurance Contracts** | | | | |
| - Increase in Expected Loss | 2,418 | 8,066 | 2,999 | 2,402 |
| - Decrease in net income for the year | - | - | - | - |
| **As at 31 March 2019:** | | | | |
| **Account 2: Insurance Contracts** | | | | |
| - Increase in Expected Loss | 139,821 | 291,125 | 16,587 | 111,191 |
| - Decrease in net income for the year | 7,179 | 12,072 | 5,186 | 4,151 |
| **Account 3: Insurance Contracts** | | | | |
| - Increase in Expected Loss | 6,290 | 10,824 | 4,682 | 3,650 |
| - Decrease in net income for the year | - | - | - | - |

There is no remaining exposure on Accounts 1.

Sensitivity analysis for Account 2 Financial Guarantee Contracts is not considered to have any significant impact on net income for the year.

## 21 Capital Loan Commitments

The following table summarises the movement in amounts authorised and available to be drawn on issued and effective lending products which are accounted for on an amortised cost basis under IAS 39:

| | Account 5<br>£'000 | Total<br>£'000 |
|---|---|---|
| **Movements:** | | |
| **Balance at 1 April 2018** | **590,537** | **590,537** |
| Loans issued & effective | 519,439 | 519,439 |
| Amounts drawn | (485,615) | (485,615) |
| Net foreign exchange adjustments | 26,199 | 26,199 |
| Change in Cover | (2,988) | (2,988) |
| **Balance at 31 March 2019** | **647,572** | **647,572** |
| Loans issued & effective | 609,610 | 609,610 |
| Amounts drawn | (383,651) | (383,651) |
| Net foreign exchange adjustments | 34,751 | 34,751 |
| Change in Cover | (11,460) | (11,460) |
| **Balance at 31 March 2020** | **896,822** | **896,822** |

## 22 Contingent liabilities

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

| | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---|---|---|
| **Summary: Gross of reinsurance** | | |
| Account 2 | 18,437,749 | 18,141,268 |
| Account 3 | 3,400,712 | 3,396,643 |
| **Total** | **21,838,461** | **21,537,911** |
| | | |
| **Summary: Net of reinsurance** | | |
| Account 2 | 14,339,637 | 13,394,691 |
| Account 3 | 2,214,192 | 2,284,993 |
| **Total** | **16,553,829** | **15,679,684** |

## 22(a) Products accounted as insurance contracts on a fund accounted basis

The following tables summarise movements in Amounts at Risk (AAR) on issued and effective products which are accounted under IFRS4:

| **Gross of reinsurance** | **Account 2 £'000** | **Account 3 £'000** | **Total £'000** |
|---|---|---|---|
| Balance at 1 April 2018 | 16,801,361 | - | 16,801,361 |
| Guarantees and insurance policies issued and effective | 3,513,425 | 3,290,948 | 6,804,373 |
| Run off | (3,473,360) | - | (3,473,360) |
| Net foreign exchange adjustments | 910,064 | - | 910,064 |
| Interest rate adjustments | 287,956 | - | 287,956 |
| Change in Valuation | (111,692) | 105,695 | (5,997) |
| **Balance at 31 March 2019** | **17,927,754** | **3,396,643** | **21,324,397** |
| Guarantees and insurance policies issued and effective | 3,572,900 | - | 3,572,900 |
| Run off | (3,329,777) | (61,839) | (3,391,616) |
| Net foreign exchange adjustments | 772,286 | 93,984 | 866,270 |
| Interest rate adjustments | (479,880) | (28,076) | (507,956) |
| Change in Valuation | (784,215) | - | (784,215) |
| **Balance at 31 March 2020** | **17,679,068** | **3,400,712** | **21,079,780** |

| **Net of reinsurance** | **Account 2 £'000** | **Account 3 £'000** | **Total £'000** |
|---|---|---|---|
| Balance at 1 April 2018 | 11,711,719 | - | 11,711,719 |
| Guarantees and insurance policies issued and effective | 3,271,768 | 2,138,958 | 5,410,726 |
| Run off | (2,580,839) | - | (2,580,839) |
| Net foreign exchange adjustments | 649,247 | - | 649,247 |
| Interest rate adjustments | 208,155 | - | 208,155 |
| Change in Valuation | (78,873) | 146,035 | 67,162 |
| **Balance at 31 March 2019** | **13,181,177** | **2,284,993** | **15,466,170** |
| Guarantees and insurance policies issued and effective | 3,387,255 | - | 3,387,255 |
| Run off | (2,388,409) | (52,886) | (2,441,295) |
| Net foreign exchange adjustments | 560,814 | 61,677 | 622,491 |
| Interest rate adjustments | (422,080) | (23,648) | (445,728) |
| Change in Valuation | (737,801) | - | (737,801) |
| Change in Cover | - | (55,944) | (55,944) |
| **Balance at 31 March 2020** | **13,580,956** | **2,214,192** | **15,795,148** |

## 22(b) Products accounted for as financial guarantees

The following table summarises movements in Amounts at Risk (AAR) on issued and effective products which are accounted for under IAS 39:

| **Gross & Net of reinsurance** | **Account 2 £'000** | **Total £'000** |
|---|---|---|
| Balance at 1 April 2018 | 186,336 | 186,336 |
| Guarantees and insurance policies issued and effective | 100,660 | 100,660 |
| Run off | (78,567) | (78,567) |
| Net foreign exchange adjustments | 3,684 | 3,684 |
| Interest rate adjustments | 20 | 20 |
| Change in Valuation | 1,381 | 1,381 |
| **Balance at 31 March 2019** | **213,514** | **213,514** |
| Guarantees and insurance policies issued and effective | 111,934 | 111,934 |
| Run off | (121,430) | (121,430) |
| Net foreign exchange adjustments | 2,208 | 2,208 |
| Interest rate adjustments | (82) | (82) |
| Change in Valuation | 552,537 | 552,537 |
| **Balance at 31 March 2020** | **758,681** | **758,681** |

## 23 Related party transactions

UKEF is a Department of the Secretary of State for International Trade. As such, it has a number of transactions with other Government Departments and other central Government bodies.

None of the members of UKEF's Board or their related parties has undertaken any material transactions with UKEF during the year.

## 24 Events after the reporting period

The World Health Organisation (WHO) announced the Coronavirus (COVID-19) pandemic on 11 March 2020, and therefore early impacts of COVID-19 were built into the valuations and provisions held on the Statement of Financial Position at the year end. However, the economic outlook for 2020 has rapidly worsened since 31 March 2020 as COVID-19 spread around the globe and the near-term outlook is highly uncertain. There have been a number of material revisions to global economic forecasts as the impact and duration of the outbreak have become more apparent, and the IMF recently stated that its base case contraction of 3.0% for the global economy in 2020 is now looking optimistic. Questions remain as to the shape and speed of the recovery. There is likely to be long-term damage to productive capacity as liquidity issues potentially lead to insolvency for some businesses and long-term unemployment rises. These effects may be greater in economies where there is limited fiscal and/or monetary space to provide support, and which may in turn worsen longer-term prospects for growth and government balance sheets.

UKEF has a large exposure in the Middle East, a region that is additionally affected by changes in the price of oil. The outbreak of COVID-19 and the policy responses of various governments led to a large decrease in oil demand and thus prices. If prices remain low throughout 2020 and beyond, countries which are dependent on oil production, for foreign exchange and government revenues, will suffer and may face balance-of-payments crises. On the other hand, importers of oil may benefit from low prices, as it is a key input into manufacturing, transport sectors and consumer goods. However, in the near-term, low oil prices are unlikely to be a significant boost to economic growth in importing countries, due to the sharp drop in global economic activity.

While UKEF is presently unable to fully and precisely quantify the resulting financial impacts of the pandemic, management anticipates an increased level of credit deterioration across the portfolio leading to an increase in claims, and an increased resource requirement to recover those claims during 2020 and beyond. UKEF continues to closely monitor sovereigns across 220 markets, with a focus on the countries with our largest exposures. Since 31 March 2020, we have made six rating changes on countries where we have sovereign exposure, all of which were downgrades. The Total Exposure to these sovereigns at 31 May 2020 was around £4.8bn.

Further developments since the 31 March 2020 include the finalisation of the Paris Club agreement to temporarily suspend repayments of certain debts for the poorest countries[1] under the Debt Service Suspension Initiative (DSSI)[2]. Under this arrangement, eligible countries can request a deferral of 100% of the amounts of principal and interest due from 1 May 2020 up to and including 31 December 2020. Eligible debts are Paris Club or non-Paris Club rescheduled amounts due in respect of sovereign transactions. UKEF's sovereign direct lending is also eligible but will be considered on a case-by-case basis in so far as their inclusion does not trigger any cross-defaults. Management expects the financial impact of DSSI to be immaterial, in line with its terms which are expected to be Net Present Value neutral.

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[1] IDA countries and UN Least Developed Countries

[2] More detail can be found here http://www.clubdeparis.org/en/communications/press-release/debt-suspension-initiative-for-the-poorest-countries-addendum-15-04.

Post 31 March 2020 credit migration has not been limited to the sovereign sector. We have seen severe pressure on the aerospace sector (more detail below) and to a lesser degree in the energy, real estate and automotive manufacturing industries. We anticipate further negative rating migration, the extent of which will depend on the longevity of COVID-19 and the effectiveness of lockdown-release measures.

UKEF's largest risk concentration relates to the aerospace sector (see the Chief Risk Officer's report for further details), accounting for 27% of the AAR (net of ECA reinsurance/counter-guarantees) as at 31 March 2020. This sector has been significantly impacted from the consequences of the current COVID-19 crisis and resulting travel restrictions. As a result, UKEF has seen negative rating migration in this portfolio. Management has considered the impact relating to this sector and specifically airlines that have been reported to be in differing stages of corporate distress since 31 March 2020: Avianca, LATAM, Thai Airways, Air Mauritius and Comair. Norwegian Airlines completed a restructure process on 20 May 2020 and we are working closely with Norwegian Airlines as part of this process. The impact of these events on UKEF is uncertain, and therefore management considers that is it not possible to estimate the financial impacts at this time. UKEF's exposure net of reinsurance (before recoveries, not taking into account the secured nature of the guarantee) to each of these airlines at 31 March 2020 is shown in the table below, together with the gross first year exposure. This value for first year exposure does not represent the financial impact on UKEF, which is expected to be significantly lower when reinsurance and asset recoveries have been taken into account:

| | 31 March 2020 Amounts at Risk £m | Year ended 31 March 2021 Gross first year exposure (see note) £m |
|---|---|---|
| Aviana | 214 | 46 |
| Comair | 25 | 3 |
| Latam | 142 | 137 |
| Thai Airways | 62 | 52 |
| Air Mauritius | 2 | 1 |
| Norweigian Airlines | 354 | 50 |

*Note - Financial impact is expected to be significantly lower when reinsurance and asset recoveries are taken into account*

The impact of all these events on UKEF is uncertain but there is the potential for significantly larger claims than we have seen in recent years and it is likely these would have an impact on cash flow.

# Annexes

# Business supported

## Export Credits

| Exporter/Investor | Buyer/Airline/ Operating Lessor/ Borrower | Project/Goods And Services | Product | Maximum Liability (£) |
|---|---|---|---|---|
| **Angola** | | | | |
| Elecnor SA | Ministry of Finance | Power infrastructure | Buyer Credit Guarantee | £87,613,396 |
| Incatuk Ltd | Ministry of Finance | Agricultural infrastructure | Buyer Credit Guarantee/Direct Lending | £76,572,279 |
| **Bahrain** | | | | |
| Bluewater Bio Limited | Ministry of Finance | Water treatment | Direct Lending | £33,940,212 |
| Worley Parsons UK Limited and also various UK subcontractors from the TTSJV consortium (Technip, Tecnicas Reunidas, Samsung Joint Venture) | Bahrain Petroleum Company (BAPCO) | EPC Services | Project Finance | £552,663,117 |
| **Brazil** | | | | |
| Subsea 7 Limited | Petroleo Brasileiro Sa (Petrobras) | Subsea equipment | Line of Credit Guarantee | £72,472,943 |
| **China** | | | | |
| Rautomead Limited | Shaanxi Sirui Advanced Materials Co Ltd | Continuous casting machinery and accessories | Supplier Credit Finance Guarantee | £1,286,356 |
| Not disclosed | Not disclosed | Not disclosed | Bond Insurance Policy | £3,610,200[1] |
| **Dubai** | | | | |
| Airbus S.A.S | Emirates | Airbus aircraft | Asset Based Guarantee | £404,093,355 |
| ASGC UK Limited | Marsa Al Arab LLC | Hotel construction | Buyer Credit Guarantee | £366,291,887 |
| Thermodynamix Thermoforming Specialist Services Limited | Hotpack Packaging Industries Llc | Supply of production mould tools | Supplier Credit Finance Guarantee | £1,018,107 |

1 Details not disclosed due to reasons of commercial confidentiality.

| | | | | |
|---|---|---|---|---|
| **Gabon** | | | | |
| Colas (Gabon) UK Limited | Ministry of Finance | Road improvements | Buyer Credit Guarantee/Direct Lending | £41,314,427 |
| **Ghana** | | | | |
| Contracta Construction UK Limited | Ministry of Finance | Construction of a hospital | Buyer Credit Guarantee/Direct Lending | £122,949,479 |
| Contracta Construction UK Limited | Ministry of Finance | Development of an airport | Buyer Credit Guarantee | £47,151,056 |
| Ellipse Projects (UK) Ltd | Ministry of Finance | Construction of a hospital | Buyer Credit Guarantee | £5,681,032 |
| QG Construction UK Limited | Ministry of Finance | Airport infrastructure | Buyer Credit Guarantee | £12,955,207 |
| **Indonesia** | | | | |
| Bobst Manchester Ltd | PT Trias Sentosa Tbk | Supply of two BOBST vacuum metallizers | Supplier Credit Finance Guarantee | £3,858,723 |
| **Israel** | | | | |
| The Boeing Company | El Al Israel Airlines | Rolls-Royce-powered Boeing aircraft | Asset Based Guarantee | £167,139,964 |
| **Korea, Republic of** | | | | |
| Not disclosed | Not disclosed | Not disclosed | Bond Insurance Policy | £5,850,000[2] |
| **Malaysia** | | | | |
| Serba Dinamik International Limited | Serba Dinamik International Limited | Power Infrastructure | Buyer Credit Guarantee | £63,112,176 |
| **Mongolia** | | | | |
| Hargreaves (UK) Services Limited | Crystal Top Mining LLC | Supply of refurbished materials handling equipment | Supplier Credit Finance Guarantee | £1,294,939 |
| **Oman** | | | | |
| International Hospitals Group Ltd | Ministry of Finance | Construction of a hospital | Buyer Credit Guarantee/Direct Lending | £203,198,417 |
| International Hospitals Group Ltd | Ministry of Finance | Construction of a hospital | Buyer Credit Guarantee/Direct Lending | £151,506,104 |
| International Hospitals Group Ltd | Ministry of Finance | Construction of a hospital | Buyer Credit Guarantee/Direct Lending | £354,778,291 |
| Johnson Matthey Catalysts | Oman Methanol Company LLC | Supply of replacement process catalysts | Buyer Credit Guarantee | £7,549,900 |

2 Details not disclosed due to reasons of commercial confidentiality.

| | | | | |
|---|---|---|---|---|
| **Portugal** | | | | |
| Unatrac Limited | Mota-Engil Enghenaria e Construcau Africa S.A. | Road construction equipment | Supplier Credit Finance Guarantee | £1,743,113 |
| **Russia** | | | | |
| Joy Global (UK) Ltd | SUEK OJSC | Mining equipment | Supplier Credit Finance Guarantee | £7,623,340 |
| Joy Global (UK) Ltd | SUEK OJSC | Mining equipment | Buyer Credit Guarantee | £43,312,317 |
| **Senegal** | | | | |
| Airbus S.A.S | Ministry of Finance | Airbus aircraft | Asset Based Guarantee | £44,757,541 |
| **Taiwan** | | | | |
| Seajacks UK Limited | Formosa 2 Wind Power Co Ltd | Power infrastructure | Project Finance | £303,033,927 |
| Subsea 7 (Seaway) and Edgen Murray | Changfang Wind Power Co., Xidao Wind Power Co. | Power infrastructure | Project Finance | £89,320,947 |
| **United Kingdom** | | | | |
| Rolls-Royce Plc | n/a | n/a | Supply Chain Discount | £40,000,000 |
| n/a | Jaguar Land Rover Automotive PLC | n/a | General Export Facility | £528,224,734 |
| **United States** | | | | |
| GE Caledonian Limited | Atlas Air Worldwide Holdings | Aircraft engine overhauls | Buyer Credit Guarantee | £8,531,861 |
| **Zambia** | | | | |
| NMS Infrastructure Limited | Ministry of Finance | Construction of hospitals and healthcare centres | Direct Lending | £280,550,654 |

# Trade finance and insurance: businesses supported by sector

| Product type | Number of exporters | Small and medium-sized enterprises | Number of destination countries | Maximum liabilities |
|---|---|---|---|---|
| **Administrative and support service activities** | | | | |
| Bond support | 1 | 1 | 2 | £134,585 |
| Export Insurance (EXIP) | 0 | 0 | 0 | - |
| Export Working Capital Scheme | 2 | 2 | 2 | £51,200,000 |
| **Agriculture, forestry and fishing** | | | | |
| Bond support | 0 | 0 | 0 | - |
| Export Insurance (EXIP) | 1 | 1 | 1 | £20,000 |
| Export Working Capital Scheme | 0 | 0 | 0 | - |
| **Construction** | | | | |
| Bond support | 6 | 5 | 6 | £21,942,589 |
| Export Insurance (EXIP) | 0 | 0 | 0 | - |
| Export Working Capital Scheme | 1 | 0 | 1 | £19,621,038 |
| **Defence** | | | | |
| Bond support | 2 | 2 | 1 | £258,659 |
| Export Insurance (EXIP) | 0 | 0 | 0 | |
| Export Working Capital Scheme | 1 | 1 | 1 | £15,200,000 |
| **Education** | | | | |
| Bond support | 0 | 0 | 0 | - |
| Export Insurance (EXIP) | 1 | 1 | 1 | £5,701,548 |
| Export Working Capital Scheme | 0 | | | - |
| **Information and communication** | | | | |
| Bond support | 7 | 7 | 9 | £2,990,787 |
| Export Insurance (EXIP) | 0 | 0 | 0 | - |
| Export Working Capital Scheme | 3 | 3 | 3 | £1,912,800 |
| **Manufacturing** | | | | |
| Bond support | 37 | 36 | 24 | £41,928,047 |
| Export Insurance (EXIP) | 10 | 8 | 10 | £27,725,359 |
| Export Working Capital Scheme | 15 | 14 | 9 | £35,502,413 |

| | | | | |
|---|---|---|---|---|
| **Motion picture, video and television production activities** | | | | |
| Bond support | 2 | 2 | 2 | £259,867 |
| Export Insurance (EXIP) | 0 | 0 | 0 | - |
| Export Working Capital Scheme | 0 | 0 | 0 | - |
| **Professional, scientific and technical activities** | | | | |
| Bond support | 3 | 2 | 3 | £1,478,461 |
| Export Insurance (EXIP) | 4 | 3 | 3 | £7,320,780 |
| Export Working Capital Scheme | 1 | 1 | 1 | £20,800 |
| **Wholesale and retail trade; repair of motor vehicles and motorcycles** | | | | |
| Bond support | 3 | 3 | 4 | £3,057,597 |
| Export Insurance (EXIP) | 5 | 5 | 4 | £496,415 |
| Export Working Capital Scheme | 4 | 4 | 4 | £1,610,735 |

## Sponsorship

**Sponsorship in relation to the UK Trade and Export Finance Forum**

| | |
|---|---|
| HSBC | £40,000 |
| Standard Chartered | £15,000 |
| Lloyds | £10,000 |
| Mitsubishi | £10,000 |
| Norton Rose (Gala Dinner) | £15,000 |

# Sustainability of our estate

**UKEF has reported annually on the sustainability of its estate since 2006, with the aim to operate the estate efficiently and reduce the environmental impact of operations and their associated costs.**

## UKEF's estate

UKEF is based at 1 Horse Guards Road (1HGR), London, SW1A 2HQ. UKEF is a minor occupier of 1 HGR, accounting for 7% of the total internal area. As landlord, HM Treasury (HMT) is responsible for the provision of all energy and utility services. HMT follows government procurement best practice in procuring those contracts.

## Greening Government Commitments

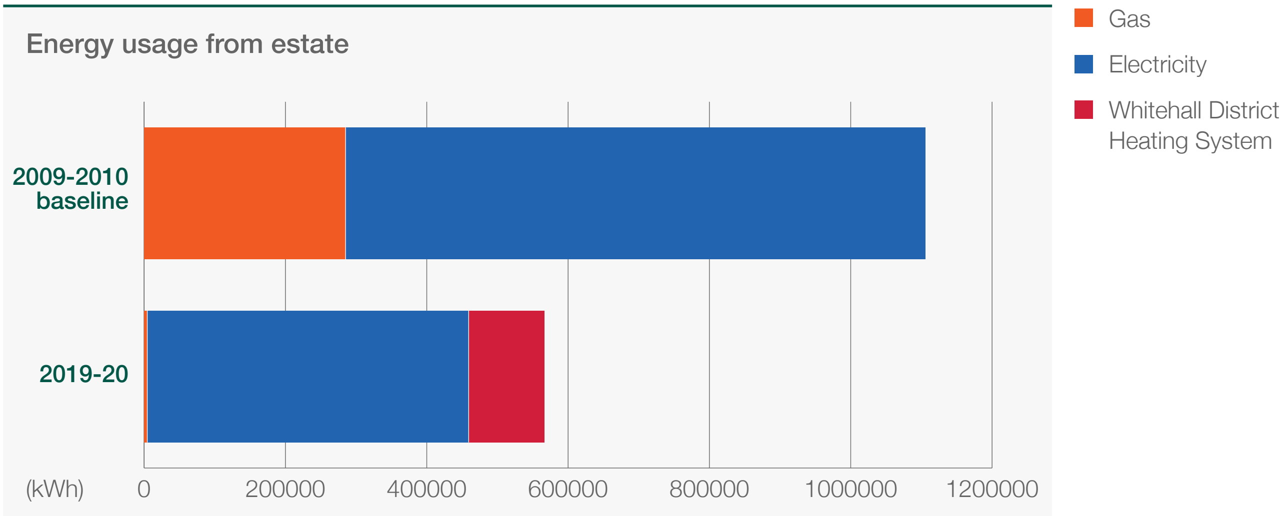
The Greening Government Commitments (GGC) are the government's commitments for delivering sustainable operations and procurement. They aim to reduce significantly the government's environmental impact by reducing emissions of greenhouse gases (GHG), reducing waste, reducing water usage and making procurement more sustainable. The 2019-20 reporting year is the Final year of the 5-year performance reporting cycle to 2020.

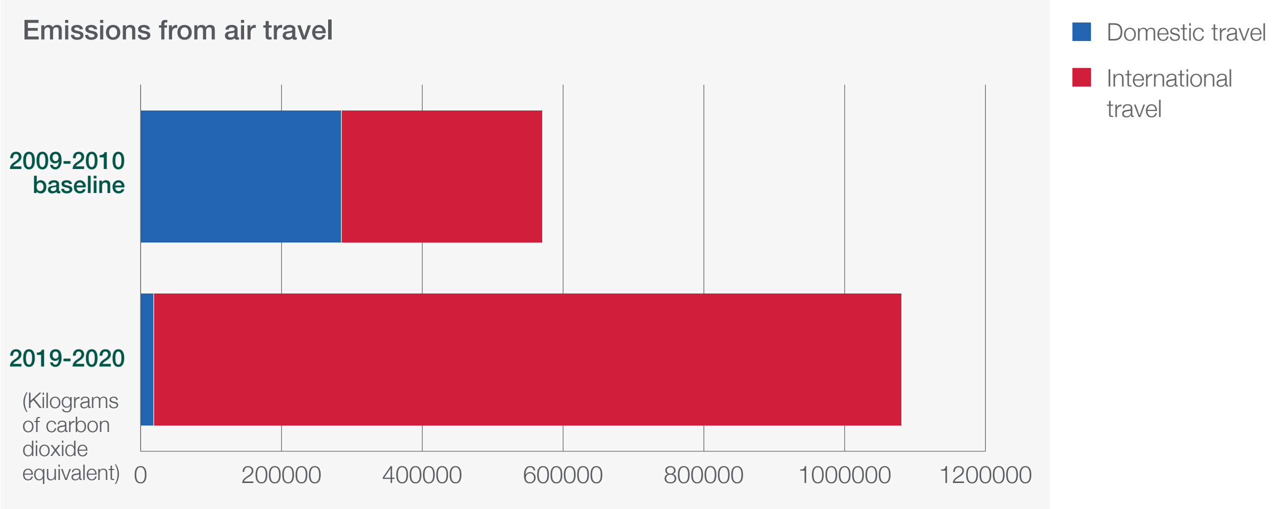
Compared to a 2009-10 baseline, by 2019-20, the government will:

- cut GHG emissions by 31% from the whole estate and UK business transport
- reduce the number of domestic business flights taken by 30%
- reduce waste sent to landfill to less than 10% of overall waste; continue to reduce the amount of waste generated and increase the proportion of waste which is recycled
- reduce paper consumption by 50%

## Summary of performance

| Area | 2009-10 baseline | 2019-20 |
|---|---|---|
| Estate Waste (tonnes) | 78.62 | 11.8 |
| Estate Water (m3) | 2,762 | 2,010 |




UKEF's domestic air travel emissions is below 2009-10 baseline, however, due to an increase in headcount and greater involvement in overseas contracts, UKEF's international emissions have increased above 2009-10 baseline.

## Waste

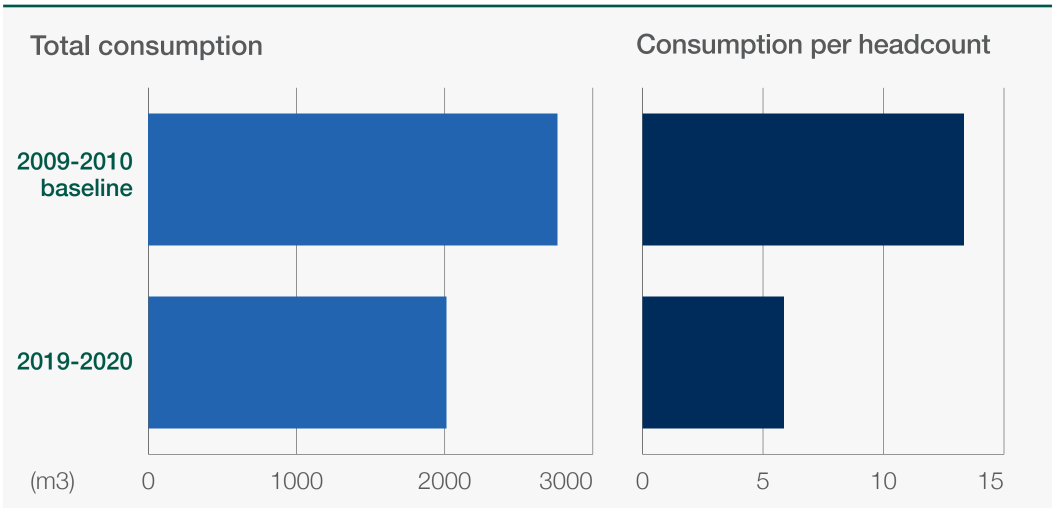
UKEF has a target to reduce waste sent to landfill to less than 10% of overall waste and continue to reduce the amount of waste generated and increase the proportion of waste which is recycled. UKEF has seen a reduction in waste generated by 73% against the 2009–10 baseline. None of UKEF's waste is sent to landfill.

Reused/ recycled
Composted
Incinerated for energy recovery
Landfill

UKEF has recycling points located strategically around the office. All information technology waste is either recycled or reused through UKEF's contract with the Disposal Services Agency. UKEF continues to improve processes and systems which will reduce the amount of paper consumed.

## Water

The GGC target is to reduce water consumption from the 2009-10 baseline. UKEF's water is not measured separately from other tenants and UKEF reports water consumption as being a proportion for the whole building at 1HGR.



## Sustainable procurement

UKEF uses existing framework agreements which have been centrally procured through Crown Commercial Services. Additionally, UKEF's key facilities management suppliers have sustainable objectives and environmental policies in place committing them to sustainable development.

## Biodiversity and natural environment

UKEF's London office has no access to or control over external land. Therefore, UKEF does not have a biodiversity plan.

**Notes:**

- all 1HGR utility payments (including water, waste and energy) are included in the set annual lease payments. The figures used above have been apportioned to departmental costs based on floor occupancy of 7.68%
- business travel gross emissions do not include journeys made by bus or taxi

# UKEF core tables

## Total Resource and Capital Spending for UKEF

The tables on the following pages provide a summary of the department's expenditure outturn for 2015/16 through to 2019/20, along with the planned expenditure for 2020/21. The outturn and planned expenditure is recorded on the same basis as the information on financial performance in the Statement of Parliamentary Supply beginning on page 146. They represent the spending incurred collectively across UKEF in meeting its objectives detailed in the Performance Report beginning on page 9.

### Resource

| £'000 | | | Outturn | | | Plans |
|---|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| **Resource DEL** | | | | | | |
| Staff costs | 16,369 | 16,613 | 19,824 | 21,625 | 24,471 | 27,733 |
| Other administration and operating costs* | 14,377 | 13,728 | 13,799 | 15,940 | 16,849 | 29,563 |
| **Total** | **30,746** | **30,341** | **33,623** | **37,565** | **41,320** | **57,296** |
| | | | | | | |
| *Includes depreciation | 444 | 180 | 127 | 272 | 310 | 430 |
| | | | | | | |
| **AME provisions utilisation** | | | | | | |
| Dilapidations | (123) | (127) | 0 | 0 | 0 | 0 |
| Staff early retirement | (267) | (115) | 52 | (187) | (10) | 0 |
| **Total** | **(390)** | **(242)** | **52** | **(187)** | **(10)** | **0** |
| | | | | | | |
| **Resource AME** | | | | | | |
| B Export credits | (96,324) | (130,031) | (24,519) | (74,420) | (135,012) | 117,199 |
| C Fixed Rate Export Finance assistance | (1,923) | (1,435) | (621) | (290) | (267) | 418 |
| D Loans & interest equalisation | (4,318) | (2,819) | (1,694) | (799) | (493) | (235) |
| E Direct lending | (3,776) | (15,097) | 22,215 | (53,484) | (81,972) | 259,155 |
| **Total** | **(106,341)** | **(149,382)** | **(4,619)** | **(128,993)** | **(217,744)** | **376,537** |

## Capital

| £'000 | Outrun | | | | | Plans |
|---|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| **Capital DEL** | 0 | 64 | 671 | 79 | 135 | 300 |
| **Capital AME** | 33,874 | 250,724 | 167,736 | 426,448 | 307,710 | 2,786,958 |

**Note**: data for future years beyond 2020/21 is not held, and is therefore not included in this report. Only 5 historic years and 1 future year is included.

## Resource DEL (RDEL)

Resource DEL (RDEL) - For UKEF this represents the administrative cost associated with running the department (known as Administration and Programme DEL). Resource DEL has mostly remained unchanged over the preceding 5 years with the increase occurring from 2016/17 onwards primarily due to Staffing costs and also Marketing (GREAT Campaign) costs from 2018/19 onwards. The increase in staff numbers is to aid the department's strategic and corporate needs and to enable growth. Resource DEL outturn and plans are shown on the gross basis to allow better transparency and visibility of how the spend evolved over the period. Supply Estimates, however, show Resource DEL on the net basis. Resource DEL Admin is fully offset with AME income generated by the department. Resource DEL Prog (GREAT Marketing) is partially offset with AME premium, £0.7 million, with the remainder, £1.3 million, representing the total net Resource DEL.

## Capital DEL (CDEL)

Capital DEL (CDEL) - For UKEF this typically represents IT hardware but can include software purchases (licences).

## Resource AME (RAME)

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

## Capital AME (CAME)

Capital AME (CAME) - For UKEF this represents lending activity (mostly Direct Lending Facility related). Direct Lending facility can fluctuate considerably due to the nature of the activity. Capital AME is shown on the net basis.

# Glossary

# Glossary of terms and abbreviations

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

| | |
|---|---|
| Counterparty | UKEF refers to other entities who have a relationship with the department, but are not the key source of risk on transactions as a counterparty. Examples include ECAs who provide reinsurance, or agent banks providing loans which UKEF supports. |
| Country limit | The maximum amount of cover available for a particularly country as agreed under the exposure management framework. |
| Credit period | The period over which a loan is repaid by the borrower, or for insurance products, the period for contractual payment by the buyer. |
| Credit quality | This typically refers to the level of default risk of an entity or the portfolio. For example, it can be measured by the proportion of investment grade rated (low risk) obligors versus non-investment grade rated (high risk) obligors. |
| Direct lending (DL) | A loan made by UKEF, drawing from Exchequer funds, to finance payments due from the buyer under an export contract. The risk in this product is on the failure of the borrower to repay the loan. There is a £3 billion limit on this product. In the 2018 Budget the Chancellor of the Exchequer announced 2 one-off £1 billion boosts to this facility for the financial years 2020-21 and 2021-22. |
| Effective business | Business where UKEF has provided a guarantee or insurance, received premium and all other conditions have been satisfied so that UKEF is on risk. |
| Expected loss (EL) | How much UKEF estimates it should lose. For cases, the statistical estimate of the most likely financial outcome on a case, based on the likelihood of default and estimates of recoveries; and for the whole portfolio, the sum of the individual transaction expected losses, representing the mean of the loss distribution. |
| Export credit agency (ECA) | Most developed and emerging economies have an ECA. Although structure and organisation differs, they all exist to promote exports by providing insurance, reinsurance and guarantees to exporters and banks on behalf of the state. Many ECAs have reinsurance arrangements with each other (see reinsurance). |
| Export Development Guarantee | A guarantee of up to 80% to support working capital facilities, which are not tied to specific export contracts but instead support a company's general export business activities or investment requirements in support of exports. Minimum loan size of £25 million. |
| Export insurance policy (EXIP) | An insurance facility provided by UKEF to exporters that covers them against the risk of not being paid under their export contract. Cover can be provided for both cash and credit payment terms. |
| Export working capital scheme (EWCS) | A scheme provided by UKEF to assist UK exporters gain access to working capital finance (both pre- and post-shipment) in respect of specific export contracts. Under the scheme, UKEF provides guarantees to banks to cover the credit risks associated with approved export working capital facilities. We can guarantee up to 80% of the bank facility. |
| Exposure | A generic term referring to the value of the risks UKEF is holding. For pre-issue business this is measured by maximum liability and for issued business this is measured by amount at risk. Exposure can be net of reinsurance and some measures of exposure also include claims. |
| Exposure management framework (EMF) | A framework for setting prudent restrictions on the concentrations in the portfolio. For country limits, this is based on a matrix and limits are determined by the size of the economy and the country's Expected Loss. For sectors, regions and obligors, this is based on the percentage of the portfolio attributed to that slice of risk. |
| Facility | The name given to each individual provision of support by UKEF. |

| | |
|---|---|
| General Export Facility | A scheme under which UKEF provides guarantees to banks in respect of a range of facility types (including trade loans and bonds) which are not tied to specific export contracts, but instead support a company's general export business activities. Designed with SMEs in mind, the guarantee covers up to 80% of the value of the bank facility and is made available via UKEF's streamlined digital application process. |
| Horizon of risk | The total period of time where UKEF is on cover. For credit transactions, this includes both the pre-credit period (or drawdown) period and the repayment period. |
| Loss given default (LGD) | An estimate of the loss to UKEF at the time of default (also known as loss coefficient). The recovery rate is the inverse of this statistical estimate. The LGD is used with the probability of default to determine the expected loss. |
| Market risk appetite (MRA) | The level of potential new business that UKEF can underwrite in a specific country calculated by subtracting existing business (on a weighted basis) from the total agreed country limit. |
| Maximum commitment | The maximum amount of exposure under the HMT Consent that the UKEF portfolio can total to. Set at £50 billion but adjusted according to foreign exchange rates. |
| Maximum liability (ML) | The measurement of exposure for pre-issue business. Maximum liability is the maximum value of the amount of claims payable under a particular UKEF product, including any interest. |
| OECD | The organisation of nation states known as the Organization for Economic Co-operation and Development. |
| OECD Arrangement | The OECD Arrangement on Guidelines for Officially Supported Export Credits, sometimes referred to as "the Consensus" or "the Arrangement". This limits competition on export credits among members of the OECD when providing official support for export credits of 2 years or more. The Arrangement covers all officially supported export credits except those for agricultural produce and military equipment. Aircraft, ships, nuclear power plants, water and renewable energy projects are subject to separate sector understandings. |
| Oversea investment insurance (OII) | This scheme provides a UK investor with insurance for up to 15 years against political risks in respect of a new investment overseas. It may also be available to UK banks in respect of overseas lending, whether or not it is in connection with a UK investment or export. The risk on this product is that certain events (war, expropriation, restriction on remittances) mean the investor suffers a loss on their investment. It does not cover the commercial risk of the investment being unprofitable. |
| Paris Club (PC) | The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to payment difficulties experienced by debtor countries. Debts from sovereigns are handled by the Paris Club. |
| Persistence of default | A factor considered in UKEF's country risk assessments. This is an estimate of the number of years during which a country is expected to remain in default, before being able to resume some form of debt service. Used in conjunction with sovereign risk rating and loss coefficient to determine expected loss rate. |
| Premium risk ratio (PRR) | PRR assesses the extent to which UKEF premium income on new cases is sufficient to cover the risks associated with those cases. The risks are measured as both the expected loss and a charge on unexpected loss. PRR's can be calculated for individual cases, and the PRR for new business in each year is a financial objective. PRR is an in-year measure, with a target ratio of premium:expected loss (plus charge on unexpected loss) of 1.35. |

| | |
|---|---|
| Pricing adequacy index (PAI) | PAI assesses the extent to which UKEF premium income is sufficient to cover both risks and costs. PAI is measured over a 3-year rolling period, and has a target that the ratio of net earned premium to risks and costs should always be greater than 1. Risks are defined as in the premium risk ratio as expected loss and a charge on unexpected loss, and costs are UKEF's admin costs. |
| Probability of default | A statistical measure of the likelihood of an entity or transaction defaulting on debt obligations. Letter ratings correspond to a specific estimate of probability of default based on historical data of the outcomes for each letter rating. |
| Project finance (PF) | Transactions which are dependent on generating sufficient revenue from a project to service debt, once commissioned. |
| Provisions or provisioning | Amounts which are set aside within UKEF's trading accounts to allow for non-recovery of claims already paid and of claims to be paid in the future. |
| Public (risk) | Risk that is assessed to be with an entity linked to the government, but which does not benefit from full state support or a guarantee (for example a local municipality or a state utility). |
| Recoveries | Amounts that UKEF has been able to get back after paying a claim (e.g. through restructuring, sale of assets etc). |
| Reinsurance | UKEF shares risk by reinsuring it with other partners in 2 main ways: sharing a proportion of transaction with other ECAs based on the amount of content produced in that country (ECA reinsurance); or purchasing reinsurance directly from the private sector to reduce risk concentrations (see active portfolio management). |
| Risk appetite limit (RAL) | A risk weighted cap on the maximum amount of risk that UKEF can take on. Calculated as the 99.1%-tile of the portfolio loss distribution (see loss distribution), with a maximum of £5 billion (as adjusted for foreign exchange foreign exchange movements). |
| Run-off | UKEF's risk reduces as loan repayments are made or insurance risks expire. The way in which the amounts at risk reduce is called the run-off. |
| Short-term (ST) | UKEF's short-term products are: bond support guarantees, working capital guarantees and export insurance policies under 2 years. |
| Sovereign (risk) | Risks considered as being effectively upon the state itself. |
| Stress testing | This is a form of scenario analysis where one considers the potential adverse impact of theoretical changes in the state of the world. UKEF carries out portfolio stress testing semi-annually, based on a number of defined stresses and scenarios. |
| Supplier credit finance facility (SCF) | UKEF insures a provider of finance to the supplier of an export contract, in order that the supplier can offer credit terms to the buyer. In practice, although the finance is theoretically supplied to the exporter, UKEF's risk on this product is on the payments from the overseas buyer to enable repayment of the loan, and we would seek recoveries from the buyer in the event of default. |
| Unexpected loss (UEL) | Measures statistical losses above EL to a certain degree of confidence. UKEF uses 99.1%. |
| Ultimate obligor (UO) | The final source of repayment risk. In some transactions, a number entities might be responsible for ensuring there is no default, but the ultimate obligor is the key entity for determining the riskiness of the structure. |

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